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‘EMU Macroeconomic Policy Regime: A Political Economy Appraisal’

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Εισαγωγή

Η ΟΝΕ σήμερα βρίσκεται στο επίκεντρο μιας πρωτοφανούς σε διάρκεια και ένταση οικονομικής, κοινωνικής και θεσμικής κρίσης. Κατά την άποψή μας, η τρέχουσα κρίση δεν αποτελεί απλά ένα συγκυριακό φαινόμενο, που σχετίζεται με το ξέσπασμα της παγκόσμιας χρηματοπιστωτικής κρίσης το 2007, αλλά τελευταίο επεισόδιο μιας σειράς καταστροφικών επιλογών οικονομικής πολιτικής και μιας μακράς περιόδου ιδιαίτερα αρνητικών μακροοικονομικών και κοινωνικών εξελίξεων που κατέστησαν τη ζώνη του ευρώ θεσμικά ανοχύρωτη, οικονομικά εύθραυστη και πολιτικά αδύναμη μπροστά στους κινδύνους και τις προκλήσεις της τρέχουσας αρνητικής οικονομικής συγκυρίας. Η διδακτορική διατριβή έχει ως βασικό σκοπό να αναπτύξει ένα πολιτικό-οικονομικό πλαίσιο ανάλυσης και διερεύνησης των παραγόντων που ώθησαν την ΟΝΕ στις συγκεκριμένες καταστροφικές επιλογές πολιτικής και οδήγησαν τελικά στα σημερινά αδιέξοδα.

Για το σκοπό αυτό, η εργασία ασχολείται με την πολιτική οικονομία της ΟΝΕ και συνδέει την παρούσα κρίση της με το θεσμικό της ρόλο και λειτουργία μέσα στα πλαίσια του νεοφιλελευθέρου μετασχηματισμού της διεθνούς οικονομίας. Ειδικότερα, η θέση που υποστηρίζουμε είναι ότι η τρέχουσα πολυδιάστατη κρίση της Ευρωζώνης είναι το αποτέλεσμα μιας δυναμικής διαδικασίας «πειθαρχικής χρηματιστικοποίησης» (disciplinary financialisation) του μακροοικονομικού της συστήματος που προκάλεσε η νεοφιλελεύθερη-συντηρητική αρχιτεκτονική της και η επιδίωξη της διαφύλαξης της αξιοπιστίας του ευρώ στις έντονα κερδοσκοπικές παγκόσμιες αγορές χρήματος και κεφαλαίου. Κύριο εργαλείο υλοποίησης της συγκεκριμένης στρατηγικής αποτελεί η συνταγματικά κατοχυρωμένη δέσμευση του μακροοικονομικού καθεστώτος της ΟΝΕ σε αντιπληθωριστικές νομισματικές πολιτικές, η επιβολή αυστηρής δημοσιονομικής πειθαρχίας και η προώθηση διαρθρωτικών μεταρρυθμίσεων στις αγορές εργασίας και προϊόντος. Βασικό οικονομικό υπόδειγμα που νομιμοποιεί και θεμελιώνει θεωρητικά τις παραπάνω επιλογές θεσμικής οργάνωσης και οικονομικής πολιτικής στην ΟΝΕ αποτελεί το μοντέλο της «νέας συναίνεσης»

Με αυτόν τον τρόπο, η εργασία επιχειρεί να συνδέσει την αρχιτεκτονική και το μοντέλο μακροοικονομικής πολιτικής της Ευρωζώνης με συγκεκριμένες θεσμικές μορφές κοινωνικής ισχύος και οικονομικά φαινόμενα, που χαρακτηρίζουν σήμερα το νεοφιλελεύθερο χρηματοπιστωτικό καπιταλισμό. Με την προσέγγιση αυτή η διατριβή αποσκοπεί να επεκτείνει και να εμπλουτίσει την κριτική που έχει ασκηθεί στο υπόδειγμα της «νέας συναίνεσης» από ετερόδοξες σχολές οικονομικής σκέψης, κυρίως από τη Μετά-Κεϋνσιανή, αναδεικνύοντας το πολιτικό και ταξικό περιεχόμενο και στόχευσή της, και συγκεκριμένα το ρόλο της ως θεωρητικό μοντέλο που προωθεί θεσμικούς μηχανισμούς, που σχετίζονται με την κυριαρχία και τα συμφέροντα του παγκόσμιου χρηματοπιστωτικού κεφαλαίου. Επιπλέον, προτείνοντας την τάση της «πειθαρχικής χρηματιστικοποίησης» ως διακριτό και παράγωγο φαινόμενο του νεοφιλελευθέρου μετασχηματισμού και των πολιτικών της Ευρωζώνης και επισημαίνοντας το ρόλο της στην αποσταθεροποίηση της ευρωπαϊκής οικονομίας, η εργασία αναπτύσσει ένα νέο πλαίσιο ερμηνείας και ανάλυσης φαινομένων εδραίωσης και εξάπλωσης της δύναμης του χρηματιστικού κεφαλαίου, και της εγγενούς αστάθειας και ευθραυστότητας του νεοφιλελεύθερου συστήματος συσσώρευσης. Η παραπάνω θεώρηση θεωρούμε ότι εισάγει μια νέα προσέγγιση στην ανάλυση της πολιτικής οικονομίας της ΟΝΕ και είναι χρήσιμη στα πλαίσια της προβληματικής που έχει αναπτυχθεί σχετικά με την αναζήτηση των αιτίων της κρίσης της, αλλά και με τις προοπτικές θεσμικής ανασυγκρότησής της.

Η παρούσα σύνοψη της διατριβής έχει την εξής δομή: Στην πρώτη ενότητα, η προσοχή μας εστιάζεται στις θεμελιακές αλλαγές που έλαβαν χώρα στη δομή και στη θεσμική λειτουργία του παγκόσμιου καπιταλισμού: τη μετάβαση δηλαδή από το μεταπολεμικό σύστημα του «ενσωματωμένου φιλελευθερισμού» (Ruggie 1982) στη νεοφιλελεύθερη παγκοσμιοποίηση και αναλύεται η συμβολή της ολοκλήρωσης των διεθνών αγορών χρήματος και της εμφάνισης μιας υπερεθνικής χρηματοπιστωτικής ελίτ στο μετασχηματισμό αυτό. Παράλληλα, παρουσιάζονται θεσμικοί μηχανισμοί και φαινόμενα του νεοφιλελεύθερου συστήματος ρύθμισης και συσσώρευσης που αναπαράγουν και κατοχυρώνουν την κυριαρχία του χρηματιστικού κεφαλαίου στη παγκόσμια πολιτική οικονομία. Η δεύτερη ενότητα συνδέει τη δημιουργία και τη θεσμική αρχιτεκτονική της ΟΝΕ με τις κοινωνικές και οικονομικές μεταβολές που επέφερε ο νεοφιλελεύθερος μετασχηματισμός του καπιταλισμού και υπογραμμίζεται ο ρόλος της ως μηχανισμού επιβολής και διάχυσης της δύναμης του παγκόσμιου χρηματοπιστωτικού κεφαλαίου στην ΕΕ. Η τρίτη και τέταρτη ενότητα παρουσιάζουν και αναλύουν τις βασικές αρχές και προτάσεις πολιτικής του υποδείγματος της «νέας συναίνεσης» και υπογραμμίζεται ο υψηλός βαθμός συσχέτισής τους με το πλαίσιο οικονομικής πολιτικής της ΟΝΕ. Συνεπώς, αναδεικνύεται το ταξικό περιεχόμενο και φύση της «νέας συναίνεσης» ως μοντέλου πολιτικής το οποίο συνδέεται άμεσα με τις σύγχρονες δομές κυριαρχίας του διεθνοποιημένου και έντονα κερδοσκοπικού χρηματιστικού κεφαλαίου. Το πέμπτο μέρος παρουσιάζει εμπειρικά ευρήματα που καταδεικνύουν ως κύριο υπεύθυνο των φτωχών μακροοικονομικών επιδόσεων και της τρέχουσας κρίσης της ΟΝΕ τη διαδικασία «πειθαρχικής χρηματιστικοποίησης» που έχει ενεργοποιήσει στην Ευρώπη η πειθαρχικού χαρακτήρα νεοφιλελεύθερη αρχιτεκτονική της Ευρωζώνης και το μοντέλο οικονομικής πολιτικής της. Τέλος, στον επίλογο εξάγονται τα βασικά συμπεράσματα της μελέτης και συσχετίζεται η προοπτική απεμπλοκής της ΟΝΕ από το φαύλο κύκλο ύφεσης, κοινωνικών ανισοτήτων και χρηματοπιστωτικής αστάθειας με την υιοθέτηση μιας προοδευτικής ατζέντας δομικού μετασχηματισμού της.

1. Νεοφιλελευθερισμός και η κυριαρχία του παγκόσμιου χρηματιστικού κεφαλαίου

Τις τρεις τελευταίες δεκαετίες ο παγκόσμιος καπιταλισμός έχει εισέλθει σε μια φάση ενός δεύτερου μεγάλου θεσμικού μετασχηματισμού. Η πρώτη μεταπολεμική περίοδος του Κεϋνσιανού συστήματος ρύθμισης και των υψηλών ρυθμών συσσώρευσης έχει παρέλθει και η παγκόσμια οικονομία βρίσκεται σήμερα σε μια διαδικασία διαρκούς νεοφιλελεύθερης ανασυγκρότησης και έντονης παγκοσμιοποίησης. Κεντρικά δομικά χαρακτηριστικά της νέας αυτής πραγματικότητας είναι: η διαμόρφωση μιας ανοιχτής και αρκετά ομοιογενούς παγκόσμιας οικονομίας, η εκρηκτική αύξηση του όγκου των διεθνών εμπορικών συναλλαγών και χρηματοοικονομικών ροών, η εγκατάλειψη των ολοκληρωμένων πολιτικών διασφάλισης της πλήρους απασχόλησης και κοινωνικής ευημερίας και η στροφή προς «ορθόδοξες» οικονομικές στρατηγικές νομισματικής σταθερότητας και δημοσιονομικής πειθαρχίας. Οι εξελίξεις αυτές έχουν συνοδευτεί από μια δριμεία θεωρητική και ιδεολογική κριτική των πολιτικών κρατικής ρύθμισης και παρεμβατισμού στην οικονομία και μια τυφλή προσήλωση στις αρχές της ανοιχτής οικονομίας και της ελεύθερης αγοράς.[1]

Η νεοφιλελεύθερη παγκοσμιοποίηση και οι επιπτώσεις που έχει επιφέρει στην αναπτυξιακή διαδικασία και στις κοινωνικές δομές των σύγχρονων καπιταλιστικών κρατών βρίσκονται στο επίκεντρο εντατικής έρευνας και μελέτης στο επιστημονικό

[1] Βλέπε, για παράδειγμα, Saad-Fihlo και Johnston (2005) και Harvey (2005).

πεδίο της διεθνούς οικονομικής και ειδικότερα της παγκόσμιας πολιτικής οικονομίας. Συμβατικές προσεγγίσεις συνδέουν την άνοδο του νεοφιλελευθερισμού με ραγδαίες τεχνολογικές εξελίξεις, θεσμικές πρωτοβουλίες κρατών και πιέσεις των αγορών, που αποτέλεσαν επακόλουθο μιας «φυσικής» διαδικασίας οικονομικής διεθνοποίησης και ενοποίησης. Συνέπεια των μεταβολών αυτών υπήρξε η ανατροπή των έως τότε δομών ανταγωνισμού και του συστήματος καπιταλιστικής ενσωμάτωσης, που αμφισβήτησαν το Κεϋνσιανό υπόδειγμα οικονομικής διαχείρισης και ρύθμισης. Υποστηριχτές της άποψης αυτής τονίζουν ότι ο νεοφιλελευθερισμός συγκροτεί μια νέα πραγματικότητα και ένα επιθυμητό σύστημα κοινωνικής και οικονομικής οργάνωσης, στο οποίο κάθε οικονομική μονάδα, αργά ή γρήγορα, θα προσαρμοστεί. Βασικό μηχανισμό προσαρμογής αποτελούν η λειτουργία του ελευθέρου ανταγωνισμού και η πειθαρχία που επιβάλλουν οι δυνάμεις της αγοράς.[2]

Αναμφίβολα, οι παραπάνω παράγοντες έχουν διαδραματίσει σημαντικό ρόλο στη διαδικασία της νεοφιλελεύθερης παγκοσμιοποίησης. Ωστόσο, οι συγκεκριμένες προσεγγίσεις αγνοούν τη συμβολή μιας σειράς σημαντικών εξελίξεων και μεταβολών που έλαβαν χώρα στο πλαίσιο της θεσμικής οργάνωσης και λειτουργίας των διεθνών αγορών χρήματος και των συνεπαγόμενων ανατροπών που προκάλεσαν στο σύστημα κοινωνικής ιεράρχησης και ταξικής δύναμης σε παγκόσμια κλίμακα. Με βάση την προσέγγιση αυτή, πρωταγωνιστικό ρόλο στην ανάδυση και εδραίωση του σύγχρονου νεοφιλελεύθερου μοντέλου διαχείρισης θεωρούμε ότι διαδραμάτισαν η διαδικασία φιλελευθεροποίησης και ενοποίησης του διεθνούς χρηματοοικονομικού συστήματος, η οποία ξεκίνησε στα μέσα της δεκαετίας του 1960, και η παράλληλη εμφάνιση και διαρκής ισχυροποίηση μιας μικρής υπερεθνικής χρηματοπιστωτικής ελίτ στο διεθνές πολιτικό-οικονομικό σύστημα. Η αυξανόμενη επιρροή, οι στρατηγικές επιδιώξεις και τα οικονομικά συμφέροντα συγκεκριμένων ισχυρών ομάδων του χρηματοπιστωτικού τομέα, που διαμορφώθηκαν ύστερα από τη ριζική αναδιάρθρωση του παγκόσμιου χρηματοοικονομικού συστήματος επιτάχυναν τη δομική κρίση και αποδόμηση του πρότερου Κεϋνσιανού υποδείγματος ρύθμισης και συσσώρευσης, προκαλώντας την ολοκληρωτική ανατροπή του και την κυριαρχία του νεοφιλελευθερισμού.

Η μορφοποίηση αυτής της νέας οικονομικής και κοινωνικής πραγματικότητας που αποτέλεσε τη βάση για την προώθηση της νεοφιλελεύθερης παγκοσμιοποίησης

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[2] Στο Quiggin (2005) γίνεται παρουσίαση των συμβατικών επιχειρημάτων σχετικά με τις αιτίες και τις επιπτώσεις της παγκοσμιοποίησης και του νεοφιλελεύθερου μετασχηματισμού.

υπήρξε το αποτέλεσμα τριών θεσμικών εξελίξεων. Η πρώτη σημαντική εξέλιξη ήταν η εξάντληση και βαθειά διαθρωτική κρίση του φορντικού καθεστώτος ανάπτυξης και ρύθμισης. Το γεγονός αυτό τροφοδοτήθηκε από τη βαθμιαία αποσάθρωση του μεταπολεμικού μοντέλου της «σοσιαλδημοκρατικής» συναίνεσης και του κοινωνικού κράτους, την όξυνση των ταξικών αντιθέσεων μεταξύ εργασίας και βιομηχανικού κεφαλαίου, καθώς και από την πτώση της κερδοφορίας και της παραγωγικότητας του έως τότε ισχυρού βιομηχανικού κλάδου στις περισσότερες καπιταλιστικές χώρες της δύσης (βλ. Glyn 2006, Duménil και Lévy 2004). Η εξελίξεις αυτές σηματοδότησαν και την απαρχή μιας διαδικασίας σταδιακής ισχυροποίησης του χρηματοπιστωτικού κεφαλαίου. Η ραγδαία διόγκωση των δημοσίων ελλειμμάτων και ιδιωτικού χρέους, συνεπεία της δραματικής συρρίκνωσης της οικονομικής δραστηριότητας, διεύρυναν τον κύκλο εργασιών του τραπεζικού και χρηματοοικονομικού κλάδου και προώθησαν τις επιχειρηματικές δραστηριότητες και τη διεθνοποίηση του. Επίσης, αποτέλεσαν τη θεσμική βάση για τη συνένωση ισχυρών βιομηχανικών και τραπεζικών ομιλών που οδήγησε στη συγκρότηση μιας νέας κοινωνικής συμμαχίας με κοινά συμφέροντα και επιδιώξεις για ένα νέο πλαίσιο οικονομικής πολιτικής με σκοπό την υπέρβαση και διαχείριση της κρίσης του Φορντισμού (Crotty και Epstein, 1996).

Η δημιουργία και ραγδαία ανάπτυξη των Ευρωαγορών αποτέλεσε τη δεύτερη θεσμική εξέλιξη που συνέβαλε στο μετασχηματισμό του παγκοσμίου νομισματικού συστήματος και στην επανάκτηση της οικονομικής δύναμης των αγορών. Η εμφάνιση των Ευρωαγορών ήταν το αποτέλεσμα δύο σημαντικών παραγόντων: α) της μαζικής συσσώρευσης συναλλαγματικών αποθεμάτων σε δολάρια στα ευρωπαϊκά τραπεζικά ιδρύματα, που προκάλεσε η υποχώρηση της ηγετικής θέσης των ΗΠΑ στο παγκόσμιο εμπόριο, και β) της ολοένα και μεγαλύτερης εμπλοκής του ευρωπαϊκού τραπεζικού συστήματος στις διεθνείς χρηματοπιστωτικές εργασίες. Ωστόσο, καθοριστικό επίσης ρόλο στη δημιουργία αυτής της νέας φιλελεύθερης χρηματοοικονομικής δομής είχαν και οι ενέργειες της ανερχόμενης υπερεθνικής χρηματιστηριακής ελίτ, που σθεναρά υποστήριξε τη λειτουργία των Ευρωαγορών ως μέσο αποφυγής των αυστηρών εθνικών μηχανισμών ρύθμισης των αγορών, καθώς και οι πολιτικές πρωτοβουλίες των κυβερνήσεων των ΗΠΑ και της Βρετανίας, που είδαν τις Ευρωαγορές ως ευκαιρία ανάκτησης της χαμένης δύναμης και ανταγωνιστικότητας των χρηματοπιστωτικών τους κέντρων (Helleiner, 1994).

Οι εμφάνιση των Ευρωαγορών μετασχημάτισε δραματικά τη θεσμική δομή και οργανωτική λειτουργία του παγκοσμίου χρηματοπιστωτικού συστήματος. Σε μια εποχή άνθησης του παγκόσμιου εμπορίου και έντονης διεθνοποίησης της παραγωγής, οι αγορές αυτές προκάλεσαν μια εκρηκτική αύξηση της ζήτησης και της προσφοράς ιδιωτικών πιστώσεων προς τον ιδιωτικό και δημόσιο τομέα. Αποτελώντας, ωστόσο, μια τεράστια δεξαμενή παροχής κεφαλαίων, απαλλαγμένη από κάθε είδους κρατικό και υπερεθνικό έλεγχο, η λειτουργία αυτών των off-shore αγορών ανέτρεψε τα έως τότε συμβατικά κανάλια διοχέτευσης ρευστότητας στην οικονομία και ενθάρρυνε τις βραχυπρόθεσμες κερδοσκοπικές επενδυτικές τοποθετήσεις σε παγκόσμια κλίμακα. Με αυτόν τον τρόπο, η εμφάνιση και ανάπτυξη των Ευρωαγορών προξένησε σοβαρές ρωγμές στο καθεστώς σταθερών συναλλαγματικών ισοτιμιών και στην αυστηρή εποπτική και ρυθμιστική αρχιτεκτονική του νομισματικού καθεστώτος του Bretton Woods (Αργείτης, 2002).

Η κατάρρευση του παγκόσμιου ρυθμιστικού πλαισίου του Bretton Woods το 1973 αποτέλεσε γεγονός-ορόσημο στη διαδικασία παγκοσμιοποίησης των αγορών χρήματος και ανάκτησης της δύναμης του διεθνούς χρηματοπιστωτικού κεφαλαίου. Η σταδιακή άρση των φραγμών στην κινητικότητα κεφαλαίων και η έντονη αστάθεια που αυτή προκάλεσε στις διεθνείς αγορές χρήματος και συναλλάγματος υπονόμευσε τους εθνικούς μηχανισμούς ελέγχου και εποπτείας των αγορών και δημιούργησε νέες κερδοφόρες επενδυτικές ευκαιρίες στους ισχυρούς χρηματοοικονομικούς ομίλους και στα κερδοσκοπικά κεφαλαία. Παράλληλα, ο αυξανόμενος ανταγωνισμός μεταξύ των διαφόρων εθνικών χρηματοοικονομικών κέντρων για προσέλκυση ξένων κεφαλαίων έγινε η αιτία μιας διαδικασίας ανταγωνιστικής απελευθέρωσης και απορρύθμισης, η οποία έδωσε περαιτέρω ώθηση στη διεθνή κινητικότητα κεφαλαίων και συνέβαλλε καθοριστικά στη διεθνοποίηση και ολοκλήρωση των εθνικών χρηματαγορών. Άμεσο αποτέλεσμα των εξελίξεων αυτών ήταν η δημιουργία ενός τεράστιου όγκου «ζεστού» κερδοσκοπικού κεφαλαίου εύκολα μετακινούμενου μεταξύ των διαφόρων διεθνών χρηματοπιστωτικών κέντρων προς εκμετάλλευση καλύτερων επενδυτικών ευκαιριών που κατέστρεψε ολοσχερώς την αυστηρή χρηματοοικονομική δομή του νομισματικού συστήματος του Bretton Woods και τη θεσμική προστασία που παρείχε στην άσκηση αυτόνομης εθνικής οικονομικής πολιτικής (ο.π).

Η αμφισβήτηση του μεταπολεμικού Κεϋνσιανού μοντέλου ρύθμισης εντάθηκε σημαντικά με το ξέσπασμα των δύο πετρελαϊκών κρίσεων της δεκαετίας του 1970.

Βασική συνέπεια του πετρελαϊκού πλήγματος αποτέλεσε η δημιουργία τεράστιων ανισορροπιών στο ισοζύγιο τρεχουσών συναλλαγών στο τότε παγκόσμιο νομισματικό σύστημα και η εμφάνιση του φαινόμενου του «στασιμοπληθωρισμού» που έπληξε τις περισσότερες καπιταλιστικές χώρες. Το γεγονός αυτό υπήρξε ένα επιπλέον κεντρικό επεισόδιο στη διαδικασία διόγκωσης και πολιτικής ισχυροποίησης του παγκόσμιου χρηματοπιστωτικού τομέα. Από τη μια πλευρά, ο συνδυασμός ύφεσης, πληθωρισμού και διευρυμένων ελλειμμάτων πυροδότησε μια έκρηξη του όγκου των διασυνοριακών ροών κεφαλαίου και ενέτεινε τη χρηματοδοτική εξάρτηση επιχειρήσεων και κρατικού τομέα από τα διεθνή χρηματοπιστωτικά ιδρύματα και οργανισμούς. Από την άλλη, η συσσώρευση τεράστιας ποσότητας πετροδολαρίων στα ιδιωτικά πιστωτικά ιδρύματα και τράπεζες του κόσμου αποτέλεσε μια επιπλέον πηγή κεφαλαίων άμεσα διαθέσιμων για χρήση σε κερδοσκοπικές δραστηριότητες, αυξάνοντας την αστάθεια στις αγορές και τα περιθώρια κέρδους των διεθνών επενδυτών. Οι εξελίξεις αυτές υπέσκαψαν περαιτέρω τη δυνατότητα άσκησης αυτόνομης οικονομικής πολιτικής και όξυναν την ιδεολογική και πολιτική αμφισβήτηση της παρεμβατικής φιλοσοφίας και οικονομικής πρακτικής του Κεϋνσιανισμού, ανοίγοντας τελικά το δρόμο για την επικράτηση των ιδεών της ελεύθερης αγοράς και του νεοφιλελευθερισμού (Crotty 2000).

Η «νεοφιλελεύθερη επανάσταση» ξεκίνησε στις αρχές της δεκαετίας του 1980 στις ΗΠΑ και τη Βρετάνια και γρήγορα εξαπλώθηκε στην ηπειρωτική Ευρώπη και σε χώρες του λεγόμενου «Τρίτου Κόσμου». Κεντρικό πρόταγμα του νεοφιλελευθέρου οικονομικού υποδείγματος υπήρξε η ανάγκη διαρθρωτικής προσαρμογής των εθνικών μακροοικονομικών συστημάτων στις νέες συνθήκες συσσώρευσης και ρύθμισης που διαμόρφωσε το νέο περιβάλλον της μετά-Bretton Woods εποχής. Μέσα υλοποίησης της συγκεκριμένης στρατηγικής αποτέλεσαν η επίτευξη νομισματικής σταθερότητας, η καταπολέμηση και ο αυστηρός έλεγχος του πληθωρισμού και των δημοσιονομικών ελλειμμάτων, η αποδόμηση του κράτους πρόνοιας και των εργατικών δικαιωμάτων, οι ιδιωτικοποιήσεις και η συνολική απορρύθμιση των εθνικών χρηματαγορών. Όπως υπογραμμίζει ο Kotz (2008), η εισαγωγή της νεοφιλελεύθερης οικονομικής ατζέντας υπαγορεύτηκε και προωθήθηκε συστηματικά από ομάδες συμφερόντων και ισχυρές οικονομικές ελίτ, οι οποίες είδαν τη μετατόπιση των επιχειρηματικών τους δραστηριοτήτων από την παραγωγή και τις επενδύσεις προς την κερδοσκοπία ως το ενδεδειγμένο μέσο για την υπέρβαση των σοβαρών διαρθρωτικών δυσλειτουργιών και προβλημάτων που εμφάνιζε το φορντικό σύστημα ρύθμισης. Οι Harvey (2005) και οι Argitis και Pitelis (2001) επισημαίνουν τα σημαντικά οφέλη και προνομία που έχουν αποκομίσει συγκεκριμένες κυρίαρχες κοινωνικές τάξεις (π.χ. ιδιώτες επενδυτές, τραπεζίτες, χρηματιστές και εισοδηματίες) από την επιβολή και την επικράτηση του νεοφιλελευθέρου δόγματος και των πολιτικών του.

Η υιοθέτηση του νεοφιλελευθέρου μοντέλου ρύθμισης και μακροοικονομικής πολιτικής, όχι μόνο απέτυχε την επιστροφή της παγκόσμιας οικονομίας σε υψηλούς και διατηρήσιμους ρυθμούς ανάπτυξης, αλλά επέτεινε τη δυναμική διεθνοποίησης και οικονομικής επικυριαρχίας του χρηματιστικού κεφαλαίου και το κλίμα γενικευμένης αστάθειας και στασιμότητας. Η άσκηση περιοριστικών οικονομικών πολιτικών και η επιθετική απελευθέρωση και ολοκλήρωση των αγορών χρήματος υπήρξαν εφαλτήριο για την υπέρμετρη άνοδο του κρατικού και ιδιωτικού χρέους σε παγκόσμια κλίμακα, την εκρηκτική αύξηση των βραχυπρόθεσμων ροών κερδοσκοπικών και πιστωτικών κεφαλαίων στις αγορές και την εμφάνιση ενός κύματος σχεδιασμού και παροχής νέων καινοτόμων επενδυτικών προϊόντων και μεθόδων, που τροφοδοτούσαν συστηματικά τις κεφαλαιαγορές με επιπλέον ροές «ζεστού» και έντονα κερδοσκοπικού χρήματος, εγκαινιάζοντας έτσι μια εποχή χρηματοπιστωτικής φρενίτιδας και υπερδιόγκωσης. Οι εξελίξεις αυτές, σε συνδυασμό με τη απροθυμία των κυβερνήσεων να παρέμβουν αποφασιστικά για τον έλεγχο και την ανάσχεση της διαδικασίας χρηματοπιστωτικής φιλελευθεροποίησης, συνέβαλαν καθοριστικά στην ανάδυση μιας νέας παγκόσμιας νομισματικής αρχιτεκτονικής και στη ριζική αλλαγή του παγκόσμιου κοινωνικού συσχετισμού δύναμης, μετασχηματίζοντας τις αγορές χρήματος σε αυτόνομες δομές οικονομικής και πολιτικής ισχύος. Όπως θα αναλύσουμε στη συνέχεια, η κυριαρχία του διεθνούς χρηματιστικού κεφαλαίου αντανακλάται σήμερα: α) στους περιορισμούς που δημιουργεί η παγκοσμιοποίηση και κερδοσκοπική φύση των αγορών χρήματος στην άσκηση οικονομικών πολιτικών επεκτατικού χαρακτήρα, και β) στη τάση χρηματιστικοποίησης της οικονομίας.

1.2 Χρηματοπιστωτική ολοκλήρωση και εθνική μακροοικονομική πολιτική

Η νέα φιλελεύθερη αρχιτεκτονική του παγκόσμιου χρηματοπιστωτικού συστήματος, που αναδύθηκε μετά την κατάρρευση του ρυθμιστικού νομισματικού καθεστώτος του Bretton Woods και την επικράτηση του νεοφιλελευθέρου δόγματος, έχει επιφέρει σοβαρούς μετασχηματισμούς και μεταβολές στους στόχους και στο περιβάλλον άσκησης εθνικής μακροοικονομικής πολιτικής. Η σοβαρότερη ίσως αλλαγή που έχει συντελεστεί είναι η σημαντική υπονόμευση της δυνατότητας εφαρμογής αυτόνομων οικονομικών πολιτικών και ιδιαίτερα στρατηγικών προώθησης της απασχόλησης και του εισοδήματος. Με την παγκοσμιοποίηση των αγορών χρήματος και κεφαλαίων, οι κυβερνήσεις έχουν πάψει να αποβλέπουν στην πραγματοποίηση στόχων οικονομικής ανάπτυξης και κοινωνικής ευημερίας. Κεντρική πλέον επιδίωξη του πλαισίου εθνικής μακροοικονομικής διαχείρισης αποτελεί η διαμόρφωση και διασφάλιση συνθηκών νομισματικής σταθεροποίησης και πειθαρχίας με απώτερο σκοπό την εμπέδωση ενός κλίματος εμπιστοσύνης στους διεθνείς επενδύτες και την επίτευξη μακροχρόνια βιώσιμης χρηματοπιστωτικής σταθερότητας (Epstein 2009, Akyüz 2007, Underhill και Zhang 2003).

Για την κατανόηση των περιορισμών που επιβάλλει η παγκοσμιοποίηση των αγορών χρήματος στην εφαρμογή αυτόνομης μακροοικονομικής πολιτικής σημαντική είναι η εκτίμηση των βασικών παραγόντων που καθορίζουν τη συμπεριφορά και τις κερδοσκοπικές κινήσεις του χρηματικού κεφαλαίου στο σύγχρονο απορρυθμισμένο χρηματοοικονομικό περιβάλλον. Οι διεθνείς αγορές χρήματος σήμερα κατακλύζονται από βραχυπρόθεσμες και εξαιρετικά ευμετάβλητες κερδοσκοπικές ροές κεφαλαίου που διαπερνούν τα εθνικά σύνορα και εμπλέκονται σε αγοροπωλησίες χρεογράφων, εμπορευμάτων και συναλλάγματος για την αποκόμιση των μεγαλύτερων δυνατών αποδόσεων και την αύξηση της διασποράς του ρίσκου. Κυριότεροι προσδιοριστικοί παράγοντες της κερδοφορίας και κινητικότητας των κερδοσκοπικών επενδύσεων αποτελούν ορισμένες βασικές μακροοικονομικές μεταβλητές, οι οποίες επηρεάζουν τη συναλλαγματική ισοτιμία του εγχώριου νομίσματος, όπως ο ρυθμός πληθωρισμού, το ύψος των εγχώριων επιτοκίων και το ισοζύγιο τρεχουσών συναλλαγών, καθώς και οι προσδοκίες που αναπτύσσουν οι επενδυτές για επικείμενες νομισματικές εξελίξεις. Το γεγονός αυτό φέρνει τον χαρακτήρα και το θεσμικό περιβάλλον άσκησης εθνικής μακροοικονομικής διαχείρισης στο επίκεντρο της κερδοσκοπικής δραστηριότητας και των επιλογών των διεθνών επενδυτών στις εγχώριες αγορές χρήματος. Μεταβολές της οικονομικής πολιτικής, προκαλώντας αλλαγές στα θεμελιώδη μεγέθη της οικονομίας και στις προσδοκίες των αγορών σχετικά με την πορεία της συναλλαγματικής αξίας του εθνικού νομίσματος, μεταβάλουν τις αποδόσεις των επενδυτικών κεφαλαίων στις εγχώριες αγορές κεφαλαίου, επηρεάζοντας την ανταγωνιστικότητα και τις προοπτικές σταθεροποίησης της εθνικής οικονομίας (βλ. Αργείτης 2002).

Έτσι, η χρηματοοικονομική απελευθέρωση, οι κερδοσκοπικές πρακτικές και η έντονη κινητικότητα του διεθνούς χρηματιστικού κεφαλαίου έχουν προκαλέσει μια εγγενή διασύνδεση και αλληλεπίδραση μεταξύ της «εσωτερικής» ισορροπίας και της «εξωτερικής» ισορροπίας της οικονομίας, θέτοντας σοβαρά πολιτικά διλλήματα και περιορισμούς στους ασκούντες τη μακροοικονομική πολιτική. Δεδομένου ότι σε ένα ελεύθερο χρηματοπιστωτικό περιβάλλον αυξημένων διασυνοριακών ροών χρήματος η άσκηση αυτόνομων οικονομικών πολιτικών προκαλεί μεταβολές στους θεμελιώδεις δείκτες της εθνικής οικονομίας, πυροδοτώντας κερδοσκοπικές κινήσεις κεφαλαίων και μεγάλη συναλλαγματική αστάθεια και ευμεταβλητότητα, η πραγματοποίηση του στόχου «εσωτερικής» οικονομικής ισορροπίας συνεπάγεται ουσιαστικά την απώλεια του στόχου της «εξωτερικής ισορροπίας». Ως συνέπεια, οι εθνικές κυβερνήσεις είναι αναγκασμένες να ενσωματώνουν τις πιέσεις και τους περιορισμούς που δημιουργούν η κερδοσκοπική συμπεριφορά και οι βίαιες αντιδράσεις των διεθνών αγορών και να προσαρμόζουν ανάλογα τους στόχους της οικονομικής πολιτικής (βλ. Pauly 1997). Στο βαθμό που οικονομικές πολιτικές επεκτατικού χαρακτήρα επηρεάζουν αρνητικά τις προσδοκίες των επενδυτών για τις μελλοντικές αποδόσεις των τοποθετήσεών τους στις εγχώριες αγορές χρήματος, η κατάσταση αυτή δημιουργεί σοβαρά εμπόδια όσο αφορά τη βιωσιμότητα και αποτελεσματικότητα οικονομικών στρατηγικών τόνωσης της οικονομικής μεγέθυνσης και της απασχόλησης.

Η εφαρμογή μιας επεκτατικής οικονομικής πολιτικής χαμηλών επιτοκίων και υψηλών δημοσιονομικών ελλειμμάτων μπορεί να καταστεί παράγοντας διατάραξης της εμπιστοσύνης των αγορών για τις μακροχρόνιες προοπτικές σταθεροποίησης της εθνικής οικονομίας, προκαλώντας ένα μαζικό κύμα εξαγωγής κεφαλαίων και έντονης νομισματικής και χρηματοπιστωτικής αστάθειας. Η κατάσταση αυτή είναι δυνατόν να επιδεινωθεί περαιτέρω εξαιτίας της θεμελιώδους αβεβαιότητας και της υψηλής ελαστικότητας των προσδοκιών που διέπει τη λειτουργία των αγορών χρήματος και συναλλάγματος (Davidson 2003 και Dow 2009). Η αρχική νομισματική αναταραχή μπορεί να πυροδοτήσει κλίμα ανησυχίας και προσδοκίες για εντονότερη εξασθένηση της νομισματική ισοτιμίας, προκαλώντας έτσι ένα ντόμινο αλυσιδωτών νομισματικών υποτιμήσεων και υψηλό κίνδυνο διάχυσης της κρίσης στον τραπεζικό τομέα και στην πραγματική οικονομία με καταστρεπτικές συνέπειες για όλο το παραγωγικό σύστημα και για το επίπεδο ευημερίας των πολιτών της χώρας. Παράλληλα, σε καταστάσεις κρίσης και αβεβαιότητας, η άσκηση περιοριστικής νομισματικής πολιτικής με σκοπό τη βελτίωση του κλίματος στις αγορές και την επανάκτηση της εμπιστοσύνης των επενδυτών, είναι πιθανό να μην καταφέρει την αντιστροφή της ροής κερδοσκοπικών κεφαλαίων, καθιστώντας τη διαδικασία σταθεροποίησης της οικονομίας μακρά και επίπονη (βλ. Akyüz 2007). Το εύρος και η ένταση των οικονομικών επιπτώσεων που μπορεί να προκαλέσει μια κατάσταση μαζικής εξαγωγής κεφαλαίων από την εγχώρια οικονομία είναι δυνατόν να εμφανιστούν τόσο σε καθεστώς κυμαινόμενων όσο και σταθερών συναλλαγματικών ισοτιμιών (Palley 2003).

Η φιλελεύθερη δομή του σημερινού διεθνούς χρηματοπιστωτικού συστήματος έχει επομένως πρακτικά επαναφέρει ένα βασικό χαρακτηριστικό της οργάνωσης και λειτουργίας του νομισματικού καθεστώτος του «Χρυσού Κανόνα»: την περιορισμένη ικανότητα άσκησης επεκτατικών οικονομικών πολιτικών σε συνθήκες απορρύθμισης και υψηλής κινητικότητας του διεθνούς χρηματικού κεφαλαίου. Σε ένα περιβάλλον αυξημένης χρηματοοικονομικής ολοκλήρωσης και παγκοσμιοποίησης, η προσπάθεια των εθνικών κυβερνήσεων να αυξήσουν το επίπεδο της οικονομικής δραστηριότητας και απασχόλησης μέσω της άσκησης επεκτατικών οικονομικών πολιτικών καθίσταται ένα πολύ δύσκολο πολιτικό εγχείρημα, καθώς ενδέχεται να δημιουργήσει αρνητικές προσδοκίες μελλοντικής κερδοφορίας στους ιδιώτες επενδύτες, οδηγώντας σε μαζική εξαγωγή κεφαλαίων από την εθνική οικονομία και σε γενικευμένη χρηματοπιστωτική και οικονομική κρίση. Υπο αυτές τις συνθήκες, οι κυβερνήσεις είναι αναγκασμένες να αποφεύγουν την εφαρμογή πολιτικών στρατηγικών που διαφοροποιούνται από τις αντίστοιχες των εμπορικών εταίρων τους και τις προσδοκίες των ιδιωτών επενδυτών. Η κατάσταση αυτή έχει, εν μέρει, συνδεθεί με την τάση σύγκλισης των επιτοκίων που παρατηρείται διεθνώς μετά την κατάρρευση του Bretton Woods (Davidson 2007). Οι Vernengo και Rochon (2000) υπογραμμίζουν πως η σύγκλιση αυτή των επιτοκίων επιτυγχάνεται σε υψηλότερα επίπεδα ισορροπίας εξαιτίας του έντονου διασυνοριακού ανταγωνισμού για την προσέλκυση ξένων κεφαλαίων ως μέσο αποφυγής κερδοσκοπικών επιθέσεων.

Βάσει της παραπάνω ανάλυσης γίνεται σαφές ότι η αυξανομένη κινητικότητα του χρηματικού και κερδοσκοπικού κεφαλαίου έχει αποτελέσει τη θεσμική βάση μιας ριζικής αναδιαμόρφωσης της σχέσης εθνικού κράτους και αγορών χρήματος. Όπως υπογραμμίζουν οι Αργείτης (2002) και Gill και Law (1989), η φιλελευθεροποίηση και ολοκλήρωση του παγκόσμιου χρηματοπιστωτικού συστήματος έχει μετασχηματίσει τις διεθνείς αγορές χρήματος σε υπερεθνικές δομές πολιτικής και οικονομικής ισχύος. Βασική πηγή της διαρθρωτικής ισχύος των σύγχρονων αγορών είναι η ικανότητα των ιδιωτών και θεσμικών επενδυτών να εξετάζουν ενδελεχώς το επενδυτικό περιβάλλον σε παγκόσμια κλίμακα και να κατευθύνουν μαζικά ροές χρήματος και κεφαλαίων προς οικονομίες που προσφέρουν υψηλότερες προσδοκώμενες αποδόσεις. Οικονομίες που αδυνατούν ή δεν επιλέγουν να ασκήσουν μακροοικονομικές πολιτικές σύμφωνες με τις προτιμήσεις και τα συμφέροντα των διεθνών και εγχώριων επενδυτών γίνονται εύκολα υποψήφια θύματα της τιμωρίας των αγορών με τη μορφή είτε αποκλεισμού τους από πηγές χρηματοδότησης είτε εκδήλωσης κερδοσκοπικής επίθεσης. Με αυτόν τον τρόπο, οι στόχοι και τα εργαλεία της ασκούμενης οικονομικής πολιτικής, και συνεπώς οι προοπτικές ανάπτυξης και σταθεροποίησης των εθνικών οικονομιών, εμπλέκονται άμεσα με τις απαιτήσεις και τις επιλογές του χρηματιστικού κεφαλαίου.

Η θεσμική αυτή εξέλιξη έχει περιορίσει δραματικά την ικανότητα ρυθμιστικής παρέμβασης και διακριτικής διαχείρισης της οικονομίας εκ μέρους των κυβερνήσεων. Στο βαθμό που η προσδοκώμενη απόδοση των επενδύσεων στις εγχώριες αγορές και οι κινήσεις των κερδοσκοπικών κεφαλαίων σχετίζονται άμεσα με τις προτιμήσεις και τις επιλογές της εθνικής οικονομικής πολιτικής, οι κυβερνήσεις απομακρύνονται από οικονομικές στρατηγικές υψηλού χρηματοοικονομικού ρίσκου και αβεβαιότητας και προσανατολίζονται στην υιοθέτηση ενός πλαισίου οικονομικής πολιτικής απόλυτα συμβατού με τις επιθυμίες και προτιμήσεις του χρηματιστικού κεφαλαίου. Το γεγονός αυτό έχει προφανείς επιπτώσεις στις σχέσεις δύναμης μεταξύ κοινωνικών τάξεων και ομάδων, επαναπροσδιορίζοντας τα περιθώρια πολιτικού έλεγχου του χαρακτήρα της οικονομικής πολιτικής και τους μηχανισμούς διανομής του παραγόμενου πλούτου της οικονομίας. Όπως υπογραμμίζει ο Epstein (2002), η απειλή μιας ξαφνικής εξαγωγής χρηματιστικού κεφαλαίου και οι καταστροφικές συνέπειές της πάνω στα παραγωγικά συστήματα και τη μακροοικονομική σταθερότητα των χωρών, έχουν αποτελέσει αιτία υποχώρησης της πολιτικής ισχύος των δυνάμεων της εργασίας και του εγχώριου βιομηχανικού κεφαλαίου, περιορίζοντας τα περιθώρια παρέμβασης και επιρροής τους για την προώθηση μακροοικονομικών στρατηγικών τόνωσης της απασχόλησης και της εγχώριας ζήτησης. Με αυτόν τον τρόπο, η χρηματοοικονομική ολοκλήρωση και η κινητικότητα του κεφαλαίου έχει εκχωρήσει στις παγκόσμιες αγορές χρήματος και στους διεθνείς κερδοσκόπους τη δυνατότητα ισχυρής πολιτικής εκπροσώπευσης και ελέγχου της διαδικασίας χάραξης και άσκησης οικονομικής πολιτικής. Ο κίνδυνος πιθανής αντιστροφής των ροών κεφαλαίου αποτελεί ισχυρό διαπραγματευτικό όπλο στα χέρια του χρηματοπιστωτικού κεφαλαίου, με το οποίο εμποδίζει την εφαρμογή επεκτατικών πολιτικών, αποκομίζοντας έτσι σημαντικά οικονομικά οφέλη εις βάρος των άλλων κοινωνικών τάξεων αλλά και της αναπτυξιακής δυναμικής των εθνικών οικονομιών.

Αξίζει να σημειωθεί ότι οι πιέσεις που ασκούν οι διεθνείς χρηματοπιστωτικές αγορές στα συστήματα ρύθμισης και οικονομικής διαχείρισης των κρατών είναι πιο έντονες στην περίπτωση μικρών και ανοικτών οικονομιών με υψηλά επίπεδα χρέους σε ξένο συνάλλαγμα. Ωστόσο, ακόμα και ανεπτυγμένες βιομηχανικές χώρες έχουν υποφέρει από τις καταστρεπτικές επιπτώσεις της μαζικής εξόδου κεφαλαίου και των κερδοσκοπικών επιθέσεων. Ενδεικτικές περιπτώσεις αποτελούν η νομισματική κρίση στην Αγγλία και τη Σουηδία το 1992, καθώς και η τρέχουσα χρηματοπιστωτική κρίση στην ΟΝΕ. Το σύστημα περιορισμών που έχει δημιουργήσει η πειθαρχική ισχύς του παγκόσμιου χρηματικού κεφαλαίου έχει επίσης ενισχυθεί και από τον υψηλό βαθμό δομικής ευθραυστότητας που εμφανίζουν σήμερα οι διεθνείς αγορές συναλλάγματος, εξαιτίας: α) της δυνατότητας των κρατών να διατηρούν, στα πλαίσια του σημερινού παγκόσμιου πιστωτικού συστήματος, υψηλότερα ελλείμματα στο ισοζύγιο τρεχουσών συναλλαγών για σχετικά μεγαλύτερο χρονικό διάστημα (Stockhammer 2010), και β) του κινδύνου μετάδοσης της κρίσης και των συνεπειών της σε χώρες με φαινομενικά γερά θεμελιακά οικονομικά μεγέθη (Grabel 2003). Καθοριστικό ρόλο στην ενίσχυση της πειθαρχικής δύναμης των αγορών παίζουν επιπλέον η απουσία ενός κεντρικού πυλώνα συντονισμού των νομισματικών σχέσεων σε διεθνές επίπεδο, καθώς και ο αυξημένος ανταγωνισμός μεταξύ ισχυρών οικονομιών για την προσέλκυση ξένων κεφαλαίων, εξελίξεις που ευθύνονται για την όξυνση εθνικών οικονομικών αντιπαραθέσεων, την εμφάνιση έντονων ανισορροπιών στην παγκόσμια οικονομία και τη συντήρηση ενός κλίματος γενικευμένης αστάθειας και αβεβαιότητας.

Υπό τον κίνδυνο μιας μαζικής εξόδου κεφαλαίων από τις εγχώριες αγορές και των συνεπαγόμενων αποσταθεροποιητικών επιπτώσεων που μπορεί να προκαλέσει, οι κυβερνήσεις είναι σήμερα αναγκασμένες να «φανούν» αξιόπιστες προς στις αγορές. Η ενίσχυση της αξιοπιστίας έχει σήμερα γίνει βασική επιδίωξη του πλαισίου άσκησης οικονομικής πολιτικής και προβάλλεται ως η μοναδική πολιτική επιλογή των αρχών για να κερδίσουν την εμπιστοσύνη και την υποστήριξη των χρηματαγορών. Κεντρική ιδέα του επιχειρήματος υπέρ της αξιοπιστίας είναι ότι ο μοναδικός τρόπος αποφυγής κερδοσκοπικών επιθέσεων είναι να πειστούν οι επενδυτές ότι η οικονομική πολιτική είναι απόλυτα δεσμευμένη σε μια ατζέντα που ελαχιστοποιεί το χρηματοοικονομικό κίνδυνο και συμβάλλει στη διαμόρφωση ενός κλίματος φιλικού προς τις ιδιωτικές επενδύσεις. Στο βαθμό που οι ασκούντες μακροοικονομική πολιτική καταφέρουν να πείσουν τις αγορές για το βαθμό αξιόπιστης δέσμευσής τους σε στρατηγικές χαμηλού ρίσκου, η υπόθεση είναι ότι ξένα επενδυτικά κεφάλαια θα εισρεύσουν μαζικά προς τις εγχώριες χρηματαγορές, επιτρέποντας έτσι τη χρηματοδότηση των αναπτυξιακών δραστηριοτήτων της εθνικής οικονομίας με ευνοϊκότερους όρους και συνεπώς την ανταγωνιστική ανάταξή της (Grabel 2000 και Palley 2001).

Η αξιοπιστία της οικονομικής πολιτικής αποτιμάται και καθορίζεται από μια μικρή χρηματιστηριακή ελίτ που εργάζεται σε ισχυρούς χρηματοπιστωτικούς οίκους βάσει συγκεκριμένων υποθέσεων και αντιλήψεων για το τι συνιστά βιώσιμη και συνετή οικονομική πολιτική (Mohamed 2008). Στο βαθμό που το επίπεδο αξιοπιστίας της ασκούμενης οικονομικής πολιτικής προσδιορίζει τη χρηματοδοτική ρευστότητα της εθνικής οικονομίας, η κρίση και προσδοκίες των αγορών γύρω από το χαρακτήρα και τους στόχους της οικονομικής πολιτικής καθορίζει τους βαθμούς ελευθερίας και τους διαθέσιμους χρηματικούς πόρους για την άσκηση αυτόνομης μακροοικονομικής διαχείρισης. Συνεπώς, η ιδέα της αξιοπιστίας της οικονομικής πολιτικής λειτουργεί ως μηχανισμός πειθάρχησης μέσω του οποίου οι αγορές επιβάλλουν τις προτιμήσεις και επιταγές τους στη διαμόρφωση οικονομικής πολιτικής. Αντικατοπτρίζει, με άλλα λόγια, τη διαρθρωτική ισχύ του υπερεθνικού χρηματιστικού κεφαλαίου να τιμωρεί, σε ένα περιβάλλον χρηματοοικονομικής ολοκλήρωσης και παγκόσμιας κινητικότητας του κεφαλαίου, τις επιλογές κυβερνήσεων που κρίνει αντίθετες προς τα συμφέροντά του.

Η βαθμός αξιοπιστίας της εθνικής οικονομικής πολιτικής σχετίζεται άμεσα με το επίπεδο αβεβαιότητας και χρηματοοικονομικού κινδύνου το οποίο εμφανίζουν οι επενδυτές σχετικά με την εξέλιξη βασικών οικονομικών μεταβλητών που καθορίζουν την κερδοφορία και την κινητικότητα των κεφαλαίων. Στο πλαίσιο αυτό, αξιόπιστες πολιτικές θεωρούνται οι οικονομικές στρατηγικές που δίνουν απόλυτη προτεραιότητα στην επίτευξη συνθηκών νομισματικής σταθερότητας, υγιών δημόσιων οικονομικών και στη μείωση του εργατικού κόστους. Η συγκεκριμένη πολιτική ατζέντα, γνωστή και ως «μακροοικονομική πειθαρχία» (Eatwell και Taylor 1998), περιλαμβάνει την υιοθέτηση πολιτικών χαμηλού πληθωρισμού, ισοσκελισμένων προϋπολογισμών και «ευέλικτων» μορφών εργασίας. Η οικοδόμηση της αξιοπιστίας σχετίζεται επίσης με πολιτικές περιορισμού του κρατικού παρεμβατισμού στην οικονομία (συρρίκνωση κράτους πρόνοιας, περιστολή δημοσίων δαπανών, ιδιωτικοποιήσεις), την εφαρμογή προγράμματος διαρθρωτικών μεταρρυθμίσεων στις αγορές κεφαλαίου και τέλος με την προώθηση του ελευθέρου εμπορίου. Οι στρατηγικές αυτές αποτελούν βασικές προτάσεις του νεοφιλελεύθερου οικονομικού προγράμματος της «Συναίνεσης της Ουάσινγκτον» (Williamson 2000), το οποίο σήμερα αποτυπώνει σε σημαντικό βαθμό τις κεντρικές ιδέες και αντιλήψεις της σύγχρονης χρηματοπιστωτικής ελίτ σχετικά με το αναπτυξιακό υπόδειγμα των σύγχρονων καπιταλιστικών οικονομιών. Ενδεχόμενη παρέκκλιση από τη σκληρή αυτή νεοφιλελεύθερη ατζέντα μπορεί να εκληφθεί από τις αγορές ως ένδειξη έλλειψης αξιοπιστίας και να πυροδοτήσει ένα κύμα μαζικής φυγής χρηματικού και κερδοσκοπικού κεφαλαίου από τις εγχώριες αγορές.

Το ζήτημα της αξιοπιστίας της οικονομικής πολιτικής επομένως αποτελεί ένα μέσο επιβολής και διάχυσης των νεοφιλελεύθερης φύσης οικονομικών συμφερόντων των διεθνών χρηματαγορών, θεσμοθετώντας ουσιαστικά μια διαδικασία «πειθαρχικού νεοφιλελευθερισμού» στο οικονομικό σύστημα των χωρών (βλ. Gill 2001). Μια χώρα που δεν καταφέρνει να επιδείξει ένα υψηλό βαθμό αποφασιστικότητας και δέσμευσης στην εφαρμογή ενός προγράμματος αυστηρής νομισματικής πειθαρχίας και θεσμικών παρεμβάσεών νεοφιλελεύθερής προσαρμογής κρίνεται από τις αγορές και τους οίκους αξιολόγησης ως αναξιόπιστη και εχθρική προς τις ιδιωτικές επενδύσεις με κίνδυνο να υποστεί τις τραγικές επιπτώσεις της κερδοσκοπίας και της αποσταθεροποίησης του μακροοικονομικού και χρηματοπιστωτικού της συστήματος. Με αυτόν τον τρόπο, ο χαρακτήρας, η στόχευση και το θεσμικό πλαίσιο οικονομικής πολιτικής, ουσιαστικά, αποκόπτονται από το κοινωνικό, οικονομικό και πολιτικό περιβάλλον κάθε κράτους και μετατρέπονται σε εργαλεία συντήρησης των προνομίων των χρηματοοικονομικών ελίτ και σε μέσο αυταρχικής επιβολής του νεοφιλελευθερισμού.

Συνοπτικά, υπό συνθήκες έντονης χρηματοπιστωτικής παγκοσμιοποίησης και ολοκλήρωσης η δυνατότητα των κρατών να κάνουν αυτόνομες επιλογές οικονομικής πολιτικής έχει υπονομευτεί από την παρουσία και τις κερδοσκοπικές δραστηριότητες του διεθνούς χρηματιστικού κεφαλαίου. Οι προτιμήσεις και προσδοκίες των διεθνών αγορών και χρηματοοικονομικών οίκων σχετικά με το χαρακτήρα και τους στόχους της οικονομικής πολιτικής αποτελούν σοβαρό περιορισμό στην άσκηση ανεξάρτητων στρατηγικών οικονομικής διαχείρισης και οι εθνικές κυβερνήσεις είναι υποχρεωμένες να τις λαμβάνουν σοβαρά υπόψη στη λήψη των πολιτικών τους αποφάσεων. Αν μια κυβέρνηση αποτύχει να φανεί αξιόπιστη και η μακροοικονομική της πολιτική δεν ανταποκρίνεται στις κερδοσκοπικές επιταγές των αγορών, τότε ενδέχεται να βρεθεί αντιμέτωπη με μια κατάσταση μαζικής εξαγωγής ξένων και εγχώριων κεφαλαίων με δυσμενή αποτελέσματα για την αναπτυξιακή δυναμική και την κοινωνική συνοχή της χώρας. Συνεπώς, η αυξημένη διασυνοριακή κινητικότητα του κεφαλαίου έχει δώσει στους διαχειριστές χρήματος μια σημαντική διαρθρωτική δύναμη, που επιβάλλει μια πειθαρχικού τύπου σύγκλιση και προσαρμογή των κρατών σε ένα, νεοφιλελεύθερης φύσης, αξιόπιστο πρόγραμμα οικονομικής πολιτικής, με αρνητικές επιπτώσεις στο ρυθμό οικονομικής μεγέθυνσης.

1.3 Η χρηματιστικοποίηση της παγκόσμιας οικονομίας

Ένα επίσης διακριτό δομικό χαρακτηριστικό του νεοφιλελευθέρου μετασχηματισμού του παγκόσμιου καπιταλισμού και της κυριαρχίας του νεοφιλελευθέρου υποδείγματος οικονομικής και κοινωνικής πολιτικής αποτελεί η διαδικασία χρηματιστικοποίησης των οικονομικών συστημάτων των περισσότερων καπιταλιστικών χώρων. Αν και στη διεθνή βιβλιογραφία δεν υπάρχει ένας κοινά αποδεκτός ορισμός του φαινομένου της χρηματοπιστοποίησης, ο Epstein (2005) δίνει την πιο διαδεδομένη ερμηνεία του φαινομένου, ορίζοντας ως χρηματιστικοποίηση την ολοένα αυξανόμενη σημασία και ρόλο των χρηματοοικονομικών αγορών, κινήτρων, ιδρυμάτων και ελίτ στη λειτουργία και θεσμική οργάνωση της οικονομίας, τόσο σε εθνικό όσο και σε παγκόσμιο επίπεδο. Ως βασικά χαρακτηριστικά του φαινόμενου της χρηματιστικοποίησης μπορούν να αναφερθούν τα εξής:

Α. Η θεαματική ποσοτική υπερδιόγκωση και επέκταση των δραστηριοτήτων του χρηματοπιστωτικού τομέα σε επίπεδα που ξεπερνούν τα αντίστοιχα της πραγματικής οικονομίας. Βασικοί παράμετροι και ενδείξεις που αποτυπώνουν τη δυναμική αυτή αποτελούν η ραγδαία αύξηση του ημερήσιου όγκου συναλλαγών στις διεθνείς αγορές συναλλάγματος, όπως και ο συντριπτικά μεγαλύτερος ρυθμός αύξησης της κεφαλαιοποίησης και του κύκλου εργασιών των γενικών χρηματιστηριακών αγορών σε σχέση με το ρυθμό μεγέθυνσης του ΑΕΠ της οικονομίας. Η χρηματιστικοποίηση έχει επιπλέον συνοδευτεί από μια έκρηξη της κερδοφορίας των χρηματοοικονομικών επιχειρήσεων συγκριτικά με το μη-χρηματοπιστωτικό κλάδο, καθώς και από μια εκτεταμένη πιστωτική επέκταση προς τα νοικοκυριά, τις εταιρίες και τα κράτη με αποτέλεσμα τη συσσώρευση υψηλών επίπεδων ιδιωτικού και δημόσιου χρέους.[3] Αν και οι περισσότερες επιστημονικές μελέτες που ασχολούνται με τη διαδικασία της χρηματιστικοποίησης έχουν ως βασικό αντικείμενο ανάλυσής τους την αμερικανική οικονομία, στη συνέχεια της μελέτης παραθέτουμε εμπειρικά ευρήματα που δείχνουν ότι και η ευρωπαϊκή οικονομία στο σύνολο της έχει κινηθεί, ιδιαίτερα μετά την εισαγωγή του ευρώ, προς την κατεύθυνση της αυξανόμενης χρηματιστικοποίησής της.

Β. Η χρηματιστικοποίηση έχει επίσης επιφέρει σημαντικούς μετασχηματισμούς στο ρόλο, τη δομή και τη λειτουργία του χρηματοπιστωτικού τομέα και των ιδιωτικών χρηματοδοτικών ιδρυμάτων. Οι Russo και Zanini (2010) για παράδειγμα σημειώνουν ότι τις τελευταίες δεκαετίες παρατηρείται μια σταδιακή μετατόπιση του αντικειμένου δραστηριότητας των χρηματοπιστωτικών επιχειρήσεων από παραδοσιακές τραπεζικές εργασίες προς τη διαχείριση επενδυτικών κεφαλαίων και συναφείς δραστηριότητες στις χρηματιστηριακές αγορές. Σύμφωνα με Stockhammer (2010), το γεγονός αυτό έχει καταστεί αιτία πολλαπλασιασμού και εξάπλωσης ειδικών χρηματοοικονομικών εργαλείων και πρακτικών, εξέλιξη που για τους D'Arista και Schlesinger (1993) έχει λειτουργήσει η ίδια ως βασική κινητήρια δύναμη της τάσης της χρηματιστικοποίησης των σύγχρονων καπιταλιστικών οικονομιών. Ο Harmes (1998) επίσης παρατηρεί μια τάση αυξανόμενης συγκέντρωσης και συγκεντροποίησης των χρηματοοικονομικών εργασιών και συναλλαγών στα χέρια μιας μικρής ομάδας θεσμικών επενδυτών και τονίζει την ικανότητα των οικονομικών αυτών παραγόντων να διαμορφώνουν και να ελέγχουν κατά το δοκούν το επενδυτικό κλίμα στις παγκόσμιες αγορές. Ο Mohamed (2008) επιπλέον τονίζει ότι η χρηματοπιστωτική ολοκλήρωση και παγκοσμιοποίηση έχει εντείνει τον ανταγωνισμό στη λειτουργία των αγορών χρήματος. Η εξέλιξη αυτή, με τη σειρά της, έχει αυξήσει σημαντικά την πίεση στους διαχειριστές επενδυτικών κεφαλαίων και χαρτοφυλακίων για την επίτευξη γρήγορων και υψηλών αποδόσεων, συντελώντας στην υιοθέτηση μιας πιο βραχυχρόνιας προοπτικής στις επενδυτικές

[3] Βλέπε, για παράδειγμα, Palley (2007), Kotz (2008), Stockhammer (2010).

τους δραστηριότητες. Οι Terzi (2006) και Harmes (2001) συσχετίζουν το γεγονός αυτό με την ενθάρρυνση της κερδοσκοπίας και τον αυξημένο κίνδυνο συστημικής αστάθειας, ευθραυστότητας και κρίσεων που εμφανίζουν οι σύγχρονες αγορές κεφαλαίου.

Γ. Η σημαντικότερη ίσως θεσμική εξέλιξη, που συνδέεται άμεσα με τη διαδικασία χρηματιστικοποίησης των σύγχρονων καπιταλιστικών οικονομιών είναι η ανάδυση και εδραίωση ενός μοντέλου κεφαλαιακής συσσώρευσης, το οποίο αποτελεί οργανικό συστατικό και διακριτή παράγωγη τάση του νεοφιλελεύθερου συστήματος ρύθμισης. Τα βασικά δομικά χαρακτηριστικά του συγκεκριμένου μοντέλου συσσώρευσης είναι οι αναδιανεμητικές του επιδράσεις προς όφελος του χρηματοπιστωτικού κεφαλαίου, η υποτονική επενδυτική δραστηριότητα σε παραγωγικούς κλάδους της οικονομίας, η ισχνή και εξαιρετικά εύθραυστη αύξηση της ιδιωτικής κατανάλωσης και επομένως τα χαμηλά επίπεδα συναθροιστικής ζήτησης που συστηματικά δημιουργεί στο σύνολο της οικονομίας. Βάσει των παραπάνω αρνητικών οικονομικών και κοινωνικών επιπτώσεών του, το συγκεκριμένο υπόδειγμα συσσώρευσης θεωρείται ως υπεύθυνο της κατάστασης έντονης συστημικής αστάθειας και χαμηλής αναπτυξιακής δυναμικής στην οποία έχουν περιέλθει οι περισσότερες οικονομίες της δύσης τις τελευταίες τρεις δεκαετίες.

Ειδικότερα, οι βασικές πτυχές του νέου καθεστώτος κεφαλαιακής συσσώρευσης στη φάση της χρηματιστικοποίησης της καπιταλιστικής οικονομίας είναι οι εξής:

1. Αύξηση χρηματικών ροών από βιομηχανικές επιχειρήσεις προς το χρηματιστικό κεφάλαιο: Η εφαρμογή νομισματικών στρατηγικών περιοριστικού χαρακτήρα και η επικέντρωση των κεντρικών τραπεζών στο στόχο της επίτευξης ενός χαμηλού ρυθμού πληθωρισμού, που, όπως προαναφέρθηκε, αποτελούν κεντρικά δομικά στοιχεία του κυρίαρχου σήμερα νεοφιλελεύθερου πλαισίου μακροοικονομικής διαχείρισης, έχουν οδηγήσει στη διαμόρφωση ενός αποπληθωριστικού περιβάλλοντος υψηλών επιτοκίων (Wray 2007, Crotty 2000). Αρκετοί αναλυτές, θεωρώντας το παρεμβατικό επιτόκιο της κεντρικής τράπεζας παράμετρο αναδιανομής του παραγόμενου εισοδήματος (Argitis και Pitelis 2001 και Hein 2007) υποστηρίζουν ότι η παρατηρούμενη αύξηση των επιτοκίων έχει ευεργετικά αναδιανεμητικά αποτελέσματα για το χρηματιστικό κεφάλαιο, καθώς αυξάνει τις πληρωμές για τόκους που καταβάλουν οι βιομηχανικές επιχειρήσεις. Οι αναδιανεμητικές αυτές επιπτώσεις της άσκησης αντιπληθωριστικών νομισματικών πολιτικών θεωρούνται πιο έντονες σε οικονομίες με σχετικά υψηλά ποσοστά εταιρικού χρέους και με αγορές με μεγαλύτερο τιμολογιακό ανταγωνισμό (price competition) και χαμηλό βαθμό συγκεντροποίησης.

Οι μακροοικονομικές επιπτώσεις της αναδιανομής του εισοδήματος υπέρ του χρηματιστικού κεφαλαίου, και κυρίως οι συσταλτικές της επιδράσεις στο επίπεδο της εγχώριας συνολικής ζήτησης και στο ρυθμό κεφαλαιακής συσσώρευσης, έχουν γίνει αντικείμενο μελέτης αρκετών αναλύσεων που ασχολούνται με το φαινόμενο της χρηματιστικοποίησης. Οι Argitis και Michopoulou (2011) και ο Stockhammer (2008), για παράδειγμα, υπογραμμίζουν ότι η κάμψη του τρέχοντος και προσδοκώμενου ύψους των επιχειρηματικών κερδών ενδέχεται να επηρεάσουν αρνητικά την ανάληψη παραγωγικών επενδύσεων από τις μη-χρηματοπιστωτικές επιχειρήσεις, εμποδίζοντας το σχηματισμό νέου παραγωγικού κεφαλαίου. Στο βαθμό που οι ιδιωτικές επενδύσεις αποτελούν βασικό προσδιοριστικό παράγοντα των εταιρικών κερδών (βλ. Kalecki, 1971), το γεγονός αυτό είναι δυνατόν να προκαλέσει μια περαιτέρω περιστολή των μελλοντικών κερδών των μη-χρηματοοικονομικών εταιριών με ιδιαίτερα δυσμενείς μακροχρόνιες επιπτώσεις στο ρυθμό κεφαλαιακής συσσώρευσης της οικονομίας, την τόνωση της παραγωγικότητας και την απασχόληση. Οι Hein (2009) και van Treeck (2008) επίσης υποστηρίζουν ότι η πτώση των βιομηχανικών κερδών, σε συνδυασμό με τα υψηλά επίπεδα εταιρικού χρέους και την αύξηση των πληρωμών για τόκους, στερεύουν τα εσωτερικά χρηματικά διαθέσιμα των επιχειρήσεων, περιορίζοντας έτσι επιπλέον τις επενδυτικές δαπάνες σε κεφαλαιουχικό εξοπλισμό και την επέκταση της παραγωγικής βάσης της οικονομίας. Στο αποτέλεσμα αυτό έχει επίσης συμβάλλει και η αυξανόμενη αστάθεια στις χρηματοπιστωτικές αγορές, που εντείνει την επενδυτική αβεβαιότητα και κάνει λιγότερο ελκυστικές τις επενδύσεις στον πραγματικό τομέα της οικονομίας (Stockhammer, 2008).

2. Ένταση ανακατανομής εισοδήματος σε βάρος της εργασίας: Οι ισχυρές πιέσεις που δέχονται οι μη-χρηματοοικονομικές επιχειρήσεις για την αύξηση της κερδοφορίας τους με σκοπό την κάλυψη των αυξημένων τους υποχρεώσεων ρευστότητας και την προσαρμογή τους στο νέο επιχειρηματικό περιβάλλον έντονου ανταγωνισμού, έχει εξωθήσει τις επιχειρήσεις να υιοθετήσουν πολιτικές συγκράτησης του μισθολογικού κόστους και περικοπών θέσεων εργασίας. Επιπλέον, παρατηρείται μια στροφή προς την εισαγωγή πολιτικών απορρύθμισης της αγοράς εργασίας, επέκτασης των μορφών ευέλικτης απασχόλησης και εξατομίκευσης των εργασιακών σχέσεων. Στο βαθμό που η καταναλωτική δαπάνη αποτελεί το βασικότερο συστατικό της συνολικής ζήτησης, η εξέλιξη αυτή θεωρείται ότι ενισχύει την τάση συμπίεσης της συνολικής εσωτερικής ζήτησης, που εκδηλώνεται στην οικονομία εξαιτίας της πτώσης των παραγωγικών επενδύσεων. Ως εκ τούτου, συντελεί στην περαιτέρω επιβράδυνση του ρυθμού αύξησης του πραγματικού εισοδήματος και της απασχόλησης.

3. Εμπλοκή των νοικοκυριών στη λειτουργία των χρηματοπιστωτικών αγορών: Σε ένα έντονα απορρυθμισμένο χρηματοπιστωτικό περιβάλλον, η πτωτική πορεία των εργατικών μισθών, σε συνδυασμό με τη συστηματική υποχώρηση των συστημάτων κοινωνικής πρόνοιας και τη σταδιακή αποσάθρωση των εργατικών δικαιωμάτων έχει εξωθήσει μεγάλο τμήμα του πληθυσμού να εμπλακεί ενεργά στη λειτουργία και τους μηχανισμούς του χρηματοπιστωτικού συστήματος. Όπως υπογραμμίζει ο Lapavitsas (2010), με αυτό τον τρόπο το φαινόμενο της χρηματιστικοποίησης έχει επιτρέψει την ιδιοποίηση και απαλλοτρίωση σημαντικών χρηματικών πόρων των νοικοκυριών από το χρηματιστικό κεφάλαιο. Παράλληλα, έχει εισάγει ένα είδος «χρηματοοικονομικού ρίσκου» στις ήδη επισφαλείς συνθήκες διαβίωσης των απλών πολιτών (βλ. Russo και Zanini 2010). Όπως έχει επισημάνει ο Langley (2008), η συγκεκριμένη διαδικασία χρηματιστικοποίησης πτυχών της κοινωνικής και οικονομικής ζωής έχει σημαντικές ψυχολογικές προεκτάσεις στην ιδιωτική ζωή των ατόμων, συμβάλλοντας ουσιαστικά στην ανάπτυξη μιας κουλτούρας χρηματοπιστωτικής διαχείρισης και αυτοπειθαρχίας. Για τον Cox (2001), το γεγονός αυτό έχει σοβαρές πολιτικές προεκτάσεις, καθώς έχει συμβάλει στην κοινωνική αποδοχή ορθόδοξων οικονομικών στρατηγικών και στην πολιτική υποστήριξη νεοφιλελευθέρων οικονομικών προγραμμάτων.

Από την άλλη πλευρά, ορισμένοι αναλυτές σημειώνουν ότι η παρατηρούμενη αύξηση της ενεργού συμμετοχής ευρύτερων ομάδων του πληθυσμού στη λειτουργία των αγορών χρήματος είναι δυνατόν να έχει ευεργετικές επιπτώσεις στο επίπεδο της ιδιωτικής κατανάλωσης, αντισταθμίζοντας έτσι το συσταλτικό αποτέλεσμα που έχει στο ΑΕΠ η περιστολή του εισοδηματικού μεριδίου των μισθών. Ειδικότερα, ο Palley (1996) τονίζει τις θετικές βραχυχρόνιες επιδράσεις που μπορεί να έχει στην ιδιωτική καταναλωτική ζήτηση η επέκταση της πιστωτικής πίστης προς τα νοικοκυριά. Ο Dutt

(2005), επιπλέον, ισχυρίζεται ότι η αύξηση του χρηματοοικονομικού πλούτου από τη διακράτηση μετοχών και την ευκολία πρόσβασης σε καταναλωτικά δάνεια αυξάνουν τη ροπή των νοικοκυριών προς κατανάλωση και επομένως την ενεργό ζήτηση και το ρυθμό μεγέθυνσης της οικονομίας. Με αυτόν τον τρόπο, η χρηματιστικοποίηση είναι δυνατόν να ενεργοποιήσει μια διαδικασία εκρηκτικής αύξησης της πίστωσης και υπερδιόγκωσης της κατανάλωσης για σχετικά μακρύτερο χρονικό ορίζοντα (Bhaduri άλλοι 2006), με τον Boyer (2000) να επισημαίνει και την περίπτωση ενός ιδιότυπου καθεστώτος συσσώρευσης στηριζόμενου σε υψηλά επίπεδα πλούτου και ιδιωτικού χρέους στην οικονομία. Οι περισσότεροι αναλυτές, ωστόσο, υποστηρίζουν ότι μέσο-μακροπρόθεσμα η υπέρ-συσσώρευση ιδιωτικού χρέους ενδέχεται να αποτελέσει αιτία έντονης χρηματοπιστωτικής ευθραυστότητας, αυξάνοντας την πιθανότητα εκδήλωσης μιας κρίσης φερεγγυότητας με καταστροφικές επιπτώσεις στη χρηματοοικονομική σταθερότητα και την αναπτυξιακή δυναμική της οικονομίας.

4. Αλλαγή της θεσμικής σχέσης μεταξύ επιχειρήσεων και εμπορικών τραπεζών: Το φαινόμενο της χρηματιστικοποίησης της οικονομίας έχει επίσης συνδεθεί με την τάση του τραπεζικού κλάδου να εγκαταλείπει μέρος των παραδοσιακών του λειτουργιών (χορηγήσεις και καταθέσεις) και αντί αυτών να επικεντρώνεται κυρίως σε εργασίες διαμεσολάβησης και διεκπεραίωσης χρηματοοικονομικών συναλλαγών στις αγορές χρήματος και κεφαλαίου. Παράλληλα, σε ένα περιβάλλον χαμηλών επιχειρηματικών προσδοκιών και συμπίεσης του μισθολογικού κόστους, παρατηρείται μια αύξηση της χορήγησης τραπεζικών δανείων προς τα νοικοκυριά συγκριτικά με τις επιχειρήσεις. Για τους Argitis και Michopoulou (2011), η εξέλιξη αυτή έχει συμβάλλει σημαντικά στην περαιτέρω εξασθένιση των επενδυτικών δραστηριοτήτων των επιχειρήσεων σε παραγωγικούς τομείς της οικονομίας, γεγονός που θέτει επιπλέον περιορισμούς στη δυνατότητα επέκτασης και τεχνολογικού μετασχηματισμού της παραγωγικής βάσης των καπιταλιστικών χώρων. Επίσης, έχει συντελέσει στην υπερβολική διόγκωση του χρέους του ιδιωτικού τομέα, εντείνοντας έτσι τις αναδιανεμητικές επιπτώσεις της άσκησης περιοριστικών νομισματικών πολιτικών με αρνητικές συνέπειες για τη σταθερότητα και βιωσιμότητα του χρηματοπιστωτικού και τραπεζικού συστήματος.

5. Μεταβολή του μοντέλου εταιρικής διακυβέρνησης: Στη σημερινή περίοδο της χρηματιστικοποίησης, η ενίσχυση του ρόλου και της δύναμης των ιδιωτών θεσμικών επενδυτών, η δραματική αύξηση του κύκλου εργασιών και της κεφαλαιοποίησης των χρηματιστηριακών αγορών και ο αυξανόμενος προσανατολισμός των επιχειρήσεων προς βραχυπρόθεσμες χρηματοοικονομικές επενδύσεις για την αποκόμιση κερδών και τη βελτίωση της χρηματοοικονομικής τους κατάστασης, έχουν καταστήσει την κίνηση των αγορών και την πορεία των χρηματιστηριακών δεικτών κύριο παράγοντα διαμόρφωσης της συμπεριφοράς και της στρατηγικής των επιχειρήσεων. Ειδικότερα, όπως τονίζουν οι Stockhammer (2004) και Palley (2007), κεντρική πλέον στρατηγική επιδίωξη της διοίκησης των επιχειρήσεων είναι η επίτευξη και διασφάλιση γρήγορων και υψηλών κεφαλαιακών αποδόσεων προς τους μετόχους τους (shareholder value), παρά η βελτίωση της παραγωγικής λειτουργίας και ανταγωνιστικότητας της εταιρίας, προκαλώντας έτσι ουσιαστικά μια ταύτιση συμφερόντων μεταξύ της διεύθυνσης των επιχειρήσεων και μετόχων-επενδυτών. Η συγκεκριμένη θεσμική εξέλιξη στο μοντέλο εταιρικής διακυβέρνησης αναγνωρίζεται ως παράγοντας αρνητικών επιδράσεων στον πραγματικό τομέα της οικονομίας, καθώς: α) αυξάνει τις πληρωμές για μερίσματα και ενθαρρύνει κερδοσκοπικές πρακτικές ενίσχυσης της αγοραίας αξίας των μετοχών με αρνητικά αναδιανεμητικά αποτελέσματα και σημαντικές συσταλτικές επιδράσεις στο επίπεδο της ιδιωτικής κατανάλωσης και την απασχόληση, και β) διαμορφώνει στις διοικήσεις των επιχειρήσεων μια επενδυτική κουλτούρα «βραχυπρόθεσμης» οπτικής, που μειώνει τους χρηματικούς πόρους που διατίθενται για επενδύσεις σε παραγωγικές δραστηριότητες (Hein 2009).

Όπως θα επιχειρήσουμε να δείξουμε στη συνέχεια της ανάλυσής μας οι δύο προαναφερόμενες διαστάσεις της σημερινής κυριαρχίας του διεθνούς χρηματιστικού κεφαλαίου, που αναδύθηκαν μετά την κατάρρευση του νομισματικού καθεστώτος του Bretton Woods, βρίσκονται στον πυρήνα της πολιτικής απόφασης των ευρωπαϊκών κυβερνήσεων για τη μετάβαση στην ΟΝΕ και την υιοθέτηση ενός κοινού νομίσματος και ερμηνεύουν, σε σημαντικό βαθμό, τους λόγους της διαφαινόμενης αποτυχίας του ευρώ να συμβάλει στη διαμόρφωση συνθηκών σταθερότητας και ανάπτυξης στην Ευρώπη. Στην αμέσως επόμενη ενότητα περιγράφονται οι κυριότεροι παράγοντες που οδήγησαν στη δημιουργία της νομισματικής ένωσης της ΕΕ, πώς αυτοί συνδέονται με τη σύγχρονη δομή οικονομικής και κοινωνικής ισχύος των διεθνών αγορών χρήματος και μέσω ποιόν θεσμικών μηχανισμών αυτή θεσμοθετείται στην πολιτική οικονομία της Ευρώπης.

2. ΟΝΕ και παγκόσμια χρηματοπιστωτική ολοκλήρωση

Η υπογραφή της Συνθήκης του Μάαστριχτ σηματοδότησε μια ριζική μεταμόρφωση του πλαισίου, των στόχων και των μέσων άσκησης μακροοικονομικής πολιτικής στην ΕΕ. Η εισαγωγή του ευρώ σήμανε την οριστική απόσυρση των εθνικών νομισμάτων και την απώλεια της εθνικής νομισματικής αυτονομίας των κρατών-μελών της ΟΝΕ. Σήμερα, η νομισματική πολιτική εφαρμόζεται από μια ενιαία κεντρική τράπεζα, την ΕΚΤ, που απολαμβάνει ένα υψηλό βαθμό ανεξαρτησίας και έχει ως βασική αποστολή της νομισματικής της στρατηγικής τη διασφάλιση ενός περιβάλλοντος νομισματικής σταθερότητας στην Ευρώπη. Παράλληλα, η δημοσιονομική πολιτική, το μοναδικό ίσως εργαλείο μακροοικονομικής ρύθμισης και διαχείρισης στη διάθεση των κρατών-μελών, μολονότι, επί της αρχής, παραμένει αρμοδιότητα των εθνικών κυβερνήσεων, ασκείται μέσα στα ασφυκτικά ρυθμιστικά πλαίσια και τους αυστηρούς περιορισμούς του Συμφώνου Σταθερότητας και Ανάπτυξης (ΣΣΑ).

Το πολιτικό εγχείρημα της δημιουργίας του ευρώ και της νομισματικής ένωσης στην Ευρώπη έχει γίνει αντικείμενο λεπτομερειακής ανάλυσης και έρευνας αρκετών μελετών στο πλαίσιο της πολιτικής και οικονομικής επιστήμης. Συμβατικές θεωρήσεις συνήθως κατανοούν τη γέννηση της Ευρωζώνης είτε ως το αναμενόμενο αποτέλεσμα μιας διαδικασίας θεσμικής διάχυσης πρότερων σταδίων ολοκλήρωσης, είτε ως την απόληξη μιας σειράς διακυβερνητικών διαπραγματεύσεων στη βάση του εθνικού συμφέροντος κάθε κράτους-μέλους της Κοινότητας. Κατά την άποψή μας, οι συγκεκριμένες προσεγγίσεις παρακάμπτουν το ρόλο των σημαντικών εξελίξεων και μετασχηματισμών που έλαβαν χώρα στο ευρύτερο πλαίσιο της θεσμικής οργάνωσης και της λειτουργίας του παγκόσμιου καπιταλισμού τις τελευταίες τρεις δεκαετίες. Για το λόγο αυτό, αναλύουμε τις βασικές αιτίες δημιουργίας της ΟΝΕ υπό το πρίσμα της νεοφιλελεύθερης παγκοσμιοποίησης και των συνεπαγόμενων δομών δύναμης και κυριαρχίας του παγκόσμιου χρηματιστικού κεφαλαίου, κατανοώντας την ΟΝΕ ως ένα μέσο πειθαρχικής επιβολής και θεσμικής κατοχύρωσης αξιόπιστων προς τις διεθνείς αγορές νεοφιλελευθέρων οικονομικών πολιτικών στην Ευρώπη. Η στρατηγική αυτή επιλογή προωθήθηκε μεθοδικά από τις κυρίαρχες πολιτικές και οικονομικές ελίτ της ΕΕ ως μέσο υπέρβασης των προβλημάτων ρύθμισης του μεταπολεμικού ευρωπαϊκού οικονομικού μοντέλου και ανάταξης της ανταγωνιστικότητας του ευρωπαϊκού κεφαλαίου μέσα στο νέο παγκοσμιοποιημένο περιβάλλον. Όπως όμως θα τονίσουμε στην τελευταία ενότητα της μελέτης, η προσήλωση της ΟΝΕ σε αξιόπιστες πολιτικές, αντί να συμβάλλει στην ενδυνάμωση της ευρωπαϊκής οικονομίας, έγινε βασική αιτία ενεργοποίησης μιας διαδικασίας «πειθαρχικής χρηματιστικοποίησης» στην ΕΕ, που τελικά την βύθισε στη σημερινή της κρίση.

Ειδικότερα, τρεις είναι οι βασικές προκλήσεις που αντιμετώπισαν τα κράτη-μέλη της Ένωσης, και η Ευρωπαϊκή οικονομία συνολικότερα, κατά τη διάρκεια των δεκαετιών του 1970 και 1980 και στις οποίες, κατά τη φιλοσοφία των σχεδιαστών της ΟΝΕ, το ευρώ αποτέλεσε την καταλληλότερη θεσμική απάντηση.

Η πρώτη σχετίζεται με τη δραστική επιβράδυνση των αναπτυξιακών ρυθμών της ευρωπαϊκής οικονομίας. Κυριότεροι συντελεστές της εξέλιξης αυτής αποτέλεσαν η ολοκλήρωση των προγραμμάτων μεταπολεμικής οικονομικής ανοικοδόμησης και ανασυγκρότησης, η δομική εξάντληση του φορντικού υποδείγματος παραγωγής και η σημαντική κάμψη της επενδυτικής δραστηριότητας. Κατά τη δεκαετία του 1970, η διαρθρωτική κρίση του ευρωπαϊκού οικονομικού μοντέλου τροφοδοτήθηκε επίσης και από τις δύο πετρελαϊκές κρίσεις, που έπληξαν σοβαρά τις ιδιαίτερα εξαρτημένες ενεργειακά ευρωπαϊκές οικονομίες, όπως και από το κύμα ριζοσπαστικοποίησης και πολιτικοποίησης του εργατικού κινήματος και το μεγάλο απεργιακό ξέσπασμα που ακολούθησε σε όλη την Ευρώπη. Οι εξελίξεις αυτές συνέβαλλαν καθοριστικά στην αποσταθεροποίηση των οικονομικών και κοινωνικών συστημάτων των περισσότερων κρατών-μελών της ευρωπαϊκής Κοινότητας, σηματοδοτώντας την αρχή μιας περιόδου «ευρωαπαισιοδοξίας» (Europessimism, Sandholtz και άλλοι 1992) αναιμικών ρυθμών ανάπτυξης, υψηλής ανεργίας και έντονης κοινωνικής αστάθειας.[4]

Η δεύτερη σημαντική πρόκληση υπήρξε η αποδιάρθρωση του παγκόσμιου νομισματικού συστήματος του Bretton Woods. Η σταδιακή άρση των περιορισμών στη διεθνή κινητικότητα των κεφαλαίων, σε συνδυασμό με την υιοθέτηση ελεύθερα κυμαινόμενων συναλλαγματικών ισοτιμιών, αύξησε αξιοσημείωτα την κερδοσκοπική δραστηριότητα και αστάθεια στις αγορές συναλλάγματος, θέτοντας σοβαρά εμπόδια στην εφαρμογή επεκτατικών οικονομικών πολιτικών και συνεπώς στις προσπάθειες των ευρωπαϊκών χωρών να υπερβούν τη βαθειά ύφεση του 1970 μέσω συμβατικών Κεϋνσιανών στρατηγικών. Παράλληλα, έγιναν βασική αιτία διάχυσης έντονων και

[4] Για μια αναλυτική παρουσίαση των κυριότερων μεταπολεμικών οικονομικών εξελίξεων στη δυτική Ευρώπη και για τον καθοριστικό ρόλο που διαδραμάτισαν στην πορεία οικονομικής ενοποίησής της, βλέπε Tsoukalis (1997) και Eichengreen (2007).

επίμονων πληθωριστικών πιέσεων στο μακροοικονομικό σύστημα των κρατών-μελών της Ένωσης που αποδυνάμωσαν τους εθνικούς μηχανισμούς μισθολογικής πειθαρχίας και υπονόμευσαν την ανταγωνιστικότητα των ευρωπαϊκών εξαγωγών στις διεθνείς αγορές προϊόντων. Σταδιακά, οι αλλαγές αυτές οδήγησαν στη διαμόρφωση εντός της ΕΕ ενός πολιτικού και ιδεολογικού κλίματος χαμηλής εμπιστοσύνης προς ενεργητικές πολιτικές διαχείρισης της ενεργού ζήτησης και αποτέλεσαν την απαρχή μιας στροφής εκ μέρους των ευρωπαϊκών κυβερνήσεων προς οικονομικές πολιτικές νομισματικής σταθερότητας και καταπολέμησης του πληθωρισμού (Huffschmid 2005).

Ταυτόχρονα, η κατάρρευση του ρυθμιστικού πλαισίου του Bretton Woods και το κύμα έντονης αστάθειας που προκάλεσε στις παγκόσμιες αγορές συναλλάγματος αποτέλεσαν σοβαρή απειλή για τη συνοχή της Ένωσης και τη δυναμική ανάπτυξη του ενδοκοινοτικού εμπορίου (βλέπε Eichengreen, 2007). Οι Ευρωπαίοι φοβόντουσαν ότι σε ένα απορρυθμισμένο χρηματοπιστωτικό περιβάλλον αυξημένης κινητικότητας των κεφαλαίων και ελεύθερα κυμαινόμενων ισοτιμιών, οι συναλλαγματικές διαταραχές που θα επικρατούσαν θα λειτουργούσαν ως τροχοπέδη για την περαιτέρω άνθηση των εμπορικών τους σχέσεων και συναλλαγών, και πιθανώς να οδηγούσαν σε επιστροφή στις καταστρεπτικές μερκαντιλιστικές εμπορικές πρακτικές του παρελθόντος, που θα κλόνιζαν ολόκληρο το εγχείρημα της ευρωπαϊκής ολοκλήρωσης. Επιπλέον, η έντονη νομισματική αστάθεια που επικράτησε εντός ΕΕ μετά την κατάρρευση του Bretton Woods υπονόμευε σημαντικά τα έως τότε πρώτα βήματα οικονομικής συνεργασίας και ενοποίησης στην ΕΕ, διαταράσσοντας την ομαλή και αποτελεσματική λειτουργία της Κοινής Αγροτικής Πολιτικής (ΚΑΠ), το κόστος της οποίας απορροφούσε ένα σημαντικό μερίδιο του Κοινοτικού προϋπολογισμού.

Ο νέος ηγετικός ρόλος των ΗΠΑ μέσα στο μετά-Bretton Woods νομισματικό σύστημα αποτέλεσε τον τρίτο παράγοντα υπονόμευσης της νομισματικής αυτονομίας των ευρωπαϊκών κρατών και της διαδικασίας ευρωπαϊκής ενοποίησης. Εξαιτίας της υψηλής ανταγωνιστικότητας των αμερικανικών χρηματαγορών και της κυριαρχίας του δολαρίου ως παγκόσμιου αποθεματικού νομίσματος, οι ΗΠΑ είχαν τη διακριτική ευχέρεια να μη διαβουλεύονται με τους συμμάχους τους για νομισματικά θέματα και να ενεργούν μονομερώς (Helleiner, 1994). Η κατάσταση αυτή επιδρούσε διαλυτικά στη νομισματική αυτονομία των ευρωπαϊκών οικονομιών, καθώς αποτελούσε κύρια αιτία εκδήλωσης σημαντικών μακροοικονομικών ανισορροπιών στο παγκόσμιο νομισματικό σύστημα που τροφοδοτούσαν την αστάθεια και την κερδοσκοπία στις αγορές. Επιπλέον, εξωθούσε τις εθνικές κυβερνήσεις της ΕΕ να λαμβάνουν οι ίδιες όλα τα αναγκαία μέτρα για την αποκατάσταση της ισορροπίας στο διεθνές σύστημα συναλλαγών. Κατά τη δεκαετία του 1980, οι εξελίξεις αυτές έφεραν στο προσκήνιο της πολιτικής συζήτησης στην Ευρώπη το ζήτημα της διάβρωσης της νομισματικής δύναμης των ευρωπαϊκών κρατών και των αρνητικών μακροοικονομικών επιπτώσεών της. Είχε γίνει αντιληπτό ότι, ενώ η αυξανόμενη συναλλαγματική αστάθεια και η κινητικότητα των κεφαλαίων υπέσκαπταν συνεχώς τη μακροοικονομική ανεξαρτησία των χωρών-μελών, η ηγεμονική θέση των ΗΠΑ στο παγκόσμιο νομισματικό σύστημα ενίσχυε συστηματικά την αυτονομία και το δυναμισμό της αμερικανικής οικονομίας.

Η επανεκκίνηση της διαδικασίας ευρωπαϊκής ολοκλήρωσης εντάσσεται στο ευρύτερο πολιτικό-οικονομικό περιβάλλον της μετά-Bretton Woods εποχής και στο πλέγμα των μετασχηματισμών που προκάλεσε στα μακροοικονομικά συστήματα των κρατών-μελών της Κοινότητας. Στις αρχές της δεκαετίας του 1980, για μεγάλο τμήμα της ευρωπαϊκής οικονομικής και πολιτικής ελίτ, ήταν κοινός τόπος ότι η δημιουργία μιας «ενωμένης Ευρώπης» θα αποτελούσε την αναγκαία θεσμική παρέμβαση για την τόνωση της ανταγωνιστικότητας της ευρωπαϊκής οικονομίας και την ανάσχεση των αποσταθεροποιητικών επιπτώσεων που προκαλούσαν η μονομέρεια της αμερικανικής οικονομικής πολιτικής και η έντονη κερδοσκοπία στις αγορές. Κοινή πεποίθηση ήταν επίσης ότι η επίτευξη των παραπάνω στρατηγικών στόχων προϋπέθετε την υιοθέτηση ενός νεοφιλελεύθερου προγράμματος διαρθρωτικών μεταρρυθμίσεων και αυστηρής μακροοικονομικής πειθαρχίας για την ανάκτηση της αντιπληθωριστικής αξιοπιστίας των εθνικών κυβερνήσεων στις παγκοσμιοποιημένες αγορές. Στη διαμόρφωση του νεοφιλελεύθερου χαρακτήρα της «νέας Ευρώπης» (Bieling 2001) αποφασιστικό επίσης ρόλο έπαιξαν η κυριαρχία των ιδεών του οικονομικού φιλελευθερισμού στην Ευρώπη, καθώς και οι στρατηγικές επιδιώξεις σημαντικών ομάδων συμφερόντων του ευρωπαϊκού κεφαλαίου που είδαν την επιβολή νεοφιλελευθέρων αλλαγών στην ΕΕ ως εργαλείο υπέρβασης της κρίσης του φορντικού συστήματος ρύθμισης και ευκαιρία επέκτασης των δραστηριοτήτων του στις διεθνείς αγορές (van Apeldoorn, 2002). Ο Helleiner (2003-4) σημειώνει τέλος τον καθοριστικό ρόλο που έπαιξε στην προώθηση του νεοφιλελεύθερου προγράμματος στην ΕΕ η αποδοχή του από μια σημαντική μερίδα των ευρωπαϊκών συνδικάτων.

Η νομισματική ενοποίηση στην Ευρώπη και η εισαγωγή του ευρώ αποτέλεσε την ιδανική θεσμική επιλογή μεγιστοποίησης της αξιοπιστίας της αντιπληθωριστικής προσαρμογής των κρατών-μελών. Για τους υποστηριχτές του σχεδίου της ΟΝΕ αυτό οφειλόταν στο γεγονός ότι η ΟΝΕ θα επέφερε την αμετάκλητη πρόσδεση όλων των εθνικών νομισμάτων με ένα «αξιόπιστο» ενιαίο νόμισμα, αποκλείοντας έτσι κάθε μορφή κοινωνικού και πολιτικού ελέγχου πάνω στους στόχους και τα μέσα άσκησης της εθνικής οικονομικής πολιτικής. Επίσης, η υιοθέτηση του κοινού νομίσματος θα απέκλειε οριστικά και αμετάκλητα τη δυνατότητα υποτίμησης της συναλλαγματικής ισοτιμίας των εθνικών νομισμάτων για την άμβλυνση ενδεχόμενων ενδοκοινοτικών μακροοικονομικών ανισορροπιών και την ενθάρρυνση της συναθροιστικής ζήτησης, μετακυλώντας ουσιαστικά όλο το βάρος της αναγκαίας διαδικασίας προσαρμογής της οικονομίας των κρατών-μελών στους μισθούς και στην αγορά εργασίας. Υποθετικά, αυτό θα διευκόλυνε την ανάταξη της ανταγωνιστικότητας της οικονομίας τους και θα επέτρεπε την ενεργοποίηση μιας διαδικασίας «ανταγωνιστικής απορρύθμισης και αποπληθωρισμού», καλλιεργώντας θετικές προσδοκίες στις αγορές για τη συνέχεια και συνέπεια της αντιπληθωριστικής προσαρμογής (Dyson και άλλοι 1995).

Στην οικοδόμηση της αντιπληθωριστικής αξιοπιστίας των κρατών-μελών θα συντελούσε επίσης και το γεγονός ότι η νομισματική ενοποίηση θα καθιστούσε, εκ των πραγμάτων, οικονομικά επιζήμια την περίπτωση μονομερούς εξόδου μιας χώρας από την ΟΝΕ. Συνεπώς, θα επέτρεπε την προώθηση των αναγκαίων νεοφιλελευθέρων παρεμβάσεων και αλλαγών στο εσωτερικό των κρατών-μελών με μικρότερο πολιτικό κόστος και κοινωνικές αντιστάσεις. Τέλος, με τη δημιουργία της Ευρωζώνης και την εκχώρηση της άσκησης της ενιαίας νομισματικής πολιτικής σε μια κοινή ευρωπαϊκή κεντρική τράπεζα, θα επιλύονταν τα σοβαρά προβλήματα διαχείρισης και λειτουργίας που δημιουργούσαν στο Μηχανισμό Συναλλαγματικών Ισοτιμιών (ΜΣΙ) οι αποκλίνουσες νομισματικές πολιτικές των κρατών-μελών και ο προεξέχων ρόλος της Bundesbank μέσα σε αυτόν (Martin και Ross 2004).

Η Συνθήκη του Μάαστριχτ αποτύπωσε το πολιτικό κλίμα της εποχής και το στρατηγικό στόχο των εμπνευστών της ΟΝΕ να καταστεί το ευρώ εργαλείο επιβολής μακροοικονομικής πειθαρχίας και αξιοπιστίας στην ΕΕ. Η Συνθήκη προσδιόρισε μια διαδικασία σταδιακής μετάβασης στη νομισματική ένωση, βασικό μέρος της οποίας ήταν η απόλυτη συμμόρφωση των κρατών-μελών, που επιθυμούσαν να ενταχθούν στην ΟΝΕ, με συγκεκριμένα αυστηρά κριτήρια νομισματικής και δημοσιονομικής σύγκλισης. Παράλληλα, προσδιόρισε τα κύρια χαρακτηριστικά λειτουργίας και τους στόχους πολιτικής του μελλοντικού μοντέλου διακυβέρνησης της Ευρωζώνης. Όπως σημειώνει ο Gill (2001), η συγκεκριμένη αρχιτεκτονική της ΟΝΕ, που διαμορφώθηκε από τη Συνθήκη του Μάαστριχτ θεσμοθέτησε μια μορφή «νέου συνταγματισμού» (new constitutionalism) στην Ευρώπη. Κεντρικό στοιχείο του συγκεκριμένου τύπου θεσμικής οργάνωσης είναι η απόλυτη δέσμευση των κρατών-μελών της Ένωσης σε αξιόπιστες, προς το διεθνές χρηματοπιστωτικό κεφάλαιο, νεοφιλελεύθερές πολιτικές. Μέσο υλοποίησης της παραπάνω πολιτικής επιδίωξης είναι η θέσπιση συγκεκριμένων μηχανισμών πειθαρχικής επιβολής και εποπτείας της νομισματικής σταθερότητας και της δημοσιονομικής εξυγίανσης στην Ευρώπη.

Η υλοποίηση των παραπάνω στόχων πραγματοποιείται μέσω της επιβολής ενός καθεστώτος σταθεροποιητικής μακροοικονομικής πολιτικής με σαφή στόχευση και κατανομή αρμοδιοτήτων μεταξύ των χωρών-μελών και των επίσημων κοινοτικών οργάνων. Κυρίαρχο πολιτικό όργανο του σημερινού πλαισίου οικονομικής πολιτικής της Ευρωζώνης είναι η ΕΚΤ. Αυτό διασφαλίζεται από το Άρθρο 105 της Συνθήκης, που ορίζει ως πρώτιστη επιδίωξη της νομισματικής στρατηγικής της την επίτευξη και διασφάλιση της σταθερότητας των τιμών στην ΟΝΕ, καθώς και από τον εξαιρετικά υψηλό βαθμό θεσμικής αυτονομίας που απολαμβάνει κατά τη φάση σχεδιασμού και υλοποίησης της ενιαίας νομισματικής πολιτικής. Την ίδια στιγμή, η ΕΚΤ διατηρεί το δικαίωμα διακριτικής παρέμβασης σε μια σειρά κρίσιμων ζητημάτων που κρίνει ότι υπεισέρχονται στο πεδίο άσκησης των αρμοδιοτήτων της, αρνείται κάθε είδους άμεση χρηματοδοτική στήριξη των εθνικών προϋπολογισμών και δύναται να απορρίπτει συστάσεις και προτάσεις οικονομικής πολιτικής που διατυπώνονται από φορείς της ΕΕ και εθνικές κυβερνήσεις. Γενικότερα, η ΕΚΤ απαγορεύεται να ζητά ή να δέχεται υποδείξεις από κυβερνήσεις ή θεσμικούς οργανισμούς της Κοινότητας, καθώς αυτό θα μπορούσε να επιφέρει σοβαρό πλήγμα στην αξιοπιστία της αντιπληθωριστικής της αποστολής. Η νομισματική πολιτική της είναι αντίθετα απόλυτα προσηλωμένη σε μια μονεταριστικού τύπου περιοριστική νομισματική στρατηγική χαμηλής δημοκρατικής λογοδοσίας και νομιμοποίησης (Dyson, 2000).

Η αντιπληθωριστική στρατηγική της ΕΚΤ θεωρείται ο βασικότερος πυλώνας σταθεροποίησης του μακροοικονομικού συστήματος της ΟΝΕ στο «φυσικό» επίπεδο παραγωγής του. Η αποτελεσματικότητα του νομισματικού μηχανισμού προσαρμογής της οικονομίας σε κατάσταση μη-πληθωριστικής ισορροπίας εξαρτάται από το βαθμό αξιοπιστίας της ΕΚΤ και τις προσδοκίες των αγορών για το μελλοντικό πληθωρισμό. Γι’ αυτό το λόγο, η νομισματική πολιτική ασκείται βάσει ενός κανονιστικού πλαισίου με σαφείς στόχους και διαδικασίες εφαρμογής. Επίσης, καθώς ο κίνδυνος διατάραξης της σταθερότητας των τιμών σχετίζεται άμεσα με τις πληθωριστικές προσδοκίες των αγορών, η ελεύθερη οικονομία θεωρείται ως ένα εγγενώς αυτορρυθμιζόμενο σύστημα και οι κυβερνήσεις δεν έχουν καμία αρμοδιότητα στον τομέα άσκησης νομισματικής πολιτικής, οποιαδήποτε μακροοικονομική διαταραχή στο σύστημα της ΟΝΕ είναι προϊόν είτε στρεβλώσεων στις αγορές εργασίας είτε της ανεύθυνης δημοσιονομικής συμπεριφοράς των κρατών-μελών (Bonefeld 2002). Η αποστολή επομένως της ΕΚΤ είναι να δρα αποφασιστικά μέσω κατάλληλων προσαρμογών της πολιτικής της για την αποσόβηση κάθε πιθανού πληθωριστικού κινδύνου. Ως συνέπεια, το ελεγχόμενο από την ΕΚΤ επιτόκιο καθίσταται μηχανισμός πειθάρχησης σπάταλων κυβερνήσεων και κοινωνικών ομάδων με «υπερβολικές» μισθολογικές διεκδικήσεις. Η ικανότητα αυτή δίνει τη δύναμη στην ΕΚΤ να επιβάλει τις απόψεις της και να επιτυγχάνει πολιτική συναίνεση για την ανάγκη προώθησης διαθρωτικών μεταρρυθμίσεων που υποθετικά θα επιτρέψουν τη βέλτιστη λειτουργία της νομισματική ένωσης.

Η νέα συνταγματική αρχιτεκτονική της ΟΝΕ αποτυπώνεται και στο πλαίσιο της δημοσιονομικής πολιτικής. Κύρια διάταξη του ΣΣΑ είναι η εισαγωγή αυστηρών δημοσιονομικών περιορισμών και φραγμών που αποσκοπούν στον περιορισμό των δημοσίων ελλειμμάτων και του χρέους των χωρών-μελών. Η συγκεκριμένες θεσμικές παρεμβάσεις είναι σύμφωνες με την απαίτηση των επενδυτών στις αγορές ομολόγων, οι χώρες να παρουσιάσουν βιώσιμες δημοσιονομικές θέσεις ώστε να ελαχιστοποιηθεί η έκθεσή τους σε πιθανό κίνδυνο αφερεγγυότητας και στάσης πληρωμών μιας χώρας-μέλους και να αποτραπεί η περίπτωση μιας γενικευμένης χρηματοοικονομικής κρίσης στην ΟΝΕ. Επιπλέον, στοχεύουν στη διασφάλιση της αντιπληθωριστικής αξιοπιστίας της ΕΚΤ και στην προώθηση της ομαλής εφαρμογής της νομισματικής πολιτικής. Η διαδικασία επίτευξης και διασφάλισης των δημοσιονομικών στόχων του Συμφώνου Σταθερότητας βρίσκεται υπό τη στενή παρακολούθηση και τον τακτικό έλεγχο των θεσμικών οργάνων της Ένωσης. Ενδεχόμενη αθέτηση της πολιτικής δέσμευσης για αποκατάσταση της δημοσιονομικής ισορροπίας και την επίτευξη βιώσιμων δημοσίων οικονομικών επισείει την επιβολή αυστηρών ποινών και κυρώσεων.

Συμπερασματικά, η Συνθήκη του Μάαστριχτ έχει επιβάλει ένα συγκεκριμένο μοντέλο διακυβέρνησης και οικονομικής πολιτικής στην ΟΝΕ, κύρια χαρακτηριστικά της οποίας είναι η συνταγματική κατοχύρωση νομισματικών στρατηγικών χαμηλού πληθωρισμού και δημοσιονομικής πειθαρχίας στην Ευρωζώνη και η αναγωγή της, ανεξάρτητης από οποιαδήποτε μορφής πολιτικές παρεμβάσεις, ΕΚΤ ως κύριου φορέα επιβολής αξιόπιστου περιβάλλοντος νομισματικής σταθερότητας στην ΕΕ. Η θεσμική αυτή αρχιτεκτονική είναι αποτέλεσμα μιας συγκεκριμένης επιλογής που προωθήθηκε κατά τη δεκαετία του 1980, η Ευρώπη να καταστεί, μέσω της εισαγωγής του κοινού νομίσματος, μια ζώνη νομισματικής σταθερότητας με κύριο σκοπό την αντιμετώπιση των προκλήσεων και προβλημάτων που δημιούργησαν στην ευρωπαϊκή οικονομία η υψηλή κινητικότητα και η έντονα κερδοσκοπική φύση του χρηματιστικού κεφαλαίου. Η δημιουργία της ΟΝΕ είναι συνεπώς άρρηκτα συνδεμένη με τις μορφές οικονομικής και πολιτικής ισχύος του παγκόσμιου χρηματιστικού κεφαλαίου που διαμορφωθήκαν στη διεθνή πολιτική οικονομία μετά την κατάρρευση του νομισματικού συστήματος του Bretton Woods.

Επίσης, καθώς η τάση της χρηματιστικοποίησης αποτελεί, όπως αναφέρθηκε, ένα παράγωγο δομικό χαρακτηριστικό του νεοφιλελευθέρου οικονομικού μοντέλου, θεωρούμε ότι μια άμεση συνέπεια της θεσμικής αυτής επιλογής είναι η ανάδυση ενός ιδιότυπου μοντέλου «πειθαρχικά χρηματιστικοποιημένου» καπιταλισμού στην ΟΝΕ διευρυνόμενων εισοδηματικών ανισοτήτων, ισχνής αναπτυξιακής δυναμικής και έντονης χρηματοοικονομικής ευθραυστότητας. Όπως θα δείξουμε παρακάτω, η «νέα συνταγματική» αρχιτεκτονική και το πλαίσιο περιοριστικής πολιτικής της Ευρωζώνης έχουν νομιμοποιηθεί θεωρητικά και ιδεολογικά από το κυρίαρχο σήμερα υπόδειγμα της «νέας συναίνεσης». Αρχικά, παρουσιάζουμε τις βασικές υποθέσεις και προτάσεις πολιτικής του συγκεκριμένου υποδείγματος και στη συνέχεια διερευνούμε το βαθμό συσχέτισης του με τις εφαρμοζόμενες πολιτικές της ΟΝΕ.

3. Το υπόδειγμα της «Νέας Συναίνεσης»

Τις τελευταίες δύο δεκαετίες, η συμβατική μακροοικονομική θεωρία, ανάλυση και πρακτική κυριαρχείται από ένα νέο οικονομικό υπόδειγμα, γνωστό και ως το μοντέλο της «νέας συναίνεσης». Σύμφωνα με τους Woodford (2009), Bean (2007) και Arestis και Sawyer (2008), οι βασικές αρχές και παραδοχές της «νέας συναίνεσης» είναι οι εξής:

1. Η μικροοικονομική και μακροοικονομική ανάλυση πρέπει να στηρίζονται σε ένα ενιαίο πλαίσιο υποθέσεων και αρχών, βασική παραδοχή του οποίου είναι η υπόθεση των νέων κλασσικών οικονομικών περί ορθολογικών προσδοκιών και διαχρονικής αριστοποίησης της συμπεριφοράς των οικονομούντων ατόμων.

2. Στη βραχυχρόνια περίοδο, η οικονομία βρίσκεται σε μια κατάσταση «Κεϋνσιανής ανισορροπίας», λόγω της ύπαρξης τριβών στις αγορές εργασίας και προϊόντων, που αποτρέπουν την πλήρη και ταχεία προσαρμογή των μισθών και των τιμών σε πιθανές διαταραχές του οικονομικού συστήματος.

3. Στη μακροχρόνια περίοδο κάθε καπιταλιστική οικονομία συγκλίνει σε μια κατάσταση «φυσικής» ισορροπίας, που προσδιορίζεται από το «ποσοστό ανεργίας μη επιταχυνόμενου πληθωρισμού» (NAIRU). Το επίπεδο του NAIRU ουσιαστικά προσδιορίζει τα όρια παραγωγικών δυνατοτήτων της οικονομίας (δυνητικό προϊόν) και εξαρτάται άμεσα από τις δυνάμεις της προσφοράς και κυρίως από τα διαρθρωτικά χαρακτηριστικά και τη θεσμική λειτουργία της αγοράς εργασίας.

4. Ο πληθωρισμός είναι ένα καθαρά νομισματικό φαινόμενο, το οποίο προκαλείται από την υπερβάλλουσα ζήτηση αγαθών και υπηρεσιών που δημιουργεί η επιτάχυνση της πιστωτικής επέκτασης των εμπορικών τραπεζών και η συνακόλουθη αύξηση της ρευστότητας στην εθνική οικονομία.

5. Οι πολιτικοί τείνουν να ασκούν την οικονομική πολιτική βάσει της βραχυχρόνιας ανταλλακτικής σχέσης ανάμεσα στο ρυθμό πληθωρισμού και στο ποσοστό ανεργίας, χωρίς να υπολογίζουν τις αρνητικές επιπτώσεις που ενδέχεται να έχουν μακροχρόνια οι αποφάσεις και ενέργειές τους στον πληθωρισμό και εν γένει στη σταθερότητα του μακροοικονομικού συστήματος.

Οι παραπάνω παραδοχές και αρχές της «νέας συναίνεσης» έχουν επαναπροσδιορίσει τους στόχους και το πλαίσιο άσκησης μακροοικονομικής πολιτικής, θέτοντας ως πρωταρχική επιδίωξη της ασκούμενης πολιτικής τη διατήρηση της σταθερότητας των τιμών και ενσωματώνοντας τη συγκεκριμένη δέσμευση σε ένα ευρύτερο, πειθαρχικού χαρακτήρα, καθεστώς σταθεροποιητικής μακροοικονομικής πολιτικής (disciplinary, stability-oriented policy regime). Κεντρικός σκοπός του συγκεκριμένου καθεστώτος πολιτικής είναι ο θεσμικός αποκλεισμός κάθε είδους κοινωνικού-πολιτικού έλεγχου και παρέμβασης στην εκτέλεση και χάραξη μακροοικονομικής πολιτικής με απώτερο στόχο τη μεγιστοποίηση της αντιπληθωριστικής αξιοπιστίας των αρχών στις αγορές. Στα πλαίσιο αυτό, το υπόδειγμα της «νέας συναίνεσης» μπορεί, κατά την άποψη μας, να κατανοηθεί ως το κυρίαρχο μακροοικονομικό υπόδειγμα που προτείνει θεσμικούς μετασχηματισμούς και πολιτικές απολυτά συμβατές με τις επιταγές και προτιμήσεις των αγορών και συνεπώς με την πολιτική οικονομία του «νέου συνταγματισμού» και της «πειθαρχικής χρηματιστικοποίησης».

Συγκεκριμένα, η συμβολή της «νέας συναίνεσης» στη θεσμοθέτηση αξιόπιστου προς τις αγορές πλαισίου εφαρμογής εθνικής μακροοικονομικής πολιτικής προκύπτει από τις εξής προτάσεις της:

1. Στρατηγική «Πληθωρισμού-Στόχου» (Π-Σ): Η στρατηγική του Π-Σ αναφέρεται στη δημόσια ανακοίνωση από την κεντρική τράπεζα ή την κυβέρνηση ότι βασικός στόχος της νομισματικής πολιτικής μέσο-μακροπρόθεσμα είναι η επίτευξη και διασφάλιση ενός προκαθορισμένου χαμηλού ρυθμού πληθωρισμού. Για τους υποστηριχτές της, η συγκεκριμένη νομισματική πρακτική θεωρείται ως η πιο κατάλληλη επιλογή για τις κυβερνήσεις που επιθυμούν να οικοδομήσουν την αντιπληθωριστική τους αξιοπιστία στις αγορές, διότι αποσαφηνίζοντας και ποσοτικοποιώντας τους στόχους κεντρικής τράπεζας επιβάλει ένα αξιόπιστο ονομαστικό οδηγό (nominal anchor) που περιορίζει την πληθωριστική μεροληψία των αρχών και ενισχύσει την πειθαρχία τους στο στόχο της νομισματικής σταθερότητας (Mishkin 2002). Η πολιτική του Π-Σ επίσης ενισχύει την αξιοπιστία των αρχών, καθώς επιτρέπει προληπτικές νομισματικές παρεμβάσεις, γεγονός που διευκολύνει τις κεντρικές τράπεζες να αποτρέψουν πιο αποτελεσματικά μελλοντικούς κινδύνους διατάραξης της σταθερότητας των τιμών. Προτείνοντας ένα πλαίσιο πολιτικής με διαφανή διαχωρισμό αρμοδιοτήτων και σαφή αντιπληθωριστική στόχευση, η στρατηγική του Π-Σ επιπλέον περιορίζει την αβεβαιότητα των αγορών σχετικά με τους τρόπους άσκησης και τις επιδιώξεις της νομισματικής πολιτικής, κάτι που διευκολύνει την επίτευξη ενός χαμηλού ρυθμού πληθωρισμού (Debelle και άλλοι 1998). Στο νομισματικό σύστημα της «νέας συναίνεσης» η σταθεροποίηση του ρυθμού πληθωρισμού στο προκαθορισμένο επίπεδο-στόχο γίνεται μέσω κατάλληλων προσαρμογών του παρεμβατικού επιτοκίου της κεντρικής τράπεζας. Ο προσδιορισμός του επιτοκίου στις περισσότερες περιπτώσεις γίνεται βάσει του κανόνα του Taylor ή παραλλαγών του (βλ. Taylor, 1993).

2. Θεσμοθέτηση της αξιοπιστίας της νομισματικής πολιτικής: Αν και η διακριτική διαχείριση του επιτοκίου παρέχει τη δυνατότητα άσκησης σταθεροποιητικού-τύπου νομισματικής πολιτικής, στη «νέα συναίνεση» η επιτυχία της στρατηγικής του Π-Σ εξαρτάται πρωτίστως από το βαθμό αξιόπιστης δέσμευσης των αρχών στο στόχο του χαμηλού πληθωρισμού. Και αυτό διότι χαμηλή αξιοπιστία συνεπάγεται ότι η δημόσια ανακοίνωση του Π-Σ θα αποτύχει να σταθεροποιήσει τις πληθωριστικές προσδοκίες των αγορών σε επίπεδο αντίστοιχο της τιμής-στόχου. Η εξέλιξη αυτή είναι πιθανόν να πυροδοτήσει μια αυτοτροφοδοτούμενη διαδικασία ανεξέλεγκτα επιταχυνόμενου πληθωρισμού, χρηματοοικονομικής αστάθειας και κερδοσκοπίας με καταστρεπτικές συνέπειες για την οικονομία. Επίσης, πιθανό έλλειμμα αξιοπιστίας των νομισματικών αρχών καθιστά την αποπληθωριστική προσαρμογή μακρά και οικονομικά επώδυνη, καθώς ο έλεγχος των πληθωριστικών προσδοκιών και η ανάκτηση της εμπιστοσύνης των κεφαλαιαγορών στην αντιπληθωριστική στόχευση της νομισματικής στρατηγικής θα απαιτούσε την υιοθέτηση πολιτικής υψηλότερων επιτοκίων και πιο δραστικών νομισματικών παρεμβάσεων. Επομένως, στα πλαίσια του νομισματικού μοντέλου της «νέας συναίνεσης», οι εκτιμήσεις και οι προσδοκίες των χρηματαγορών και ιδιωτών επενδυτών καθίστανται προσδιοριστικός παράγοντας της επιτυχίας της πολιτικής του Π-Σ. Το γεγονός αυτό εμπλέκει άμεσα τις νομισματικές αποφάσεις και ενέργειες των κεντρικών τραπεζιτών που εφαρμόζουν τη στρατηγική Π-Σ με τις αντιπληθωριστικές προτιμήσεις και επιταγές των αγορών χρήματος. Αυτό καταδεικνύει τον υψηλό βαθμό συσχέτισης της στρατηγικής Π-Σ με τις σημερινές δομές δύναμης και κυριαρχίας του παγκόσμιου χρηματοπιστωτικού κεφαλαίου και συνδέεται με τα υψηλά επιτόκια που συνοδεύουν την εφαρμογή της (Saad-Fihlo, 2005).

3. Προώθηση νεοφιλελεύθερων μεταρρυθμίσεων: Η συσχέτιση του υποδείγματος της «νέας συναίνεσης» με την πειθαρχική ισχύ του σύγχρονου χρηματιστικού κεφαλαίου και τη διαδικασία πειθαρχικής χρηματιστικοποίησης των καπιταλιστικών οικονομιών, προκύπτει επίσης από τη θέση, που διατυπώνουν οι υποστηριχτές της, ότι η εύρυθμη λειτουργία και αξιοπιστία του Π-Σ σχετίζεται άμεσα με την υιοθέτηση διαρθρωτικών μεταρρυθμίσεων νεοφιλελεύθερης φύσης. Μια πρώτη αναγκαία θεσμική παρέμβαση είναι η λειτουργία ενός πλήρους απορρυθμισμένου χρηματοπιστωτικού τομέα, καθώς αυτό εκτιμάται ότι ενισχύει σημαντικά το επίπεδο ρευστότητας των αγορών χρήματος και βελτιώνει την αποτελεσματικότητα των παρεμβάσεων της κεντρικής τράπεζας και την επίδρασή τους πάνω στην πραγματική οικονομία (βλ. Carare και άλλοι 2002). Η θωράκιση της αξιοπιστίας της στρατηγικής Π-Σ σχετίζεται επίσης με την υιοθέτηση μέτρων απελευθέρωσης και προώθησης της ευελιξίας των αγορών εργασίας, διότι αυτό επιτρέπει την ταχεία αποκλιμάκωση του NAIRU και την αποτελεσματική απορρόφηση τυχόν εξωτερικών οικονομικών διαταραχών, χωρίς συχνές μεταβολές της νομισματικής πολιτικής. Ένα επίσης σημαντικό προαπαιτούμενο για την εύρυθμη και αξιόπιστη λειτουργία του νομισματικού καθεστώτος του Π-Σ είναι τέλος και η μετάβαση σε ένα καθεστώτος κυμαινόμενων συναλλαγματικών ισοτιμιών (Agénor 2002). Με τη συγκεκριμένη θεσμική επιλογή, η υπόθεση είναι ότι οι νομισματικές αρχές απολαμβάνουν μεγαλύτερα περιθώρια παρέμβασης για την αποτροπή πιθανών οικονομικών διαταραχών και αποφεύγονται καταστάσεις σύγκρουσης μεταξύ της προκαθορισμένης συναλλαγματικής ισοτιμίας και τιμής-στόχου του πληθωρισμού.

4. Ανεξαρτησία κεντρικής τράπεζας: Για τους υποστηριχτές της «νέας συναίνεσης», ο βαθμός αξιόπιστης και επομένως αποτελεσματικής εφαρμογής της πολιτικής του Π-Σ, σχετίζεται άμεσα με το βαθμό θεσμικής αυτονομίας των νομισματικών αρχών από τον πολιτικό έλεγχο και τις παρεμβάσεις των κυβερνήσεων. Η ιδέα αυτή συνδέεται με τις βασικές αρχές και υποθέσεις των νεο-κλασσικών οικονομικών και συγκεκριμένα με το υποθετικό πρόβλημα της «χρονικής ασυνέπειας» (Kydland και Prescott, 1977), που ανακύπτει εξαιτίας της εγγενούς τάσης των ασκούντων την οικονομική πολιτική να αξιοποιούν συστηματικά τη βραχυχρόνια ανταλλακτική σχέση πληθωρισμού και ανεργίας για πολιτικό-εκλογικές σκοπιμότητες. Το συμπέρασμα που προκύπτει είναι ότι η άσκηση της νομισματικής πολιτικής από εκλεγμένους πολιτικούς προκαλεί μια πληθωριστική μεροληψία στην πρακτική των κεντρικών τραπεζών, η οποία αποτρέπει τη σταθεροποίηση του ρυθμού πληθωρισμού στον προκαθορισμένο επίπεδο-στόχο, δημιουργώντας έτσι σοβαρούς κινδύνους για τη σταθεροποίηση ολόκληρου του οικονομικού συστήματος. Στο πλαίσιο αυτό, η εκχώρηση της νομισματικής πολιτικής σε ανεξάρτητους, υψηλού κύρους και ευρείας αποδοχής από τις αγορές, τεχνοκράτες κρίνεται ως η άριστη επιλογή για τον έλεγχο των πληθωριστικών προσδοκιών και την πλήρη προσαρμογή της οικονομίας σε κατάσταση «φυσικής» ισορροπίας. Επομένως, σε απόλυτη συμφωνία με την πολιτική οικονομία και τις επιδιώξεις του μοντέλου διακυβέρνησης του «νέου συνταγματισμού», στο νομισματικό καθεστώς της «νέας συναίνεσης» τα περιθώρια άσκησης διακριτικής νομισματικής πολιτικής θυσιάζονται στο βωμό της ενίσχυσης της αξιοπιστίας των κυβερνήσεων στις αγορές κεφαλαίου. Ο προσανατολισμός και τα μέσα άσκησης της νομισματικής πολιτικής απομονώνονται έτσι από κάθε μορφή κοινωνικής διαβούλευσης και ελέγχου. Κύριος ρυθμιστής πλέον του χαρακτήρα και των στόχων της ασκούμενης νομισματικής πολιτικής καθίστανται οι προσδοκίες και αντιλήψεις των ιδιωτών επενδυτών και κερδοσκόπων.

5. Κανόνες δημοσιονομικής πειθαρχίας: Στο μακροοικονομικό παράδειγμα της «νέας συναίνεσης», η δημοσιονομική πολιτική δεν θεωρείται ως αποτελεσματικό εργαλείο άσκησης οικονομικής σταθεροποίησης πολιτικής. Τρία είναι τα βασικά επιχειρήματα, που σύμφωνα με τους θεωρητικούς της «νέας συναίνεσης», αιτιολογούν την πρακτική υποβάθμιση του σταθεροποιητικού ρόλου της διακριτικής δημοσιονομικής πολιτικής: α) το φαινόμενο του παραγκωνισμού των ιδιωτικών επενδύσεων (crowding-out effect), το οποίο προκαλείται από την άνοδο των επιτοκίων δανεισμού που υποθετικά συνοδεύει τη διόγκωση των δημοσίων δαπανών, β) οι θεσμικές ιδιαιτερότητες που παρουσιάζει η εφαρμογή ενεργητικής δημοσιονομικής πολιτικής, και ειδικότερα η αδυναμία γρήγορης προσαρμογής της στις μεταβολές του οικονομικού κλίματος και η μεγαλύτερη χρονική υστέρηση των επιπτώσεών της πάνω στον πραγματικό τομέα της οικονομίας, και γ) ο κίνδυνος εκδήλωσης πληθωριστικών πιέσεων και προσδοκιών στην οικονομία που μπορεί να ανακύψει εξαιτίας της αύξησης της συνολικής ζήτησης και της πιθανότητας πληθωριστικής χρηματοδότησης του δημοσίου χρέους (Arestis και Sawyer 2003). Οι οικονομολόγοι της «νέας συναίνεσης», υιοθετώντας πλήρως τη θέση του «νέου συνταγματισμού» υπέρ της θεσμικής υποβάθμισης του κρατικού παρεμβατισμού στην οικονομία, θεωρούν ως καταλληλότερο μηχανισμό διασφάλισης υγιών δημοσίων οικονομικών και αποτροπής των αποσταθεροποιητικών επιδράσεων της ενεργητικής δημοσιονομικής πολιτικής την εισαγωγή αυστηρών κανόνων δημοσιονομικής πειθαρχίας (Kumar και άλλοι, 2009).

4. Το μακροοικονομικό καθεστώς της ΟΝΕ

Όπως έχει προαναφερθεί, η συνθήκη του Μάαστριχτ δημιούργησε μια συγκεκριμένη αρχιτεκτονική οικονομικής διακυβέρνησης για τη νομισματική ένωση στην Ευρώπη.

Εντασσόμενη μέσα στο γενικότερο πλαίσιο του νεοφιλελευθέρου μετασχηματισμού του παγκόσμιου καπιταλισμού και των συνακόλουθων μεταβολών που επέφερε στις δομές πολιτικής και κοινωνικής ισχύος, κεντρικό χαρακτηριστικό της αρχιτεκτονικής αυτής είναι η θεσμοθέτηση στην ΕΕ ενός καθεστώτος σταθεροποιητικής οικονομικής πολιτικής με στόχο τη θεσμική κατοχύρωση και μεγιστοποίηση της αξιοπιστίας των κρατών-μελών της στο διεθνοποιημένο και έντονα κερδοσκοπικό χρηματοπιστωτικό κεφάλαιο. Όπως θα επιχειρηματολογήσουμε στη συνέχεια, θεωρητική θεμελίωση του μοντέλου οικονομικής πολιτικής της Ευρωζώνης παρέχουν οι προαναφερόμενες κεντρικές αρχές, υποθέσεις και παραδοχές του υποδείγματος της «νέας συναίνεσης».

4.1 Η νομισματική πολιτική της ΕΚΤ

Η Συνθήκη του Μάαστριχτ έχει επιβάλλει μια σαφή ιεράρχηση των προτεραιοτήτων και των κύριων στόχων της νομισματικής πολιτικής στην ΟΝΕ. Όπως αναφέρει στο άρθρο 105(1) της Συνθήκης, κυρίαρχη επιδίωξη της νομισματικής στρατηγικής του Ευρωσυστήματος είναι η διατήρηση της σταθερότητας των τιμών στην ΟΝΕ. Στο ίδιο άρθρο επίσης ορίζεται, ότι εφόσον έχει επιτευχθεί ο στόχος της σταθερότητας των τιμών, η ΕΚΤ οφείλει να συμβάλλει στην υλοποίηση των άλλων στόχων της Ένωσης όπως, μεταξύ άλλων, η επίτευξη ενός υψηλού ποσοστού απασχόλησης, η προώθηση αειφόρου και μη πληθωριστικής ανάπτυξης και η διαφύλαξη της χρηματοπιστωτικής σταθερότητας στην Ευρώπη. Η ΕΚΤ έχει ορίσει ποσοτικά τη σταθερότητα των τιμών στην Ευρωζώνη ως τη διατήρηση του ρυθμού αύξησης του εναρμονισμένου δείκτη τιμών του καταναλωτή «κάτω, αλλά πλησίον, του 2%» σε μεσοπρόθεσμη βάση (ECB 2011).

Η παραπάνω διατύπωση της Συνθήκης εδράζεται σε τρεις βασικές θεωρητικές αρχές, που όπως προαναφέρθηκε, αποτελούν θεμελιακές υποθέσεις του μοντέλου της «νέας συναίνεσης». *Πρώτον*, ότι η διατήρηση της σταθερότητας των τιμών βοηθά τη λήψη ορθολογικών αποφάσεων, επιτρέποντας έτσι την αποτελεσματική λειτουργία της αγοράς και την τόνωση της οικονομικής μεγέθυνσης και ευημερίας. Επομένως, η ΕΚΤ, στοχεύοντας ένα χαμηλό ρυθμό πληθωρισμού κάνει τη μεγαλύτερη συμβολή στη διασφάλιση της μακροοικονομικής σταθερότητας και αναπτυξιακής προοπτικής της ευρωπαϊκής οικονομίας. *Δεύτερον*, στην αρχή της κλασικής διχοτόμησης και στο αξίωμα της ουδετερότητας του χρήματος στη μακροχρόνια περίοδο. Στην υπόθεση, δηλαδή, ότι σε συνθήκες γενικής οικονομικής ισορροπίας οποιαδήποτε μεταβολή των νομισματικών μεγεθών δεν θα έχει καμιά επίδραση στην πραγματική οικονομία, παρά μόνο στο γενικό επίπεδο των τιμών (ECB 2008). *Τρίτον* στην παραδοχή ότι, εξαιτίας της ύπαρξης τριβών και ακαμψιών στις αγορές αγαθών και υπηρεσιών, απρόσμενες εξωγενείς οικονομικές διαταραχές είναι δυνατόν να έχουν βραχυχρόνιες επιπτώσεις στο μακροοικονομικό σύστημα της Ευρωζώνης. Επομένως, η ΕΚΤ προβαίνοντας σε μεταβολές της νομισματικής της πολιτικής έχει τη δυνατότητα να σταθεροποιήσει το επίπεδο της οικονομικής δραστηριότητας και να αποτρέψει έτσι τις όποιες αρνητικές επιδράσεις στο ύψος της απασχόλησης και στο εισόδημα (ECB 1999).

Επίσης, η εισαγωγή και δημόσια ανακοίνωση ενός ποσοτικού προσδιορισμού για τη σταθερότητα των τιμών στην Ευρωζώνη αναδεικνύει επιπλέον κοινά στοιχεία της πολιτικής της ΕΚΤ με την αντίστοιχη του Π-Σ. Ένα πρώτο τέτοιο στοιχείο είναι η πεποίθηση της ΕΚΤ ότι με τον προσδιορισμό μιας συγκεκριμένης τιμής-στόχου για το ρυθμό πληθωρισμού δημιουργείται ένα σημείο αναφοράς, βάσει του οποίου οι αγορές χρήματος και το κοινό μπορούν να εκτιμούν και να ελέγχουν το χαρακτήρα και το βαθμό αξιοπιστίας της νομισματικής πολιτικής της (Issing 2008). Το γεγονός αυτό, με τη σειρά του, θεωρείται σημαντικό, καθώς συμβάλλει καθοριστικά στην άρση της αβεβαιότητας των επενδυτών σχετικά με τον προσανατολισμό της νομισματικής πολιτικής και αυξάνει το βαθμό αυτοπειθαρχίας και προσήλωσης των νομισματικών αρχών στο στόχο της επίτευξης της προκαθορισμένης τιμής. Η ΕΚΤ πιστεύει ότι, με αυτόν τον τρόπο, διευκολύνεται η προσαρμογή των πληθωριστικών προσδοκιών των αγορών σε επίπεδα που αντιστοιχούν με τη σταθερότητα των τιμών και καθίσταται έτσι πιο εύκολη η καταπολέμηση των πληθωριστικών πιέσεων.

Επιπλέον, ο ορισμός της ΕΚΤ για τη σταθερότητα των τιμών στην Ευρωζώνη κάνει σαφές ότι η νομισματική πολιτική της αναφέρεται στο σύνολο της ΟΝΕ και, ως εκ τούτου, στη διαδικασία λήψης των νομισματικών της αποφάσεων δεν αξιολογεί την οικονομική κατάσταση κάθε χώρας-μέλους ξεχωριστά. Ταυτόχρονα, υποδηλώνει ότι ένας πληθωρισμός υψηλότερος του 2% ισοδυναμεί με συνθήκες νομισματικής αστάθειας στη ζώνη του ευρώ και συνεπώς αντίκειται στο βασικό πολιτικό στόχο της διασφάλισης της σταθερότητας των τιμών. Ωστόσο, με την επισήμανση «πλησίον του 2%», η ΕΚΤ αναγνωρίζει επίσης ότι ένας ρυθμός πληθωρισμού αρκετά χαμηλότερος του 2% είναι εξίσου ασύμβατος με την αποστολή της νομισματικής της στρατηγικής. Η συγκεκριμένη διατύπωση λαμβάνει υπόψη τον ενδεχόμενο κίνδυνο αδυναμίας ενίσχυσης της ζήτησης μέσω προσαρμογών του παρεμβατικού επιτοκίου, δεδομένης της αδυναμίας ορισμού αρνητικών ονομαστικών επιτοκίων, καθώς και την περίπτωση δομικού εγκλωβισμού κρατών-μελών σε ένα αποπληθωριστικό περιβάλλον, ως αποτέλεσμα σημαντικών αποκλίσεων στο ρυθμό πληθωρισμού εντός Ευρωζώνης (ECB 2008).

Ο ποσοτικός ορισμός της ΕΚΤ για τη σταθερότητα των τιμών στην Ευρωζώνη αντανακλά επίσης το μεσοπρόθεσμο προσανατολισμό και στόχευση της στρατηγικής της. Όπως και οι υπόλοιπες τράπεζες που εφαρμόζουν το νομισματικό καθεστώς της «νέας συναίνεσης», η ΕΚΤ αναγνωρίζει ότι μεταξύ των μεταβολών της νομισματικής πολιτικής και των επιπτώσεών τους στον πραγματικό τομέα της οικονομίας και στο επίπεδο τιμών μεσολαβεί ένα εύλογο χρονικό διάστημα. Η παρουσία σημαντικών χρονικών υστερήσεων στη μετάδοση της νομισματικής πολιτικής καθιστά πρακτικά αδύνατη την επαναφορά του πληθωρισμού στο επίπεδο της τιμής-στόχου σε σχετικά σύντομη χρονική περίοδο. Ως συνέπεια, οι κεντρικές τράπεζες είναι αναγκασμένες να ενεργούν με μεσοπρόθεσμο ορίζοντα και να στοχεύουν την επίτευξη και διασφάλιση της σταθερότητας των τιμών σε μακροχρόνια βάση. Η υιοθέτηση της συγκεκριμένης προσέγγισης κρίνεται από την ΕΚΤ αναγκαία, καθώς με αυτόν το τρόπο αποτρέπεται η άσκηση υπερβολικά ενεργητικής νομισματικής πολιτικής γεγονός που θα μπορούσε να εισάγει σημαντική αβεβαιότητα στις αγορές χρήματος με αποσταθεροποιητικές επιπτώσεις στην πραγματική οικονομία (ECB 2011).

Εφαρμόζοντας μια νομισματική πολιτική μεσοπρόθεσμου προσανατολισμού, η ΕΚΤ αναγνωρίζει επιπλέον και τη σημασία που έχει ο βαθμός της αξιοπιστίας της για την αποτελεσματική σταθεροποίηση των πληθωριστικών προσδοκιών και τη συγκράτηση του πληθωρισμού στην Ευρωζώνη. Παράλληλα, όπως και οι υπόλοιπες τράπεζες που ακολουθούν στρατηγική Π-Σ, η ΕΚΤ θεωρεί ως απαραίτητες για την αύξηση της αξιοπιστίας μια σειρά πρωτοβουλιών και ενεργειών, όπως: α) την τακτική επικοινωνία της πολιτικής με τις αγορές, ώστε οι ιδιώτες επενδύτες να έχουν επαρκή πληροφόρηση για τους πιθανούς πληθωριστικούς κινδύνους στο μέλλον και για τα εργαλεία πολιτικής που προτίθεται να χρησιμοποιήσει η ΕΚΤ για την αντιμετώπισή τους, β) τη δημόσια ανακοίνωση μιας τιμής-στόχου για τον πληθωρισμό, διότι έτσι προσδιορίζεται με σαφήνεια η στόχευση της νομισματικής πολιτικής και ενισχύεται η εμπιστοσύνη των οικονομούντων ατόμων για τις μελλοντικές της αποφάσεις και τη στάση της νομισματικής της πολιτικής (ECB 2008 και 2001), και γ) την ενίσχυση της φήμης της στις αγορές ως αξιόπιστο αντιπληθωριστικό νομισματικό θεσμό (Issing, 2008). Τέλος, όπως και στην πολιτική Π-Σ, η οικοδόμηση της αξιοπιστίας της ΕΚΤ σχετίζεται με τη διασφάλιση υγιών δημοσίων οικονομικών από τα κράτη-μέλη, όπως και με την προώθηση δομικών μεταρρυθμίσεων στις αγορές εργασίας, προϊόντων και κεφαλαίου, καθώς έτσι ενισχύεται υποθετικά η αποτελεσματικότητα των επιδράσεων των νομισματικών μεταβολών πάνω στην πραγματική οικονομία και περιορίζεται η πιθανότητα ασύμμετρων διαταραχών που θα έθεταν σε κίνδυνο τη νομισματική σταθερότητα στη ζώνη του ευρώ.

Για τη συνολική ανάλυση και εκτίμηση των πιθανών κινδύνων διατάραξης της σταθερότητας των τιμών στη ζώνη του ευρώ, η ΕΚΤ έχει αναπτύξει μια σχετικά πρωτοποριακή προσέγγιση, γνωστή και ως «στρατηγική των 2 πυλώνων». Ο πρώτος πυλώνας, που ονομάζεται οικονομική ανάλυση, ελέγχει ένα ευρύ φάσμα στοιχείων και οικονομικών μεταβλητών οι οποίοι εκτιμάται ότι επηρεάζουν τις προοπτικές της πραγματικής οικονομίας και την εξέλιξη των τιμών σε βραχυπρόθεσμο ορίζοντα, όπως μεταβολές στο συνολικό ΑΕΠ και τη ζήτηση, αλλαγές στην ισοτιμία του ευρώ, εξελίξεις στο ισοζύγιο πληρωμών, στη δημοσιονομική θέση και στην αγορά εργασίας των κρατών-μελών. Ο δεύτερος πυλώνας, ο οποίος ονομάζεται νομισματική ανάλυση, βασίζεται στην αξιοποίηση πληροφοριών και στοιχείων για τη συμπεριφορά των συναθροιστικών νομισματικών μεγεθών και του ρυθμού αύξησης των τραπεζικών πιστώσεων, με σκοπό να εκτιμηθούν οι επιπτώσεις τους πάνω στο επίπεδο τιμών στην ΟΝΕ σε μακροπρόθεσμο ορίζοντα. Η ΕΚΤ ελέγχει και συγκρίνει τα αποτελέσματα που προκύπτουν από τους δύο πυλώνες, μέθοδος που κατά την άποψή της παρέχει μια αξιόπιστη βάση πληροφοριών για τους πληθωριστικούς κινδύνους στη ζώνη του ευρώ (ECB 2000 και Gerlach 2004). Με βάση τα συμπεράσματα που προκύπτουν, το διοικητικό συμβούλιο της ΕΚΤ αποφασίζει για την προσαρμογή του παρεμβατικού επιτοκίου, το οποίο, όπως και στο καθεστώς της «νέας συναίνεσης», θεωρείται ως το αποτελεσματικότερο νομισματικό εργαλείο για τη σταθεροποίηση των προσδοκιών και τη συγκράτηση του πληθωρισμού σε επίπεδα κοντά του προκαθορισμένου στόχου του 2% (Scheller 2006).

Πρέπει να σημειωθεί ότι η εισαγωγή της νομισματικής ανάλυσης ως βασικού πυλώνα της νομισματικής πολιτικής της ΕΚΤ έχει πυροδοτήσει μια έντονη συζήτηση σχετικά με το εάν και σε τι βαθμό η ΕΚΤ εφαρμόζει στρατηγική Π-Σ (Pisani-Ferry και αλλοι 2008 και Issing 2008). Βασικό επιχείρημα στο πλαίσιο της παραπάνω προβληματικής είναι ότι ο κεντρικός ρόλος που δίνει η ΕΚΤ στις μακροπρόθεσμες πληθωριστικές επιπτώσεις της ποσότητας του χρήματος αποτελεί στην ουσία ένδειξη της επιρροής της από το νομισματικό σύστημα του μονεταρισμού, παρά από αυτό της «νέας συναίνεσης». Ωστόσο, αν και ο έλεγχος των συναθροιστικών νομισματικών μεγεθών στην οικονομία έχει σίγουρα κοινά χαρακτηριστικά με τη μονεταριστική πρακτική ελέγχου της ποσότητας χρήματος, κατά την άποψή μας, το γεγονός αυτό δεν σημαίνει ότι η ΕΚΤ δεν ακολουθεί στρατηγική Π-Σ. Σε θεωρητικό επίπεδο, όπως τονίστηκε στην προηγούμενη ενότητα, το μονεταριστικό δόγμα περί ουδετερότητας του χρήματος στη μακροχρόνια περίοδο αποτελεί βασικό θεωρητικό θεμέλιο της «νέας συναίνεσης». Η επιλογή της νομισματικής ανάλυσης δεν πρέπει, επομένως, να θεωρηθεί ασύμβατη με το νομισματικό καθεστώς της «νέας συναίνεσης» και τη στρατηγική του Π-Σ. Σε πρακτικό επίπεδο, η άποψη αυτή μπορεί να υποστηριχθεί και από μελέτες που δείχνουν ότι η νομισματική συμπεριφορά της Bundesbank, η οποία ως γνωστόν αποτέλεσε το πρότυπο της πολιτικής και θεσμικής οργάνωσης της ΕΚΤ, δεν εστίαζε στον έλεγχο της συναθροιστικής ζήτησης μέσω του ποσοτικού ελέγχου της προσφοράς χρήματος, αλλά στη διακριτική μεταβολή του επιτοκίου για την αποτροπή των πληθωριστικών κινδύνων και τη σταθεροποίηση των προσδοκιών (βλ. Bernanke και Mihov 1999). Τέλος, αξίζει να υπογραμμιστεί ότι το 2003, στα πλαίσια της γενικότερης επαναξιολόγησης της νομισματικής πολιτικής, η ΕΚΤ υποβάθμισε το ρόλο της νομισματικής ανάλυσης μετακινώντας την οικονομική ανάλυση στον πρώτο πυλώνα της αντιπληθωριστικής της στρατηγικής. Η ενέργεια αυτή, ερμηνεύτηκε από αρκετούς αναλυτές ως ένα σημαντικό βήμα προς την κατεύθυνση υιοθέτησης μιας πιο «αυθεντικής» εκδοχής της πολιτικής του Π-Σ (Hein και Truger 2004).

Ο υψηλός βαθμός συσχέτισης της νομισματικής στρατηγικής της ΕΚΤ με το νομισματικό καθεστώς της «νέας συναίνεσης» προκύπτει επίσης από τη βαρύνουσα σημασία που δίνει στη θεσμική της ανεξαρτησία από τα αρμόδια κοινοτικά όργανα και τις εθνικές κυβερνήσεις στη χάραξη και άσκηση της νομισματικής της πολιτικής. Η ΕΚΤ, υιοθετώντας απόλυτα το πρόβλημα της χρονικής ασυνέπειας, υποστηρίζει ότι η θεσμική της απομόνωση από πάσης φύσης πολιτικές παρεμβάσεις και αποφάσεις αποτελεί θεμελιακή προϋπόθεση και τον καταλληλότερο μηχανισμό διασφάλισης της αξιοπιστίας και αποτελεσματικότητας της σταθεροποιητικής της στρατηγικής. Άμεση συνέπεια της αντίληψης αυτής είναι η εκχώρηση από τη Συνθήκη μιας πολυδιάστατης μορφής ανεξαρτησίας στην ΕΚΤ, που περιλαμβάνει: την πολιτική, λειτουργική και οικονομική της αυτονομία, καθώς και την προσωπική ανεξαρτησία των μελών των οργάνων της. Βασικό επακόλουθο του συγκεκριμένου θεσμικού καθεστώτος της ΕΚΤ είναι επίσης η ρητή απαγόρευση οποιουδήποτε είδους χρηματοδότησης και δανειακής διευκόλυνσης των εθνικών κυβερνήσεων εκ μέρους της ΕΚΤ, η θεσμική της υπεροχή σε προτάσεις και ζητήματα πολιτικής που εμπίπτουν στον τομέα δικαιοδοσίας της (π.χ. η συναλλαγματική ισοτιμία του ευρώ), η ελευθερία προσδιορισμού της τιμής-στόχου και της κατάλληλης στρατηγικής για την επίτευξή του, η δυνατότητα παρέμβασής της σε ένα εύρος θεμάτων που αφορούν τη νομισματική σταθερότητα (π.χ. εισοδηματική και δημοσιονομική πολιτική), καθώς και η κατηγορηματική απόρριψη της ιδέας για τον εκ των προτέρων συντονισμό της νομισματικής της στρατηγικής με τις εθνικές οικονομικές πολιτικές των κρατών-μελών (ECB 2008 και Dyson 2000). Με βάση τα παραπάνω χαρακτηριστικά, η ΕΚΤ θεωρείται σήμερα ως η πιο ανεξάρτητη κεντρική τράπεζα στον κόσμο, μια θεσμική κατάσταση που θωρακίζεται επιπλέον και από το γεγονός ότι είναι συνταγματικά κατοχυρωμένη και επομένως οποιαδήποτε μεταβολή του θεσμικού ρόλου και της λειτουργίας της ΕΚΤ απαιτεί την ομόφωνη συμφωνία όλων των κρατών-μελών της ΕΕ (Bibow 2005, Eijffinger και de Haan, 1996).

Τέλος, ένα επιπλέον σημείο σύγκλισης της νομισματικής πολιτικής της ΕΚΤ με τη στρατηγική του Π-Σ είναι η θέσπιση μηχανισμών λογοδοσίας, διαφάνειας και επικοινωνίας των στόχων, εργαλείων και αποφάσεων της νομισματικής πολιτικής της με τους πολίτες της ΕΕ και τους δημοκρατικά εκλεγμένους αντιπροσώπους τους. Αν και στα κείμενα των επίσημων οργάνων της ΕΕ αναγνωρίζεται ότι οι συγκεκριμένες θεσμικές παρεμβάσεις αποτελούν βασική υποχρέωση της ΕΚΤ για τη νομιμοποίησή της σε μια δημοκρατική κοινωνία και τη θεσμική αντιστάθμιση του ανεξάρτητου πλαισίου λειτουργία της, για την ΕΚΤ η λογοδοσία και επικοινωνία της νομισματικής πολιτικής της αποτελούν βασικά συστατικά προώθησης της αντιπληθωριστικής της αξιοπιστίας. Συγκεκριμένα, η διαφάνεια και επικοινωνία θεωρείται ότι αυξάνουν την πληροφόρηση του ιδιωτικού τομέα σχετικά με τους στόχους της πολιτικής της και τις ενέργειες που σκοπεύει να προβεί για την επίτευξή τους. Ταυτόχρονα, επιβάλλουν ένα είδος αυτοπειθαρχίας στις νομισματικές αρχές κατά τη διαδικασία χάραξης και εφαρμογής της πολιτικής. Με αυτόν τον τρόπο, η διαφάνεια εγγυάται τη συνέπεια της εφαρμοζόμενης νομισματικής στρατηγικής με την προκαθορισμένη της στόχευση, συμβάλλοντας στη σταθεροποίηση των προσδοκιών και στη σταθερότητα των τιμών.

Η αυστηρή δέσμευση της ΕΚΤ στη διαφάνεια και την επικοινωνία της πολιτικής της επιτρέπει επίσης τις αγορές και το κοινό να αντιληφθούν τον τρόπο αντίδρασής της στις οικονομικές εξελίξεις και να προβλέπουν μεταβολές του βασικού της επιτοκίου. Το γεγονός αυτό θεωρείται ότι βελτιώνει τη διαδικασία μετάδοσης των νομισματικών μεταβολών στο χρηματοπιστωτικό και μακροοικονομικό σύστημα και συνεπώς την αποτελεσματικότητα της νομισματικής της πολιτικής (ECB 2008 και Geraats 2008).

Συνοπτικά, το θεωρητικό μακροοικονομικό υπόδειγμα της «νέας συναίνεσης» έχει επηρεάσει σε σημαντικό βαθμό το πλαίσιο άσκησης, καθώς και τα μέσα και τους στόχους της νομισματικής στρατηγικής της ΕΚΤ. Οι βασικές υποθέσεις του μοντέλου έχουν αποτελέσει το προκάλυμμα για τη θεωρητική και ιδεολογική νομιμοποίηση της θεσμικής θέσης της ΕΚΤ ως κεντρικό όργανο επιβολής μακροοικονομικής πειθαρχίας και προώθησης νεοφιλελευθέρων μετασχηματισμών και αλλαγών στην ΟΝΕ. Όπως προαναφέρθηκε στη δεύτερη ενότητα της παρούσας μελέτης, η συγκεκριμένη επιλογή αντανακλά τη φιλοδοξία των κυρίαρχων ελίτ και των εμπνευστών της ΟΝΕ, το ευρώ να καταστεί θεσμικός φορέας οικοδόμησης και διασφάλισης της αξιοπιστίας των κρατών-μελών της ΕΕ στο διεθνές κερδοσκοπικό χρηματιστικό κεφάλαιο. Δυστυχώς, όπως θα επιχειρηματολογήσουμε παρακάτω, ο αντιπληθωριστικός ζήλος και ο νομικά κατοχυρωμένος κυρίαρχος θεσμικός ρόλος της ΕΚΤ στο οικονομικό σύστημα της Ευρωζώνης αντί να ενεργήσει ως καταλύτης για την ενίσχυση της αξιοπιστίας και την τόνωσης της οικονομικής ανάπτυξης στην Ευρώπη έχει γίνει η βασική αιτία για την «πειθαρχική χρηματιστικοποίηση» και έντονη αποσταθεροποίηση της ευρωπαϊκής οικονομίας, που τελικά οδήγησε στην τρέχουσα βαθειά κρίση της. Στα συγκεκριμένα τραγικά αποτελέσματα, ωστόσο, σημαντική συμβολή έχει επίσης το αυστηρό πλαίσιο δημοσιονομικής πειθαρχίας που έχει επιβάλλει στην ΟΝΕ το ΣΣΑ, στην ανάλυση του όποιου εστιάζουμε στη συνέχεια.

4.2 Η Δημοσιονομική πολιτική στην ΟΝΕ και το Σύμφωνο Σταθερότητας

Η εισαγωγή του κοινού νομίσματος έχει μεταμορφώσει ριζικά το θεσμικό περιβάλλον και τα μέσα άσκησης δημοσιονομικής πολιτικής στην Ευρώπη. Σύμφωνα με το άρθρο 4 της Συνθήκης του Μάαστριχτ, η επίτευξη υγιών δημόσιων οικονομικών στα κράτη-μέλη αποτελεί μια από τις κυρίαρχες αρχές που προσδιορίζουν τις οικονομικές πολιτικές της ΕΕ. Παράλληλα, το ΣΣΑ έχει διαμορφώσει ένα αυστηρό ρυθμιστικό πλαίσιο συντονισμού και εποπτείας των εθνικών δημοσιονομικών πολιτικών. Συμφώνα με τις διατάξεις του, τα κράτη-μέλη της ΕΕ είναι υποχρεωμένα να επιτύχουν δημοσιονομικό έλλειμμα που να μην υπερβαίνει το όριο του 3% του ΑΕΠ και να καταρτίζουν και να υποβάλλουν σε τακτική βάση αναλυτικά προγράμματα σταθερότητας, στα οποία να καθορίζουν τα μέτρα που απαιτούνται για την επίτευξη του μακροπρόθεσμου στόχου για ένα ισοσκελισμένο ή πλεονασματικό προϋπολογισμό .

Σύμφωνα με τα επίσημα όργανα της Κοινότητας (European Community 2000 και ECB 2004) η ανάγκη εισαγωγής δημοσιονομικών περιορισμών και διασφάλισης συνθηκών δημοσιονομικής πειθαρχίας στην Ευρωζώνη στηρίζεται στις υποθέσεις της «νέας συναίνεσης» για το ρόλο και τις επιπτώσεις της δημοσιονομικής πολιτικής σε ένα ευρύτερο πλαίσιο σταθεροποιητικής πολιτικής. Συγκεκριμένα, οι επιδράσεις της δημοσιονομικής πολιτική στο οικονομικό σύστημα διαχωρίζονται σε βραχυχρόνιες και μακροχρόνιες. Βραχυχρόνια, ενώ η διακριτική άσκηση δημοσιονομικής πολιτικής εκτιμάται ότι επιδρά ευεργετικά πάνω στο επίπεδο του πραγματικού εισοδήματος και της απασχόλησης, το χρονικό διάστημα που μεσολαβεί μέχρι τη λήψη των αναγκαίων μέτρων είναι μεγάλο, καθιστώντας έτσι τη δράση της αποσταθεροποιητική. Επιπλέον, όπως και στο υπόδειγμα της «νέας συναίνεσης», διατυπώνεται η άποψη ότι η απουσία περιορισμών στην άσκηση δημοσιονομικής πολιτικής δημιουργεί μια «προδιάθεση» εκτέλεσης ελλειμματικών προϋπολογισμών (deficit bias). Βάσει των υποθέσεων της «νέας συναίνεσης», το γεγονός αυτό θεωρείται ως βασική αιτία εκδήλωσης σοβαρών δημοσιονομικών ανισορροπιών, αύξησης του πληθωρισμού και των πληθωριστικών προσδοκιών και, μέσω δευτερογενών επιδράσεων, συνεχών αυξητικών τάσεων στο γενικό επίπεδο των τιμών και στους μισθούς. Στο πλαίσιο αυτό, η θέσπιση αυστηρών μηχανισμών εποπτείας και ελέγχου της δημοσιονομικής πολιτικής αναγνωρίζεται ως αναγκαία για την αποτροπή των αποσταθεροποιητικών επιδράσεων της διακριτικής δημοσιονομικής πολιτικής στην πραγματική οικονομία. Επίσης, θωρείται σημαντική για τη διασφάλιση της εύρυθμης και αποτελεσματικής λειτουργίας των αυτόματων δημοσιονομικών σταθεροποιητών, μηχανισμών που από τη φύση τους υπόκειται σε μικρότερες χρονικές υστερήσεις, δρουν πιο συμμετρικά και συνεπώς βοηθούν στην ταχεία και αποτελεσματική αντιμετώπιση των οικονομικών διαταραχών.

Στη μακροχρόνια περίοδο, η διαμόρφωση και διασφάλιση ενός περιβάλλοντος δημοσιονομικής πειθαρχίας θεωρείται ότι συμβάλει αποφασιστικά στην αναπτυξιακή δυναμική και σταθεροποίηση του μακροοικονομικού συστήματος των κρατών-μελών. Αυτό οφείλεται, αφενός εξαιτίας της μείωσης της φορολογίας και των χαμηλότερων προσδοκώμενων φορολογικών πληρωμών, που υποθετικά συνοδεύουν την εφαρμογή συνετών δημοσιονομικών πολιτικών, και αφετέρου εξαιτίας της αποκλιμάκωσης των επιτοκίων ως συνέπεια της ενίσχυσης της εμπιστοσύνης των αγορών για το επίπεδο φερεγγυότητας μιας χώρας. Επίσης, η δημοσιονομική προσαρμογή και η διασφάλιση υγιών δημόσιων οικονομικών περιορίζει τις πληθωριστικές προσδοκίες και την αστάθεια του γενικού επιπέδου τιμών. Οι εξελίξεις αυτές συντελούν στην εμπέδωση ενός κλίματος εμπιστοσύνης και σταθερότητας που επιτρέπει τον ορθολογικότερο και, συνεπώς, αποδοτικότερο προγραμματισμό των επενδυτικών και καταναλωτικών επιλογών των οικονομικά δρώντων. Με αυτόν τον τρόπο, η δημοσιονομική πειθαρχία εκτιμάται ότι σχετίζεται, σε μακροχρόνια βάση, με ένα μηχανισμό ανατροφοδότησης υψηλών ρυθμών συσσώρευσης κεφαλαίου και βιώσιμης αύξησης του ΑΕΠ. Επίσης, αφήνει μεγαλύτερα περιθώρια άσκησης βραχυχρόνιας σταθεροποιητικής πολιτικής σε περιόδους ύφεσης, καθώς επιτρέπει τη λήψη έκτατων επεκτατικών δημοσιονομικών μέτρων χωρίς να θέτει σε κίνδυνο τη διατηρησιμότητα των δημοσίων οικονομικών (ECB 2004 και ECB 2010).

Ενώ η επιβολή και η τήρηση αυστηρής δημοσιονομικής πειθαρχίας θεωρείται πως έχει θετικές επιδράσεις στη μακροοικονομική κατάσταση κάθε κράτους-μέλους, υπογραμμίζεται ότι η ανάγκη διαφύλαξης βιώσιμων δημόσιων οικονομικών είναι πιο επιτακτική στα πλαίσια της νομισματικής ένωσης. Ο κυριότερος λόγος για αυτό είναι οι σοβαρές εξωτερικές επιβαρύνσεις (spillovers) που ενδέχεται να προκληθούν από την άσκηση μη συνετής δημοσιονομικής πολιτικής από μια μεμονωμένη χώρα-μέλος. Η σχετική ορθόδοξη βιβλιογραφία διακρίνει δύο είδη εξωτερικών επιβαρύνσεων από την άσκηση επεκτατικής δημοσιονομικής πολιτικής από ένα κράτος-μέλος. Η πρώτη κατηγορία σχετίζεται με την άνοδο των επιτοκίων και της συνεπαγόμενης μείωσης των ιδιωτικών επενδύσεων και της ανατίμησης του ευρώ που μπορεί να προκληθούν εξαιτίας της αύξησης της ζήτησης δανειακών κεφαλαίων στις ευρωπαϊκές αγορές ως αποτέλεσμα της δημοσιονομικής επέκτασης μιας συγκεκριμένης χώρας (Weyerstrass και άλλοι, 2006). Η δεύτερη κατηγορία εξωτερικών επιβαρύνσεων σχετίζεται με την πιθανότητα εκδήλωσης μιας συσσωρευτικής χρηματοπιστωτικής αστάθειας στην

Ένωση, δεδομένου του υψηλού βαθμού διασύνδεσης και ολοκλήρωσης των αγορών χρήματος στην Ευρώπη, και τον κίνδυνο διάχυσής της σε ολόκληρο το τραπεζικό και χρηματοπιστωτικό σύστημα της Ευρωζώνης (Matheron και άλλοι 2012, De Grauwe 2003). Βάσει των παραπάνω υποθέσεων η εισαγωγή δημοσιονομικής πειθαρχίας στη ζώνη του ευρώ αποτελεί τον πιο κατάλληλο και αξιόπιστο μηχανισμό συντονισμού των εθνικών δημοσιονομικών πολιτικών και επιβολής αρχών συνετής και υπεύθυνης δημοσιονομικής συμπεριφοράς (Fatás και Mihov 2003).

Η επιβολή αυστηρών δημοσιονομικών κανόνων στην Ευρωζώνη σχετίζεται επίσης με τη διασφάλιση της αντιπληθωριστικής αξιοπιστίας της στρατηγικής της ΕΚΤ. Όπως και στο βασικό μοντέλο της «νέας συναίνεσης», η εφαρμογή επεκτατικής δημοσιονομικής πολιτικής από τα κράτη-μέλη θεωρείται πηγή δύο σημαντικών απειλών για τη σταθεροποιητική στρατηγική της ΕΚΤ. Η πρώτη έχει να κάνει με το ενδεχόμενο εκδήλωσης γενικευμένης χρηματοπιστωτικής και οικονομικής κρίσης στην Ευρωζώνη λόγω της διόγκωσης του δημοσίου χρέους μιας χώρα-μέλους και του προσδοκώμενου κινδύνου κήρυξης στάσης πληρωμών. Η κατάσταση αυτή εκτιμάται ότι θα καταστήσει την ΕΚΤ αποδέκτη έντονων πολιτικών πιέσεων για τη διαχείριση της κρίσης μέσω της πληθωριστικής αγοράς χρέους με αποτέλεσμα την υπονόμευση της αντιπληθωριστικής δέσμευσης της αποστολής της. Η δεύτερη απειλή σχετίζεται με την πιθανότητα διαμόρφωσης ενός ασταθούς και αναποτελεσματικού μείγματος μακροοικονομικής πολιτικής στο σύνολο της ΟΝΕ. Ειδικότερα, υποστηρίζεται ότι η άσκηση συντονισμένης επεκτατικής δημοσιονομικής πολιτικής από τα κράτη-μέλη θα εξωθήσει την ΕΚΤ είτε να αποδεχτεί την κατάσταση αυτή, είτε να αναπροσαρμόσει την πολιτική της, αυξάνοντας το παρεμβατικό της επιτόκιο για την εξουδετέρωση των πληθωριστικών πιέσεων (βλ. Wyplosz 2006 και Buti και άλλοι 1998). Και στις δύο περιπτώσεις, οι συνέπειες θα είναι επιβλαβείς για τη μακροοικονομική σταθερότητα και την αναπτυξιακή προοπτική της Ευρωζώνης. Υπο αυτό το πρίσμα, η εισαγωγή ενός κανονιστικού πλαισίου δημοσιονομικής πειθαρχίας αποσκοπεί στην αποτροπή των παραπάνω κινδύνων για τη σταθερότητα της ΟΝΕ και στη θεσμική διασφάλιση της ανεξαρτησίας της ΕΚΤ.

Ένα τελευταίο επιχείρημα υπέρ της εισαγωγής αυστηρών δημοσιονομικών κανόνων στην ΟΝΕ σχετίζεται με την ανησυχία ότι με τη νομισματική ενοποίηση θα εξασθενίσει σε σημαντικό βαθμό η πειθαρχία που επιβάλουν οι διεθνείς αγορές στη δημοσιονομική συμπεριφορά των κρατών-μελών. Όπως σημειώνει χαρακτηριστικά ο

Issing (2008), με την εισαγωγή του ευρώ εξαλείφεται ο συναλλαγματικός κίνδυνος, ο οποίος σχετίζεται με τη διακράτηση κρατικών χρεογράφων εκπεφρασμένων σε εθνικό νόμισμα και επομένως και τα ασφάλιστρα που ζητούν οι επενδύτες ομολόγων για την αντιστάθμιση πιθανών ζημιών εξαιτίας συναλλαγματικών μεταβολών. Η κυκλοφορία του ευρώ εκτιμάται επιπλέον ότι θα αυξήσει το επίπεδο φερεγγυότητας των κρατών-μελών της Ευρωζώνης, οδηγώντας έτσι σε σημαντική αποκλιμάκωση των επιτοκίων δανεισμού τους από τις αγορές κεφαλαίων. Το ίδιο ενδέχεται να συμβεί επίσης και με το πληθωριστικό ρίσκο, λόγω του υψηλού βαθμού θεσμικής ανεξαρτησίας της ΕΚΤ και της νομικής της δέσμευσης να διατηρεί χαμηλά τον πληθωρισμό στο σύνολο της ΟΝΕ (ECB 2006). Με βάση τα παραπάνω, η εισαγωγή ενός κανονιστικού πλαισίου επιβολής και διασφάλισης της δημοσιονομικής πειθαρχίας στην ΟΝΕ πιστεύεται ότι λειτουργεί ως ένα αναγκαίο θεσμικό συμπλήρωμα της αποδυναμωμένης πειθαρχική δύναμης των αγορών, ικανό να εγγυηθεί τη μακροπρόθεσμη διατηρησιμότητα των δημοσίων οικονομικών των κρατών-μελών.

Συμπερασματικά, ο σχεδιασμός και η λειτουργία του υφιστάμενου πλαισίου δημοσιονομικής πολιτικής στην ΕΕ βρίσκουν θεωρητική θεμελίωση στη συμβατική προσέγγιση της «υγιούς χρηματοδότησης» (sound finances) και στη θέση της «νέας συναίνεσης» περί των αποσταθεροποιητικών συνεπειών της εφαρμογής ενεργητικών δημοσιονομικών στρατηγικών. Η συγκεκριμένη προσέγγιση αποτυπώνει την απόλυτη πίστη στη δυνατότητα αυτορρύθμισης της ελεύθερης αγοράς, στα οικονομικά οφέλη που προκύπτουν από την υποβάθμιση του παρεμβατικού ρόλου και αναδιανεμητικού χαρακτήρα του κράτους και της αντιμετώπισης του πληθωρισμού, και προτάσσει την υπαγωγή των στόχων, του χαρακτήρα και των εργαλείων άσκησης δημοσιονομικής πολιτικής στις κεντρικές πολιτικές επιδιώξεις και απαιτήσεις μιας ανεξάρτητης ΕΚΤ με αποκλειστικό δικαίωμα έκδοσης χρήματος και βασική αποστολή την ενίσχυση της αξιοπιστίας του ευρώ στις έντονα κερδοσκοπικές διεθνείς αγορές. Διαμορφώνει, ως εκ τούτου, μια δημοσιονομική αρχιτεκτονική με χαρακτηριστικά, πλαίσιο λειτουργίας και στόχευση σύμφωνα με το νεοφιλελεύθερο μοντέλο οικονομικής διακυβέρνησης του «νέου συνταγματισμού». Κατά την άποψή μας, το γεγονός αυτό αποτελεί μια επιπλέον ένδειξη της διασύνδεσης της «νέας συναίνεσης» με τα συμφέροντα και ισχύ του παγκόσμιου χρηματοπιστωτικού κεφαλαίου και με τη διαδικασία «πειθαρχικής χρηματιστικοποίησης» της ευρωπαϊκής οικονομίας.

5. Εμπειρικά αποτελέσματα

Όπως αναφέρθηκε, βασικό αντικείμενο της διατριβής ήταν να συσχετίσει τους λόγους δημιουργίας του ευρώ, τη θεσμική αρχιτεκτονική της Ευρωζώνης και το πειθαρχικά νεοφιλελεύθερο χαρακτήρα του πλαισίου οικονομικής της πολιτικής με θεμελιώδεις μετασχηματισμούς στην κοινωνική, πολιτική και οικονομική δομή του παγκόσμιου καπιταλισμού, και ειδικότερα με θεσμικούς μηχανισμούς επιβολής και εδραίωσης της κυριαρχίας του παγκόσμιου χρηματιστικού κεφαλαίου. Επίσης, ισχυριστήκαμε ότι ένας βασικός υπεύθυνος των φτωχών οικονομικών και κοινωνικών επιδόσεων της ΟΝΕ είναι το φαινόμενο της «πειθαρχικής χρηματιστικοποίησης» των κρατών-μελών της που έχει ενεργοποιήσει η «νέα συνταγματική» θεσμική οργάνωση της ΟΝΕ και το οικονομικό μοντέλο της «νέας συναίνεσης», το οποίο φαίνεται ότι έχει επηρεάσει, σε σημαντικό βαθμό, τη σημερινή αρχιτεκτονική και τις πολιτικές της. Το τελευταίο μέρος της εργασίας είχε ως σκοπό να διερευνήσει και να τεκμηριώσει εμπειρικά την παραπάνω υπόθεση της διατριβής.

Για την εμπειρική αξιολόγηση του βασικού επιχειρήματος της μελέτης γίνεται αρχικά παρουσίαση και ανάλυση της εμπειρικής συμπεριφοράς των βασικών δεικτών μακροοικονομικής επίδοσης. Τα ευρήματα καταδεικνύουν ότι από την έναρξη του προγράμματος της ΟΝΕ (περίοδος 1992-2012), η οικονομία της ζώνης του ευρώ είναι εγκλωβισμένη σε μια κατάσταση ισχνής αναπτυξιακής δυναμικής, χαρακτηριζόμενη από ιδιαίτερα χαμηλούς ρυθμούς μεγέθυνσης του ΑΕΠ, εξαιρετικά υψηλά ποσοστά ανεργίας και αναιμική αύξηση της παραγωγικότητας. Αντίθετα, κατά την ίδια περίοδο ο ρυθμός πληθωρισμού στην Ευρωζώνη βρισκόταν σε χαμηλά επίπεδα, κυμαινόμενος εντός του ορίου του 2% που έχει καθορίσει η ΕΚΤ. Αξιοσημείωτο είναι επιπλέον το γεγονός ότι οι παραπάνω επιδόσεις απέχουν σημαντικά τόσο από τις αντιστοιχίες των ΗΠΑ, όσο και από αυτές που παρουσίαζαν οι περισσότερες χώρες-μέλη της Ένωσης τις δεκαετίες του 1960 και 1970, όταν θεσμικά προφυλαγμένες από την παγκόσμια κινητικότητα του κεφαλαίου εφάρμοζαν το μοντέλο της Κεϋνσιανής συναίνεσης και είχαν ως πρωταρχικό στόχο της οικονομικής τους πολιτικής την πλήρη απασχόληση και την αύξηση του εισοδήματος. Η παρατηρούμενη απογοητευτική οικονομική κατάσταση της Ευρωζώνης αποτελεί σαφή αμφισβήτηση των φιλοδοξιών και στόχων των εμπνευστών της νομισματικής ένωσης της Ευρώπης. Η υιοθέτηση του ευρώ, αντί να οδηγήσει σε σημαντικά οικονομικά οφέλη και να λειτουργήσει ως μέσο ανάταξης της ανταγωνιστικότητας της ευρωπαϊκής οικονομίας, έχει συνοδευτεί από μια μακρά περίοδο αναπτυξιακής εξασθένισης και αποδυνάμωσης της θέσης της στην παγκόσμια οικονομία.

Κατά την άποψή μας, βασικός υπεύθυνος του παρατηρουμένου αναπτυξιακού ελλείμματος της οικονομίας της Ευρωζώνης είναι το υφιστάμενο περιοριστικό μείγμα οικονομικής πολιτικής που έχει επιβάλει η αρχιτεκτονική της ΟΝΕ και ο «μύθος» της μεγιστοποίησης της αξιοπιστίας του ευρώ στις παγκόσμιες αγορές. Όσον αφορά την νομισματική πολιτική, η αντιπληθωριστική στόχευση της ΕΚΤ και η εμμονή της στην οικοδόμηση της αξιοπιστία της στις παγκόσμιες αγορές έχει οδηγήσει στην εφαρμογή μιας ιδιαίτερα περιοριστικής νομισματικής στρατηγικής υψηλών βραχυχρόνιων και μακροχρόνιων πραγματικών επιτοκίων. Η κατάσταση αυτή είναι ιδιαίτερα επιβλαβής για τις χώρες του ευρωπαϊκού πυρήνα και κυρίως για την ατμομηχανή της οικονομίας της ΟΝΕ, τη Γερμανία, εξαιτίας των σχετικά χαμηλότερων ρυθμών πληθωρισμού που εμφανίζουν τα συγκεκριμένα κράτη-μέλη ως συνέπεια της εντονότερης περιοριστικής εισοδηματικής πολιτικής που υιοθέτησαν.

Εξίσου περιοριστικά ασκήθηκε από τις κυβερνήσεις των κρατών-μελών και η δημοσιονομική πολιτική ως απόρροια των σφιχτών δημοσιονομικών πλαισίων της Συνθήκης του Μάαστριχτ και του Συμφώνου Σταθερότητας. Κατά την περίοδο 1992-2008, ο λόγος δημοσίου ελλείμματος προς το ΑΕΠ παρουσιάζει σημαντική μείωση με συνέπεια την περίοδο μετά την εισαγωγή του κοινού νομίσματος να διαμορφωθεί κοντά στο 2%. Αυτή η βελτίωση της δημοσιονομικής κατάστασης στην Ευρωζώνη είναι βέβαια το αναμενόμενο αποτέλεσμα της σημαντικής αποκλιμάκωσης των μέσων ονομαστικών μακροχρόνιων επιτοκίων που παρατηρείται την ίδια περίοδο στη ζώνη του ευρώ, κυρίως ως αποτέλεσμα της ταχείας σύγκλισης των ονομαστικών επιτοκίων των χωρών μελών με τα αντίστοιχα χαμηλά επιτόκια της Γερμανίας. Πρέπει, ωστόσο, να υπογραμμιστεί ότι, παρόλη τη σημαντική δημοσιονομική προσαρμογή που έχει επιτευχθεί, τα περισσότερα κράτη-μέλη δεν κατέφεραν να ανταποκριθούν στο στόχο του Συμφώνου Σταθερότητας για ισοσκελισμένο ή πλεονασματικό προϋπολογισμό. Ο λόγος δημοσίου χρέους προς το ΑΕΠ επίσης διατηρήθηκε, κατά μέσο όρο, σε επίπεδα υψηλότερα του κριτηρίου του 60% κατά τη διάρκεια της υπό εξέτασης περιόδου.

Άμεση απόρροια του αντιπληθωριστικού πλαισίου άσκησης νομισματικής και δημοσιονομικής πολιτικής στην Ευρωζώνη είναι η διαμόρφωση ενός συγκεκριμένου αναπτυξιακού προτύπου στην ΟΝΕ, βασικά χαρακτηριστικά του οποίου είναι: αφενός η «ελεγχόμενη» περιστολή των συνιστωσών της εσωτερικής ζήτησης: π.χ. επενδύσεις παγίου κεφαλαίου και συνολική κατανάλωση, και αφετέρου η ολοένα και μεγαλύτερη συμβολή της εξαγωγικής δραστηριότητας στο ρυθμό αύξησης του ΑΕΠ. Στα πλαίσια του εξωστρεφούς αυτού μοντέλου ανάπτυξης που έχει διαμορφωθεί στην Ευρωζώνη παρατηρούνται, ωστόσο, σημαντικές αποκλίσεις ως προς τα συγκεκριμένα πρότυπα κατανάλωσης και επένδυσης που έχουν αναπτύξει τα διάφορα κράτη-μέλη της ΟΝΕ. Οι αποκλίσεις αυτές είναι ενδεικτικές του διαφορετικού τρόπου ενσωμάτωσής τους στο οικονομικό σύστημα της ΟΝΕ και αποτυπώνουν τις διαφορετικές επιπτώσεις που έχει επιφέρει η υιοθέτηση του κοινού νομίσματος στα κράτη μέλη-μέλη. Αποτελούν, ωστόσο, έκφανση και συνέπεια της διαδικασίας «πειθαρχικής χρηματιστικοποίησης» που έχει επιβάλλει το καθεστώς μακροοικονομικής πολιτικής της ΟΝΕ στη ζώνη του ευρώ.

Όσον αφορά το ποσοστό της μέσης ιδιωτικής κατανάλωσης στο ΑΕΠ, αυτό διαμορφώνεται σε γενικές γραμμές σε σχετικά χαμηλά επίπεδα. Μεταξύ των κρατών-μελών, ωστόσο, παρατηρούνται ορισμένες διαφοροποιήσεις με ορισμένα κράτη-μέλη του νότου (π.χ. Ελλάδα και Πορτογαλία) να επιδεικνύουν ιδιαίτερα υψηλά ποσοστά ιδιωτικής κατανάλωσης και άλλα, όπως η Γερμανία και Ολλανδία, να παρουσιάζουν σχετικά χαμηλότερα επίπεδα. Αντιστρόφως ανάλογη είναι η εμπειρική συμπεριφορά της αποταμίευσης ως ποσοστό του ΑΕΠ με τις χώρες του ευρωπαϊκού «πυρήνα» να εμφανίζουν ιδιαίτερα υψηλά ποσοστά αποταμίευσης. Κοινό χαρακτηριστικό, ωστόσο, όλων των υπό εξέταση κρατών-μελών της Ευρωζώνης είναι η εκρηκτική αύξηση του συνολικού χρέους των νοικοκυριών που επιδεικνύουν κυρίως κατά την περίοδο μετά την υιοθέτηση του κοινού νομίσματος, με μοναδική εξαίρεση τη Γερμανία. Βασική αιτία της εξέλιξης αυτής είναι η απελευθέρωση των χρηματοπιστωτικών αγορών, ο πολλαπλασιασμός καινοτόμων χρηματοδοτικών εργαλείων, η φρενήρης αύξηση του μεγέθους και της κεφαλαιοποίησης των χρηματιστηριακών αγορών, που οδήγησαν σε μια δραματική αύξηση του καθαρού χρηματοοικονομικού πλούτου στις περισσότερες χώρες-μέλη και επέτρεψαν την εύκολη χορήγηση ενυπόθηκων δανείων. Τα στοιχεία αυτά είναι ενδεικτικά της γενικότερης τάσης χρηματιστικοποίησης της Ευρωζώνης, καθώς και της ιδιάζουσας θέσης της Γερμανίας ως οικονομίας υψηλής αποταμίευσης και χαμηλών αναπτυξιακών προοπτικών. Το γεγονός ότι στις περισσότερες χώρες η παρατηρούμενη αύξηση του χρέους των νοικοκυριών δεν αποτυπώνεται στα επίπεδα ιδιωτικής κατανάλωσης μπορεί να ερμηνευτεί ως συνέπεια της ραγδαίας αύξησης των επενδύσεων στην αγορά κατοικιών που παρατηρείται στο σύνολο των κρατών-μελών της Ευρωζώνης, της ταχείας ανάπτυξης που παρουσιάζουν τα προσωπικά, επενδυτικά συνταξιοδοτικά προγράμματα, αλλά και της σημαντικής πτώσης των πραγματικών μισθών που παρατηρείται από τις αρχές τις δεκαετίας του 1990 σε όλα τα κράτη-μέλη της Ένωσης (Stockhammer 2008).

Αντίστοιχα απογοητευτική εμπειρική συμπεριφορά παρουσιάζει και ο δείκτης παραγωγικών επενδύσεων στην Ευρωζώνη. Στην πλειονότητα των κρατών-μελών της Ένωσης, κατά το διάστημα 1995-2010, οι επενδύσεις παγίου κεφαλαίου δείχνουν μια σαφή τάση στασιμότητας ή ακόμα και υποχώρησης, παρά την αξιοσημείωτη αύξηση του εταιρικού χρέους των μη-χρηματοοικονομικών επιχειρήσεων ως προς το ΑΕΠ, που εκδηλώνεται την ίδια χρονικά περίοδο. Τα υψηλά πραγματικά επιτόκια συνεπεία της αντιπληθωριστικής μεροληψίας της ΕΚΤ, σε συνδυασμό με τη σημαντική μείωση της καταναλωτικής δαπάνης φαίνεται να έχουν διαμορφώσει χαμηλές προσδοκίες για κέρδη στον επιχειρηματικό τομέα, λειτουργώντας έτσι ανασταλτικά για την ανάληψη παραγωγικών επενδύσεων. Σε αυτή την εξέλιξη έχει επίσης συντελέσει η προτίμηση των επιχειρήσεων να εξασφαλίσουν υψηλά κεφαλαιακά κέρδη στους μετόχους τους (μερίσματα και τιμές μετοχών), που περιορίζει τους διαθέσιμους εσωτερικούς πόρους τους για χρηματοδότηση επενδύσεων σε παραγωγικές δραστηριότητες. Η πτώση της επενδυτικής δραστηριότητας στην Ευρωζώνη, που εύλογα αποτελεί μια σαφή ένδειξη της τάσης «πειθαρχικής χρηματιστικοποίησης» της οικονομίας της, αποτυπώνεται και από τη σημαντική κάμψη που παρουσιάζει στις περισσότερες χώρες-μέλη της ΟΝΕ ο λόγος παραγωγικών επενδύσεων-λειτουργικού κέρδους των επιχειρήσεων, καθώς επίσης και από την προτίμηση των νοικοκυριών σε επενδύσεις χρηματιστηριακών άυλων τίτλων έναντι επενδύσεων στον τομέα κατασκευής ιδιόκτητων κατοικιών. Η παρατηρούμενη επενδυτική στασιμότητα στην ΟΝΕ δημιουργεί σοβαρά εμπόδια για τον τεχνολογικό μετασχηματισμό και την παραγωγική ανασυγκρότηση της οικονομίας της, δημιουργώντας χαμηλές προσδοκίες για τις μακροχρόνιες προοπτικές ανάπτυξης της παραγωγής, του εισοδήματος και της απασχόλησης στην Ευρώπη.

Αποτέλεσμα του νεοφιλελεύθερού χαρακτήρα της οικονομικής πολιτικής της ΟΝΕ, και επιβεβαίωση της τάσης χρηματιστικοποίησης που έχει πυροδοτήσει στη ζώνη του ευρώ, αποτελούν επίσης και οι ιδιαίτερα αρνητικές εξελίξεις στην αγορά εργασίας και στη διανομή του εισοδήματος. Από την έναρξη του προγράμματος της ΟΝΕ παρατηρείται μια σημαντική περιστολή του πραγματικού κόστους εργασίας ανά μονάδα προϊόντος και μια αισθητή μείωση του μέσου μεριδίου των μισθών στο ΑΕΠ. Παράλληλα με την αναδιανομή του εισοδήματος σε βάρος της εργασίας, εκδηλώνεται και μια ταυτόχρονη διαδικασία αναδιανομής πλούτου από το μη-χρηματοοικονομικό εταιρικό τομέα προς το χρηματιστικό κεφάλαιο. Αυτή εκδηλώνεται κυρίως μέσω της δραματικής αύξησης των χρηματοοικονομικών πληρωμών, ιδιαίτερα υπό τη μορφή υψηλών μερισματικών πληρωμών. Τα εμπειρικά ευρήματα είναι σύμφωνα με την κεντρική υπόθεση της διατριβής περί του ταξικού περιεχομένου και στόχευσης της υφιστάμενης θεσμικής αρχιτεκτονικής και του πλαισίου οικονομικής πολιτικής της Ευρωζώνης, καταδεικνύοντας μια συστηματική ανακατανομή εισοδήματος προς όφελος των μη παραγωγικών τάξεων των εισοδηματιών και γενικότερα των κατόχων χρηματιστικού πλούτου. Η εξέλιξη αυτή αναμένεται να έχει μια επιπλέον συσταλτική επίδραση στην επενδυτική και καταναλωτική ζήτηση με σοβαρές μακροχρόνιες αρνητικές επιπτώσεις στο ρυθμό μεγέθυνσης του ΑΕΠ στην ΟΝΕ.

Συνέπεια των παραπάνω βασικών μακροοικονομικών και αναδιανεμητικών εξελίξεων στη ζώνη του ευρώ ήταν η διαμόρφωση δύο ετερογενών, πλην όμως συμπληρωματικών, μοντέλων χρηματοπιστωτικού καπιταλισμού στο εσωτερικό της. Στο πρώτο μοντέλο περιλαμβάνονται τα κράτη-μέλη της περιφέρειας (Ελλάδα, Ιρλανδία και Ισπανία), η αναπτυξιακή δυναμική των οποίων στηρίχτηκε πρωτίστως στη συνεχή αύξηση της κατανάλωσης που τροφοδοτούταν από τα υψηλά ποσοστά ιδιωτικού και δημοσίου χρέους. Στον αντίποδα, βρίσκονται οι νέο-μερκαντιλιστικού τύπου, πλεονασματικές οικονομίες της ΕΕ (Γερμανία, Φινλανδία, Αυστρία, Ολλανδία και Βέλγιο), στις οποίες οι εξαγωγές αποτέλεσαν το κυριότερο συντελεστή ενίσχυσης της ζήτησης και μεγέθυνσης του ΑΕΠ (Hein, 2011). Συνέπεια της κατάστασης αυτής ήταν η διαμόρφωση μιας εξαιρετικά εύθραυστης μακροοικονομικής ισορροπίας εντός της ΟΝΕ, η βιωσιμότητα της οποίας στηρίζονταν στη διαθεσιμότητα και σταθερότητα διεθνών χρηματοδοτικών ροών προς τα κράτη-μέλη της περιφέρειας για την κάλυψη των εμπορικών τους ελλειμμάτων και τη στήριξη της εξαγωγικής δραστηριότητας των πλεονασματικών χώρων-μελών. Η παγκόσμια χρηματοπιστωτική αναταραχή που ξεκίνησε το 2007 ύστερα από την κρίση της αγοράς ενυπόθηκων δανείων στις ΗΠΑ αποτέλεσε τη θρυαλλίδα για την κατάρρευση της εύθραυστης χρηματοοικονομικής κατάστασης που είχε διαμορφώσει η τάση της «πειθαρχικής χρηματιστικοποίησης» της ΟΝΕ στην Ευρώπη και την αίτια της τρέχουσας κρίσης χρέους.

6. Επίλογος

Η ΟΝΕ έχει περιέλθει σε μια σοβαρή οικονομική, κοινωνική και θεσμική περιδίνηση, η οποία σήμερα απειλεί άμεσα την ίδια τη συνοχή της και τη συνέχεια ολόκληρου του εγχειρήματος της ευρωπαϊκής ενοποίησης. Η εργασία επιδίωξε να διερευνήσει και να αναλύσει τους βασικούς αιτιώδεις παράγοντες που οδήγησαν την ΟΝΕ στην παρούσα κρίση. Βασικό επιχείρημα της διατριβής ήταν ότι τα σημερινά τραγικά αδιέξοδα της Ευρωζώνης αποτελούν την κατάληξη μιας συγκεκριμένης στρατηγικής επιλογής των ευρωπαϊκών ελίτ, που ήθελαν να καταστεί το κοινό νόμισμα όχημα μεγιστοποίησης της αξιοπιστίας της εφαρμοζόμενης μακροοικονομικής πολιτικής των κρατών-μελών της ΕΕ στο έντονα κερδοσκοπικό παγκόσμιο χρηματοπιστωτικό κεφάλαιο. Η επιλογή αυτή οδήγησε στην οικοδόμηση ενός νέου τύπου θεσμικής οργάνωσης στην Ευρώπη, γνωστή και ως «νέος συνταγματισμός», κυριότερο χαρακτηριστικό της οποίας είναι η αυταρχικού χαρακτήρα επιβολή νομισματικής και δημοσιονομικής πειθαρχίας και η συστηματική προώθηση νεοφιλελευθέρων διαρθρωτικών μεταρρυθμίσεων στην ΕΕ. Βασικό μοντέλο που παρέχει ιδεολογική και θεωρητική νομιμοποίηση των παραπάνω επιλογών οικονομικής πολιτικής αποτελεί το μακροοικονομικό υπόδειγμα της «νέας συναίνεσης».

Η επιβολή του συγκεκριμένου μοντέλου οικονομικής διακυβέρνησης στην ΕΕ και των πολιτικών της «νέας συναίνεσης» αποτέλεσαν την αίτια ενεργοποίησης μιας τάσης «πειθαρχικής χρηματιστικοποίησης» που συστηματικά αποσταθεροποιούσε το μακροοικονομικό σύστημα της Ευρωζώνης. Η ελεγχόμενη συμπίεση της ζήτησης για την ανάσχεση του πληθωρισμού δημιούργησε σοβαρούς περιορισμούς ρευστότητας που εμπόδιζαν τις παραγωγικές επενδύσεις, την αύξηση της απασχόλησης και του εισοδήματος και την επέκταση της παραγωγικής βάσης. Επίσης, εξώθησε τις χώρες-μέλη, ιδιαίτερα του βιομηχανικού βορρά, στην εισαγωγή πολιτικών αποδόμησης των εργασιακών σχέσεων και του κοινωνικού κράτους με σκοπό την ενθάρρυνση της εξαγωγικής τους επίδοσης και την αντιστάθμιση του αναπτυξιακού τους ελλείμματος. Επιπλέον, η απουσία ενός λειτουργικού κεντρικού μηχανισμού αναδιανομής πόρων και παροχής ρευστότητας στη ζώνη του ευρώ προκάλεσε, αφενός, τη χρηματοδοτική εξάρτηση των οικονομιών της της από το κερδοσκοπικό κεφαλαίο και αφετέρου τη διεύρυνση των μακροοικονομικών και χρηματοοικονομικών ανισορροπιών, αυξάνοντας την έκθεσή τους στο πιστωτικό ρίσκο. Άμεσο αποτέλεσμα της θεσμικής δομής της ΟΝΕ ήταν η διαμόρφωση ενός αρκετά ετερογενούς και σύνθετου συνόλου ασταθών μοντέλων χρηματοπιστωτικού καπιταλισμού αναπτυξιακής καθυστέρησης, χρηματοοικονομικής υπερδιόγκωσης, κερδοσκοπίας και αστάθειας. Η εύθραυστη δημοσιονομική θέση των κρατών της περιφέρειας, καθώς και η διάχυση και ένταση της κρίσης είναι σε σημαντικό βαθμό αποτέλεσμα της παραπάνω τάσης «πειθαρχικής χρηματιστικοποίησης» της Ευρωζώνης και της ένταξης τους μέσα στο συγκεκριμένο σύστημα μετασχηματισμού του Ευρωπαϊκού καπιταλισμού.

Στο πλαίσιο αυτό, οι τελευταίες εξελίξεις των θεσμικών διαδικασιών στην ΕΕ (π.χ. η θέσπιση του Ευρωπαϊκού Μηχανισμού Χρηματοδοτικής Στήριξης και το νέο Δημοσιονομικό Σύμφωνο) δεν έχουν παρά να προκαλούν έντονο προβληματισμό και ανησυχία, καθώς συνεχίζουν να είναι προσκολλημένες στη λογική διασύνδεσης της αναπτυξιακής δυναμικής και ανταγωνιστικότητας της οικονομίας της Ευρωζώνης με το βαθμό αξιόπιστης ανάταξης και διαφύλαξης συνθηκών νομισματικής πειθαρχίας, κινούμενες έτσι προς την κατεύθυνση εντατικοποίησης και θεσμικής θωράκισης των πρότερων ελλειμματικών δομών και πολιτικών που οδήγησαν το ευρώ και την παγκόσμια οικονομία στα πρόθυρα της κατάρρευσης. Συνεπώς, θεωρούμε ότι η έως σήμερα επικρατούσα προσέγγιση εξόδου από την κρίση είναι ανεπαρκής και ενέχει σοβαρούς κίνδυνους ανατροφοδότησης και παγιοποίησης των δυσμενών επιπτώσεων των πολιτικών λιτότητας και απορρύθμισης που τη συνοδεύουν, εγκλωβίζοντας έτσι πιθανά το οικονομικό σύστημα της ζώνης του ευρώ σε μια κατάσταση μακροχρόνιας αποσταθεροποίησης και χαμηλών αναπτυξιακών προοπτικών.

Κατά την άποψή μας, για την απεμπλοκή της Ευρωζώνης από το φαύλο κύκλο της ύφεσης, έντονης χρηματοπιστωτικής αστάθειας και κοινωνικής ανισότητας είναι σήμερα περισσότερο από επιβεβλημένη η προώθηση μιας προοδευτικής ατζέντας διαρθρωτικού μετασχηματισμού της ΕΕ. Προς αυτή την κατεύθυνση θα μπορούσαν να συμβάλλουν η υιοθέτηση μιας νέας νομισματικής στρατηγικής από την ΕΚΤ, που στόχο θα έχει την αύξηση της απασχόλησης -και όχι αποκλειστικά τη σταθερότητα των τιμών, η εισαγωγή ενός αποτελεσματικού μηχανισμού χρηματοδοτικής στήριξης και αναδιανομής πόρων μεταξύ των κρατών-μελών, η αντικατάσταση του Συμφώνου Σταθερότητας από ένα νέο Κοινοτικό πλαίσιο δημοσιονομικής πολιτικής, το οποίο θα ευνοεί δημόσιες επενδύσεις προς καινοτόμους τομείς της οικονομίας και θα στηρίζει χρηματοδοτικά παροχές και μετρά κοινωνικής προστασίας, ο στενός συντονισμός της εισοδηματικής πολιτικής σε πανευρωπαϊκό επίπεδο για τη στήριξη του εισοδήματος και την πρόληψη εμφάνισης μακροοικονομικών ανισορροπιών εντός της ΟΝΕ, καθώς και μια σειρά θεσμικών παρεμβάσεων προς τον εκδημοκρατισμό και την εμβάθυνση της οικονομικής και πολιτικής ενοποίησης της Ευρώπης. Σε κάθε περίπτωση, η πραγματοποίηση των στόχων αυτών προαπαιτεί την κινητοποίηση ενός ευρύτατου φάσματος προοδευτικών πολιτικών δυνάμεων και κοινωνικών κινημάτων ικανού για την ολική ανατροπή της έως και σήμερα ισχυρής νεοφιλελεύθερης ηγεμονίας. Πιστεύουμε πως η σημερινή κρίση μπορεί να λειτουργήσει ως εφαλτήριο σημαντικών πολιτικό-κοινωνικών διεργασιών που θα ανέτρεπαν τους υφιστάμενους συσχετισμούς δυνάμεων και θα οδηγούσαν σε μια προοδευτική αλλαγή στην Ευρώπη.

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PhD Thesis

EMU Macroeconomic Policy Regime: A Political Economy Appraisal

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I would like to dedicate this dissertation to my loving grandparents, Thanasis and Pipina.

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Vrilissia, Athens Nasos Koratzanis

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Introduction

Since the end of World War II, the history of the European Union (EU, hereafter) has been one of growing integration among its member states, covering a wide range of economic, social and political issues. One of the most momentous events that marked the development of European integration and a milestone in world's monetary history is the foundation and operation of the Economic and Monetary Union (EMU). On the 1st of January 1999, eleven old established national currencies, including the D-mark and the French-franc, ceased to exist independently. In their place a common official currency was launched, the euro. On the same day, sovereign states fully abnegated their responsibility for monetary policy, delegating it to a supranational policy body the European Central Bank (ECB) and modified their competencies in important areas of economic and fiscal policy. Thenceforth, the Euro area has expanded. Nowadays, it encompasses a total of seventeen countries with more than 325 million inhabitants, while most other EU countries are planning to participate in EMU in the years to come.[5]

As a unique and multifaceted policy experiment, the road to EMU was long and chequering, involving, at certain times, disputes and confutations and, at others, convergence and progress. Initially, weak political commitment and contentions over its concrete institutional structure within a heterogeneous economic area, along with turbulences in international markets, endangered to block further progress on the way towards EMU. Despite these obstacles, well before its inception, the idea for creating the euro gained growing momentum among Union's member states, technocrats and economic elites. The prevailing conception was that the switch to the single currency and the construction of a proper institutional structure to manage it were essential to end two decades of sluggish real economic growth, high unemployment and growing social and political uncertainty in Europe. A strong and stable common currency was anticipated to transform Europe into a zone of macroeconomic stability, develop and flourish further-particularly within a highly competitive global environment-the single market, strengthen and deepen co-operation within the EU and permit the European

[5] In 2002, Greece joined the Eurozone. Slovenia admitted in 2007, Cyprus and Malta in 2008, and Slovakia in 2009. Finally, Estonia became the 17th member state of the Euro area on the 1st January 2011.

economy to perform better, eventually bringing prosperity to EU member states and citizens (see e.g. EC, 2008a).

The 1992 Maastricht Treaty, that mapped out a three-stage transition period to EMU with precise time schedules and qualification requirements, approved Europe's desire to move united to the 21st century with a strong and stable common currency. The subsequent EU Treaties in Amsterdam, Nice and Lisbon together with numerous Community actions, development agendas and guidelines reaffirmed this commitment and aspiration.

Nowadays, Europe celebrates more than ten years since the euro came into existence and EMU into full operation. Although a complete and in-depth appraisal of the new currency and its institutional framework is complex, since this would demand the sufficient examination of a wide range of parameters, it appears that a reasonable time period has already passed to address and evaluate the performance of the whole project. Has it up to now confirmed the original enthusiasm and large hopes placed by its founders? Specifically, has it delivered internal macroeconomic stability, further integration and an advanced international status to the Europe? If so, have all these improvements materialised into employment, sustainable and equitable growth, and competitiveness gains? In any event, are there good signs that the single currency can act as a building block and symbol of political unity in Europe?

At first glance, the picture appears encouraging. There is no question that the euro has disconfirmed the early sceptical assessments regarding the whole experiment stillborn. First and foremost, the convergence process of EU countries to the stringent nominal criteria set in Maastricht stamped with success. This success was followed by the technical triumph of the circulation of the euro banknotes and coins in early 2002. Moreover, from its launch on, inflation rates have been kept on average around 2%, a figure well below the level witnessed over the decades with national currencies. Price stability has also been accompanied and supported by the establishment of a solid and unified framework of economic management with a definite goal orientation and clear division of coordination and responsibilities among participating economic players. The compression of national currencies into a single currency zone has also become a major impetus for financial integration[6] and bolstered the size, structural position and

[6] This particularly holds for money markets which, in effect, are fully integrated, but also for bond and equity markets, albeit to a lesser extent.

economic weight of Europe in the world. The fact that the euro is a counterpart of more than one quarter of daily transactions in foreign exchange markets and has been chosen as an official currency or nominal anchor by many non-EU monetary regimes is an important reflection of the success of the unification process and its contribution to stepping up the role of the EU in the global economic system.[7]

There is no doubt that these hitherto developments constitute some remarkable achievements of EMU. This is particularly true bearing in mind the relative short-life of the project and the heterogeneity of the countries included. At the same time, yet, it is surprising that, despite the progression attained, the formal completion of EMU and the adoption of the euro have not accompanied by or contributed to the realisation of one of the most highly rated, if not the most prominent, expectation put forward for their foundation: to improve real economic activity, ensure high and convergent living standards and prompt better social conditions in the Union. Unfortunately, with regard to these policy targets, the euro scores rather poorly. In effect, a brief description and assessment of some basic real macroeconomic and social indicators in EMU illustrate that the single currency has been incapable of bringing robust and equitable economic growth, social cohesion and stability in Europe. Even worse, the Eurozone appears to go through a period of deteriorating socioeconomic conditions with virtually stagnant growth and persistent and deepening social polarisation.[8]

In fact, more than a decade with experience with the euro, growth performance in EMU as a whole has been deficient and clearly underperforms compared with other developed regions of the world, not to mention the emerging economies. At odds with the initial optimism, the creation of the euro has also failed to spawn substantial and enduring employment gains. Since the foundation of the EMU project unemployment rate has on average remained at unacceptably high levels, unseen since the 1930s. The observed adverse macroeconomic conditions at a Union-wide level also coexist with persisting divergent patterns of development within EMU. Contrary to the predictions, the achieved nominal convergence has clearly not speeded up real convergence in the

[7] See ECB (2009) on the international role of the common currency.

[8] For a more detailed exposition of data on economic and social indicators, see the reports of European Commission on the Euro area prepared by the Directorate-General for Economic and Financial Affairs, as well as the annual Memoranda published by the European Network for an Alternative Economic Policy in Europe (EuroMemo Group).

post-EMU environment. Disparities among EU member states in terms of per capital income, productivity growth, investment spending, wage developments, international competitiveness and trade performance are still salient. In the meantime, convergence at regional level is found to wane with no indications of it levelling off in the years to come, given Europe's eastward extension and the planned cut in the much-needed EU budget.

Meanwhile, sluggish growth, high unemployment and persistent differences in living standards are embedded in an environment of increasing social insecurity and precariousness. In the Euro area, permanent full-time work is at risk with the share of flexible employment forms (short fixed-term contracts and generally non-desired part-time jobs) constantly on the rise. Moreover, there has been a deterioration in working conditions with increasing pressures on employees. On top of that, a growing part of the population is suffering with the menace of poverty and deprivation. Across EMU, the poverty rate is disappointingly high, while one sixth of the Eurozone's population is virtually unable to afford even the basics for a decent life. In contrast to the rhetoric about 'social inclusion' at a European level (see e.g. EC, 2010a), income distribution inequality also remains worryingly skewed. In the Euro area as a whole, the average Gini-coefficient approximates 30% and the income of the top 20% of the population (top quintile) is nearly five times higher than that of the lowest 20% of the population (lower quintile). Even more upsetting is the evidence, that all such inequalities affect disproportionately the most vulnerable groups in society (elderly people, youth and unemployed). [9]

All in all, the path of macroeconomic and social development at the beginning of the new millennium can be described as unsatisfactory. EMU appears trapped in a prolonged phase of economic stagnation and sharp social problems. It is characterised by anaemic GDP growth performance, mediocre increase in employment insufficient to lower unemployment, persistent divergence, rising poverty and social insecurity. In this context, it would be reasonable to assert that most of the views that regard EMU as a catalyst for economic prosperity and social progress in Europe have been verified just as wishful thinking. Indeed, the macroeconomic and social dynamics have gone to the opposite direction from that aimed for by the Lisbon Agenda and the contours

[9] See the Euromemorandum 2009/10 of the EuroMemo Group.

of the so-invoked 'European Social Model', which set the strategic socioeconomic targets of the EU and by implication of EMU. Instead of having already turned into the world's most competitive economy with strong and sustainable growth, EMU has become a laggard. The anticipated better working conditions, higher living standards and proper social protection are now evidently invisible for the majority of European citizens.

The dissatisfaction about the inadequate real economic and social performance in EMU is not, though, related merely to the issue of unaccomplished policy goals. It has more fundamental implications due to the risk this may pose to the very economic and political prospects of the whole agenda itself. As for the economic aspects, there is no lack of research and debate pointing out the pervasive impact that the failure of EMU to boost growth and employment might have on its external credibility and the stability of the euro in international markets. Large external imbalances within EMU have also created similar worries about the area's financial and economic stability, but also on its long-run sustainability. Insufficient real convergence has, on the other hand, raised questions concerning the perspective for effective economic coordination and business cycles harmonisation within the Eurozone, as well as concerns about the danger of exacerbating nominal volatility and uncertainty. Given these censures, the core challenge is whether EMU will in due course be able to preserve its heretofore achievements: internally, a sound macroeconomic environment of nominal stability; and externally, the advanced global standing of the euro, particularly within the contemporary environment of heightened currency competition.

At the political level, the current adverse economic and social situation in the EMU arguably casts serious doubts on the future of European integration itself. Weak economic performance and persistent social inequality involve the risk of eroding the political support and produce a social dissatisfaction with EMU, therefore reinforcing centrifugal forces to the dynamics for widening and deepening integration process. An alarming indication of this relates to the ever-decreasing participation in the European Parliament elections, with a historical low participation rate of 43% in June 2009. It is not less alarming the fact that parts of traditionally pro-European, left-wing forces are being driven into anti-European positions and the far right and nationalistic forces are gaining from the present mal-performance of EMU. The declining public support for the single currency recorded in Eurobarometer surveys,[10] the recent 'No' vote on the Lisbon Treaty in Ireland and the French and Dutch rejection of the EU Constitution, are further signs of the deep 'real' crisis that EMU and the EU, more generally, face, today.

The underlying structural weakness of EMU has undoubtedly been aggravated by the break and spread of the 2007 financial market crisis, the most severe since the 1929 crash. In its early stage, the turmoil directly derailed the free market-based structure of financial integration, as tight cross-border financial linkages endangered the strength and stability of the whole EMU banking system. Worse still, through a variety of channels, the financial distress has passed to the real economy provoking a harsh economic downswing with the steepest contraction of output and employment on record in the history of the Union. Meanwhile, the budgetary repercussions of the recession, along with mounting external imbalances, created perceptions in markets, as well as in media and academics cycles, of a default crisis in some member states so that it was even speculated whether the entire Eurozone will survive the current harsh turmoil. These concerns instigated a capital exit from the Euro area capital markets to more liquid and safe securities, thus further destabilising the already fragile financial system. They also created the conditions for the outbreak of the ongoing sovereign debt crisis in many peripheral member states, Greece being the most well-known case, with sharp hikes in the long-term interests on sovereign borrowing, putting at risk the cohesion of the EMU.

The deterioration of the economic and social conditions in EMU was coupled by a second, institutional in nature, crisis in EMU. EMU appears clearly to have failed to react successfully to the economic upheaval. First, for the most part, there has been no a coordinated crisis management and the major responses have been instated at the national level. Euro area national leaders showed an inconceivable delay in reacting and a reluctance to discuss the systemic root causes of the crisis. Therefore, the crisis has been characterised as a problem of national irresponsibility and policy solutions have been primarily country-specific. Guided by EU policy and with limited freedom to set the adequate fiscal and monetary tools, peripheral countries with debt problems have been left to struggle to overcome the crisis via a restrictive policy mix of harsh

[10] See, for instance, Eurobarometer (2012).

fiscal austerity, market flexibility and wage restraint. On the flipside, some surplus countries of the EU core, attracting extensive safe-haven flows of money, benefited from lower interest yields and demonstrated a great potential to absorb the economic and financial shock. The result has been for the peripheral countries to get locked into a 'race to the bottom' and a deep deflationary stagnation with exploding public debt rates and a continuous competitive handicap relative to the rich core. This is quite detrimental and provides no insurance of future growth and convergence. In effect, it has contributed to deeper polarisation and economic destruction in the periphery, thus further contributing to the split of EMU between a buoyant core and an undeveloped periphery.

Second, the crisis also spotlighted the weakness and ineffectiveness of key EU institutions, notably the ECB, to respond and behave in a manner conducive to global financial stability. Although the Federal Reserve (Fed) and the US public authorities intervened jointly and rapidly to inject huge sums of liquidity into capital markets and halt a further financial meltdown, the ECB failed to detect and suspend the great risks building up from the credit crunch. In March 2007, when the first signs of a looming economic slowdown were visible, the ECB raised its policy rate from 3,5% to 3,75%, following a 'wait and see' approach based on its super-sensitivity to price stability. In July 2008, when GDP growth in the Euro area began to decelerate remarkably, it even raised its policy rate to the very harmful 4,25% with recourse to inflation risks. It was only in October 2008, when the entire European payment system was on the edge of a generalised collapse and recession took effect that the ECB eventually began to lower its interest rates and provide substantial financial support to the European banking institutions.[11] However, its policy intervention came much too late and was far more conservative than that of the US Fed. Given free mobility of capital, the discrepancy between the ECB and Fed interest rate path kept also the euro exchange rate *vis-a-vis* the dollar substantially appreciated. This drastically hurt Europe's export performance and thus undermined the prospect of an export-led growth recovery in many Eurozone economies.

The economic and financial turmoil has been further aggravated by important institutional rigidities embedded in the particular regime of policy-making in the Euro

[11] See Hein and Truger (2010).

zone. First, the EU Treaty and regulations stipulate the legal prohibition of an explicit guarantee of member states sovereign debt by the monetary authority of the currency union, the ECB. Consequently, member states facing a fiscal calamity do have neither a safe rescue haven if required, nor the ability to ease debt burdens by resorting to the printing press. Second, a federal system of stable, state-to-state fiscal transfers is also equally excluded from the European legal system. Hence, member states are unable to fully and jointly guarantee the public debt of an individual EU state. During the crisis, these two institutional deficiencies came to light and exacerbated systemic instability. In an increasingly fragile financial climate, the lack of an efficient fiscal stabilisation mechanism led to a generalised loss of confidence and opened up the door to market investors to speculate against sovereign debts of distressed countries and even about their exit from the euro. At the same time, EU leaders, trapped in the rigid provisions of the EU Treaties, have failed to develop a sure and comprehensive crisis-resolution policy strategy. The financial assistance provided by the Troika's (EU, ECB and IMF) rescue packages and the two recently established funding mechanisms (the EFSM and the EFSF) have proved insufficient and unable to restore macroeconomic stability and confidence in the Euro area. This has prolonged the crisis and contagious uncertainty and has become a critical bone of political contentions between EU member states that arguably threatens directly the integrity of the Euro area itself.

Recently there has been a vast amount of economic research and political debate devoted in explaining and dealing with this disappointing track record of the economic performance of EMU. Schematically, there are two approaches aiming at providing policy solutions to cope with the situation. The first, currently dominant in the cycles of EU policy-makers, technocrats and elites draws its insights from the orthodox strand of economic thought. This camp argues that EMU performance and stability is contingent on issues such as market structures and flexibility, businesses expectations and prudent macro policies. Hence, the Euro area is, at present, going through a hard transition period, that will end when profits and competitiveness recover and EMU becomes one of Mundell's optimal currency areas, upon which a virtuous cycle of development will be set in motion with growing incomes and social welfare and stronger regional coherence. Similar views are put forward in the face of the current sovereign debt crisis. The distress is mostly contextualised as the outcome of fiscally irresponsible government policies, while crisis-management concretised in demands for more austerity and market deregulation and in the need for institutional supplements to the existing policy framework. The recently established 'Euro Plus' pact and the 'Fiscal Compact' represent two central policy responses that clearly move on this direction.[12]

The second approach, and an underlying hypothesis of this dissertation, states that the unfavourable macroeconomic and social developments in EMU are associated with the specific institutional framework opted for EMU; a framework that, as already mentioned, gives prominence to stabilisation policies, prioritises anti-inflation, tight monetary policies, fiscal retrenchment and market liberalisation. Critical scholarly, in particular that inspired by Keynesian theory and its non-mainstream variants, typically rationalises this belief in terms of the lack of realism, analytical competence and conceptual adequacy of the policy paradigm which underpins EMU's institutional design to explain the structural characteristics, conditions and dynamics of modern capitalist economies. Specifically, it is underscored its disregard of the critical role of effective demand, money, uncertainty, oligopolistic market organisation and income distribution in determining one economy's growth trajectory and social potential. As a result, the severe economic and social problems that currently faces the Euro area are, in principle, attributed to the inadequate wage developments, weak public spending, deconstruction of national social service systems, aggressive trade strategy to conquer large market shares, rampant financial speculation and instability; all presumably stemming from the austerity bias and deregulatory obsession that marks the Eurozone's policies and the policy propositions of their underlying policy paradigm.

Such critical judgments often came along with positive contributions towards a coherent reform path to the present destructive policies and shaky institutional basis of the EMU. A large of number of Keynesian-minded commentators conclude that this reform-package should primarily consist of: a) a reorientation of macroeconomic policy through a more active use of macroeconomic tools to support employment and growth generation; b) the reorganisation of the public services through a tighter public control of those with broader social interests and scope as a constitutive component of the European Social Model; c) the introduction comprehensive anti-poverty policies and employment protection initiatives to encourage job security, social inclusion and

[12] See, for instance, European Council (2011a) and European Council (2011b).

more welfare for more people; d) the reregulation of the financial sector to prevent future financial excesses and failures and re-embed it into coherent EU development strategies; e) the reconstruction of international policy coordination within the EMU with a view of promoting stronger economic development, tight regional and social cohesion in the Euro area and the EU as well as more co-operative relations with the developing world.[13]

The key question emerging is that, given that the current conditions necessitate economic strategies along the abovementioned Keynesian lines, why are not such policy alternatives put into practice and EU officials and politicians keep on living the myth of the euro as a guarantor of macroeconomic stability and growth in Europe? In our view, the answer, and second underlying proposition of our analysis, is that political parameters play a significant, if not the most critical, role in the construction, implementation and, ultimately, the effectiveness of economic policy in EMU. Economic policy is arguably innately interwoven with the domain of politics and especially with the narrow material interests of specific social forces, groups and constituencies. Although abstract economic assumptions, sophisticated models and econometric estimations are crucial in informing the orientation and formation of each economic policy, in a fundamentally uncertain monetary production economy, policy judgement is complex. Policy choice is thus more likely to be driven by social conflict rather than economic calculation. As a result, institutions that shape social power relations play a prominent role in the character and implementation of economic policy. Distributional issues emerging from policy conduct become then key determinants of economic growth and social conditions.

The purpose of our dissertation is, hence, to disjunct the euro from the policies conducted on behalf of the common currency and their narrow-minded economistic critique. It rather seeks to adopt a global political economy framework to address the political elements behind EMU and its policy direction, and investigate their share of responsibility for the inadequate economic and social record of the Eurozone. Without neglecting other contributing factors, we argue that the concrete institutional structure of EMU and the attractiveness of the stability bias of its policies are closely related to the emerging structures of financial power embedded in the present global neoliberal

[13] In the last chapter of the thesis, we draft the main building blocks of a progressive macroeconomic policy approach based on Post-Keynesian theoretical insights and policy recommendations.

order and in its related institutions. In this context, we treat EMU as a deep political project that reflects and institutionalises aspects of financial dominance in European political economies. This is, in turn, accomplished and legitimised by a particular economic policy paradigm, known today in academia and decision-making cycles as the 'new consensus in macroeconomics' (NCM). In this manner, the specific political nature and content of the policy paradigm is also revealed. In our view, distributional effects that ensue from the pursuit of such stability-oriented, NCM policies are, to a large extent, responsible for the economic and social calamities observed in the Euro area, which essentially imperil its long-run sustainability.

To support the above argument, the dissertation draws upon some theoretical and conceptual developments of the neo-Gramscian school of international relations and synthesise them constructively with contributions of Post-Keynesian economics. We consider that a synthesis of this sort is innovative in the field of critical European studies and instrumental in that it offers a more pragmatic depiction and explanation of some core dynamics of finance-dominated capitalism and the Euro crisis, alike. In fact, it allows us to examine the NCM model and the Euro area's macro policy regime from a new political economy perspective, situating their dominance, popularity and strength against the backdrop of particular power institutions and trends embedded in the current neoliberal hegemony. Hence, it is hoped that adds to our understanding of the NCM and EMU, their social scope and support, the particular channels through which they expand and reproduce finance-led neoliberal dominance and thus it will explain, to some extent, their peculiar tenacity, despite the dislocations they create. This will not only contribute to Post-Keynesian scholarship that, while critical, seems to ignore the role of specific hegemonic forces of power in shaping institutions and determining policy paths, but will also supply academic critical political economy literature with a new conceptual framework of analysing phenomena present in the modern neoliberal world order. Especially in the current time of crisis, we believe that this is crucial for proposing alternatives to the present EMU institutional design, outlining the specific pillars on which a progressive transformation must rely and considering the political and social requirements necessary for this alternative to become popular, viable and effective.

The thesis is organised as follows. In the first two chapters, the analysis builds a global political economy framework with a view of designating and evaluating the changing international environment, in which our political and social apprehension of EMU and of its implemented policies is to be developed and assessed. In this respect, we locate the aspects of power and distribution currently prevalent in global political economy and identify phenomena and conceptual issues associated with these forms of social power.

In chapter 1 entitled ‘The Historical and Institutional “Great Transformation” of Capitalism: From the Golden Age to the Neoliberal Era’, a historical overview of the great transformation of the institutional structure of capitalism is illustrated. We maintain that the rise and dominance of neoliberalism is to some extent the result of several social, economic, ideological and institutional developments that overthrew the earlier Keynesian global order and contributed to the resurgence of finance. The neoliberal revolution is hence attributed to the emerging power of global finance in global political economy. The chapter also considers the contribution of neoliberal restructuring to the consolidation and further expansion of financial dominance within modern economies. In this regard, particular emphasis is placed on the current trend of financialisation. We critically review some key institutional features of the process and we indicate how promote the empowerment of financial interests over other social classes as well as the contractionary impact they inflict on national economies. In so doing, our intention is to specify the channels through which distributional parameters associated with neoliberalism impinge negatively upon macroeconomic performance.

In chapter 2 under the title ‘Global Financial Structure of Power: the Reproduction of Neoliberalism and Financialisation’, special attention is attached to the policy options available to nation states to deal with the negative economic and social effects of neoliberalism and financialisation. We argue that the liberalisation of cross border financial investments, a principal external dimension of financialisation, in conjunction with the dominance and social dissemination of a free market ideology have formed a structure of financial power, that systemically bounds the policy space of national authorities, imposing a neoliberal discipline on economic policy-practice. This is attained through the policy prioritisation of the notion of policy credibility and institutionalised through concrete forms of legal and constitutional arrangements that form a sort of ‘new constitutionalism’. This framework of governance lies, therefore, at the core of the retention of the deflationary conditions and strong societal position of finance in modern capitalist economies resulting from the financialisation process.

Still, on account of the causal relationship between neoliberalism and financialisation, emphasis is also put on its function in expanding and deepening structures of financial dominance and economic stagnation, a process that we coin as 'disciplinary financialisation'.

Having evaluated the forms of social power and the condition of accumulation associated with neoliberalism, in the next section we study the intrinsic relationship between the political rationale for, and the policies of, the EMU and the new neoliberal global order. Our intention is to show that EMU, essentially, represents an institutional arrangement that, through its rules and functions, adjusts member states' internal structures, policies and strategies to the global patters of financial dominance. Against this background, its contribution to the disappointing social and economic performance in Europe is also considered. The 'new consensus' policy paradigm that has influenced to a large extent the institutional setting of the Eurozone and at present informs its policy source becomes the mediating force in this complex process.

In the third chapter under the title 'EMU and the Emerging World Order: the Constitutionalisation of Global Finance in the EU' we attempt to locate the formation, institutional organisation and precise policy orientation of EMU in the global patterns of financial authority prevalent in the era of neoliberalism and financialisation. To this end, we trace the challenges that the global financial integration set on member states policies and integration process, the underlying changes in the social formation in the EU and in dominant ideology discourses; and scrutinise how these factors shaped the discussions about the launch of the euro and determined the particular institutional setting of EMU. Although not neglecting the interface of a range of relevant factors in driving the road to monetary unification, such as integration spill-over effects; state-centred rivalries; political traditions and structures and geopolitical considerations, we hold that EMU institutional structure forms a sort of 'new constitutionalism'. The aim is to impose economic discipline across European political economies with a view to making them more responsive to the discipline of financial markets and preferences of European elites. This social content and scope of EMU is blindly evident in the clear-cut assignment of roles among policy actors stipulated by the Maastricht Treaty. This policy-mix, in essence, establishes a regime of 'finance-led absolutism and austerity' in EMU that legitimises and supports the function of the ECB as a credible to capital markets enforcer of economic austerity and neoliberal reforms.

In chapter 4 entitled ‘An Alternative Political Economy Analysis of the “New Consensus” in Macroeconomics’, the NCM is explained from a political economy perspective. To this end, we present the major theoretical postulations of the paradigm and the central policy implications derived from these assumptions. We argue that the formalisation of these assumptions buttresses the argument that the control of inflation is the single concern on which monetary authorities should focus; and that an effective counter-inflationary policy requires the implementation of ‘credible’ macroeconomic policies through the introduction of nominal anchors, e.g. inflation targets; and the adoption of supplementary institutional arrangements in monetary, fiscal and wage policy areas, intending to insulate political interference from policy practice. In so doing, our aim is at demonstrating that the ‘new consensus’ model nowadays in principle informs and structures the policy practices and institutional mechanisms of the broader political agenda of ‘new constitutionalism’. Besides that, we also attempt to set an analytical and methodological framework, on which, we are to evaluate the association between the ‘new consensus’ policy hints and EMU policies. We believe that a certain degree of association will plausibly lead us to mention that the NCM, in effect, theoretically legitimises the regime of ‘finance-led absolutism and austerity’ that is imposed by the current EMU architecture. This, in turn, will arguably provide a further validation on our hypothesis about the model’s precise political nature.

In the next two chapters, we proceed on examining the economic policies of EMU. In chapter 5 entitled ‘ECB and Finance-led Monetary Austerity in EMU’, we analyse the fundamental features of the ECB’s monetary policy framework and assert that, despite some slight differentiations, it appears consistent with the central policy propositions of the NCM model. These elements of convergence, *inter alia*, include: the enactment of price stability as the overriding objective of its monetary strategy; the public announcement of inflation targets and adoption of a rule based monetary approach to contain inflationary expectations and build up its credibility credentials; the central role it assigns on communicating its policy with the public and especially with financial markets; the use of the short-term interest rate as a policy instrument to meet its targets; the political independence of the ECB as an indispensable apparatus to discipline labour and politicians and limit credibility losses; and the authoritative manner it sees its monetary policy interacts with other policy domains, notably fiscal policy and labour market developments.

In chapter 6 under the title ‘Fiscal Policy in EMU: Finance-led Discipline and Systemic Instability’ our focus turns on the fiscal architecture of EMU and we study the economic rationale for sustaining fiscal discipline and sustainability and enacting an appropriate, rule-based institutional framework to safeguard sound public finances. We assert that the official arguments put forward to rationalise the disciplinary fiscal framework adopted by the EU, largely, reflect the key theoretical precepts of the ‘new consensus’ model on the destabilising role and limited effectiveness of fiscal policy in a stability-oriented macro policy-mix, with a central bank entrusted in maintaining price stability. We also underline the deflationary impact of EMU’s disciplinary fiscal arrangements and the way through which they destabilise the national fiscal systems. In this respect, particular attention is put on the lack of effective coordination between national fiscal units, the absence of a common fiscal authority and the insufficient size of the EU budget; and how such institutional deficiencies tend to undermine financial stability across the Union and to create systemic pressures for further, pro-finance, strict fiscal adjustments.

In chapter 7 entitled ‘Economic Performance in EMU: Losses for the Poor, Gains for the Rich’, relied on basic macroeconomic indicators and standard variables depicting aspects of the financialisation process, we report empirical evidence for the financialisation trend in the Eurozone and for the destabilising potentials it creates for economic performance, social welfare and even for the cohesion of EMU itself. In our opinion, this evidence gives support to our claim that EMU’s ‘new constitutional’ architecture and the underlying single-minded adherence to ‘new consensus’ policies for the sake of financial credibility, prompt and spread dynamics of financialisation within national economies and bears a large share of responsibility for the failure of the euro to prompt sustainable and socially inclusive economic stability in the Union. It will also accentuate that social power relations and distributional parameters, in the final analysis, determine, to an extent, the policy orientation and economic conditions in each modern capitalist economy and in EMU, in particular. This will help us figure out the pillars, on which a more socially responsive policy alternative should rest on. It will also specify the political requirements needed in order such an alternative to become functional and viable.

In the final chapter we provide a final summary of the study. We also propose a blueprint for a progressive institutional reform of EMU along with Post-Keynesian lines and underline the necessity for a structural transformation of the global monetary system so that the constraints imposed by financial market forces break down and the dichotomies between productive and unproductive members within the EU political economy are eliminated. To the extent that such policy and institutional reformulation is an issue strongly political in nature, we also outline the political preconditions in order this progressive transformation of Europe to become feasible, as well as the possible impediments that it may face to materialise. This is of particular importance, given the existing balance of power between conflicting social interests and groups and the persistent neoliberal hegemonic dominance.

Chapter 1: The Historical and Institutional 'Great Transformation' of Global Capitalism: From the Golden Age to Global Neoliberalism

1.1 Introduction

To borrow the concept of the distinguished sociologist Karl Polanyi (1944), since the last quarter of the 20^{th} century global political economy has undergone a second 'Great Transformation'. This transformation has been commonly identified as the transition from the post-war national Keynesianism to a new, neoliberal global regime of socioeconomic organisation. Some dimensions of this altered reality include: the creation of a highly open, integrated and interdependent world economy; the rapid increase in the volume and variety of cross-border transactions in goods and services and of international capital flows; the shift away from economic policies that targeted full employment through activist demand management towards policies that primarily focus on price stability and low budget deficits; and a reconfiguration of societal dynamics at both national and transnational level, chiefly expressed by the erosion of labour's political power relative to capital. All these emerging economic, political and social structures have been framed and underpinned by a switch in ideology discourse. The ideology of 'regulated capitalism' has become subject to severe criticism. Nowadays, a spectacular increase in the salience and theoretical appeal of free-market ideas is witnessed (see Saad-Fihlo and Johnston, 2005; Amin, 2003; Kotz and McDonough, 2008; Harvey, 2005).

A large bulk of academic literature and debate in the field of International Political Economy has been devoted to analysing and assessing the origins and results of this change. Mainstream scholarship principally considers the neoliberal revolution as a 'natural wave' of the future that corresponds to the 'objective laws' of history and capitalist development. Schematically, the root causes of this transformation are seen to lie in advances in information and telecommunication technologies, the set of state-centred regulatory initiatives or the irreversible process of economic integration. In its view, an immediate consequence of these developments was the profound change in the competitive structure of capitalism that challenged, and ultimately subverted, the institutional basis of the pre-existing Keynesian, state-led, capitalist regime. Most of these analyses come to the conclusion that, as a whole, the current neoliberal capitalist world order represents an unavoidable, rational and even desirable evolution to which every actor, sooner or later, would inevitably adapt. The adjustment mechanism is seen to arise either from the dynamics of free-market competition and/or from broadly defined national interests.[14]

This chapter adopts an alternative approach to understanding the nature and content of the recent restructuring of capitalism. Rather than treating neoliberalism as an inevitable and benign process, it tries to conceptualise it through concrete historical formations and views it as the current result of an incessant political and ideological struggle, in which social forces appear as the most relevant collective actor. Within this context of analysis, we argue that one leading factor behind the recent neoliberal transformation can arguably be found in some radical changes in the social basis of contemporary capitalism that challenged former institutions and essentially shaped the evolution of policies and practises as well as the global process of wealth creation and distribution. More specifically, drawing on recent contributions in the field of critical International Political Economy, we contend that the emergence and ascendancy of neoliberalism is, to an important extent, linked to the construction and dominance of a transnational configuration of social forces in the political economy of capitalism, in which the financial capitalist class has the dominant role. The formation and empowerment of this social bloc crucially contributed to the disintegration of the institutional and political foundations of the post-war Keynesian system of regulated capitalism and succeeded in promoting neoliberalism as an alternative model of capitalist regulation and in this manner in shaping the conditions and pace of capital accumulation according to its own material interests.

In the remainder of the chapter, we provide a broad and general overview of the transition from Keynesianism to neoliberalism. In the next section, we present a brief and selective chronology of the major events that led to the rise of Keynesianism and assess its substantial contribution to the rapid economic growth that most western capitalist economies experienced during the first post-war quarter century. It is held that a key factor lying behind this development was the confinement of the political and economic power of finance via the enactment of controls on the free international movement of speculative capital, designed to ensure global financial stability and enable governments' active involvement in the economy. In section 3, the crisis of the

[14] For an exposition of mainstream arguments of the root-sources and consequences of the globalisation process and neoliberalism see Quiggin (2005).

post-war capitalist organisation and the construction of the global neoliberal regime are sketched out. Part of the explanation of the crisis is attributed to a set of domestic and global forces that decomposed the post-war institutional arrangements and facilitated financial expansion and empowerment. The neoliberal counter-revolution is therefore attempted to be explained by the increasing role of finance in the political economy of capitalism. The section concludes with a short, but inclusive, assessment of the phenomenon of financialisation; a trend widely recognised as portraying some core aspects of the dominant position of finance in the economic systems of capitalist countries in the current neoliberal era.

1.2 The repression of global finance and the Golden Age of capitalism

In the academic literature, the first two decades after World War II (WWII) are commonly known as the Golden Age of modern capitalism (Marglin and Schor, 1992; Crotty 2000a; Glyn, 2006). Over that period, most developed capitalist countries experienced remarkably prosperous economic conditions and an environment of considerable social stability and progress. In what follows, we document the social, economic, political and ideological background to the important policy changes taken place prior to the rise of the Golden Age. Then, we briefly examine how these contributed to the emergence of capitalism's Golden Age. Without neglecting the existence of several other relevant elements leading to the post-war rapid economic expansion, two fundamental factors lying behind the Golden Age were: a) the institution of the national interventionist, welfare state; and b) a comprehensive set of economic regulations put in place at both national and international level, principally in the realm of financial affairs, which supported its economic functions and political viability.

1.2.1 The Bretton Woods international order

The interwar period from 1919 to 1939 was a time of radical changes in the economic, political and social basis of western capitalism. The *laissez-faire* international order that had been formally established by the Gold Standard monetary system was going through a profound structural crisis. After the World War I (WWI), most capitalist economies experienced a severe economic contraction, massive unemployment and hyperinflation. Meanwhile, the beggar-thy-neighbour policies and growing protection, generated by the Great Depression of the 1930s, aggravated deflationary conditions and prompted a drastic decline in world trade. Trade, in that period, became largely restricted to currency blocs; international capital circulation and foreign investments retarded and national incomes plunged. Manifestly, the pre-WWI epoch of prominent economic integration and prosperity had passed and a new era of escalating political isolation and unfair economic competition emerged. The upsurge of fascism across Europe, nourished by the general upheaval of the era, hastened the ongoing process of economic disintegration and crisis, further intensifying inter-state antagonism and economic rivalries (see e.g. Eichengreen, 2008; Quiggin, 2005).

The interwar period also witnessed a significant militant surge and expansion of the labour movement. A major impetus behind this process was the 1917 Bolshevik revolution (Holloway, 1995). The collapse of Russian capitalism and the appearance of a radical, alternative to the *laissez-faire*, system of socioeconomic organisation led, especially in a time of mass unemployment and deteriorating living conditions across the entire capitalist world, to an unprecedented growth of trade unionism and social democracy. In that period, the labour movement and its international organisation, heavily repressed and fragmented during the WWI, experienced a marked increase in its political power. Progressively, workers became more conscious of their power and began to demand better wages and more decent working conditions. Immediately after the WWI, the strength of the trade union movement began to manifest itself in a wave of militant labour strikes broke out in most industrialised countries and in an everyday struggle to elevate its political influence and representation (Arrighi and Silver, 1984; Kotz, 2007; and Devine, 2007).

The rise of labour's political power came along with a widespread frustration with liberal approaches to financial politics, in particular after the Great Depression. The Gold Standard international monetary order and its underlying automatic balance of payments adjustment mechanism and the free international movements of capital, which had all earlier been viewed as bedrocks of a liberal society, fiscal discipline and monetary austerity, began to lose their appeal and to be regarded as the main reason of the disorder of the period.[15] Meanwhile, as a result of the economic and financial chaos of the 1930s, financiers, rentiers and private and central bankers, who had dominated the financial politics until the late 1920s and had extracted large amounts of profits through financial trading and speculation, started being largely discredited. In fact, in many capitalist countries the financial community was severely blamed for the crisis. Increasingly, in many parts of the capitalist world voices calling for radical economic and political reforms began to arise, and effectively to overwhelm reactionary policy proposals of politicians and theorists of the financial establishment (Helleiner, 1994).

Indeed, at the end of the interwar period a joint belief among leading capitalist countries on the need to reorganise capitalism's international system began to occur. This should rest on the recognition that the primary cause of the economic chaos and fierce political rivalries of the period lied in economic discrimination, trade warfare, currency speculation and the international transmission of deflation. The ambition, hence, was the establishment of a new international monetary constitution based on liberal trading arrangements, supported by a high level of economic and technical cooperation among the participating countries and regulated by tight controls on the value of currency. This new architecture of the international financial and economic regime was expected to enhance the possibilities of long-lasting peace and economic progress. Western capitalist countries, despite their different structural characteristics and dissensions about the exact form of organisation they preferred, started to accede to the need of a radical change in the global economic order and to agree on the need for tight controls managing cross-border capital flows and exchange rates.

The Great Depression and the experiences of the interwar period became also the driving force for an institutional restructuring of national capitalist systems. Under the thrust of powerful popular movements and the fear of the political implications of a prolonged recession, the concept of a new 'social contract' between the government,

[15] The automatic system of payments adjustment under the Gold Standard system rested on a stable relation between the price level and the quantity of gold. Countries with deficits on their current accounts would lose gold and deflate. This would, in turn, increase the competitiveness of their commodities in the world markets and reduce their deficits. This process would end up until the balance of payments equilibrium would be again restored. The opposite process would be applied in countries running balance of payments surpluses.

capital and labour emerged as the bedrock of a new political economy. State officials realised the importance of government intervention to counter economic and social instability (Smith, 2001; and Seccareccia, 2004). Boosting employment and economic growth and establishing an extensive social protection system became the means and method for the rise of a more stable variant of capitalist economy and for the effective integration of the working classes into it (Kiely, 2005; Wolfson, 2006). Economic elites also supported this programme. In exchange for a clear rejection of more radical alternatives to free market capitalism, and recognising that workers had turned into a necessary condition for industrial profitability and overall development, they consent to support governments' more interventionist approach to economic and social affairs and made concessions to the working class (Campbell, 2005). An important indication of this shift away from the liberal economic organisation had taken place even before the WWII. In the US, the Roosevelt administration, backed by a coalition of farmers, labour and progressive business leaders, had launched several economic reforms that had made financial policy politically more accountable [16] and the achievement of rapid GDP growth together with the fight against unemployment central governmental responsibilities (see e.g. Helleiner, 1994; Block 2011; Özgür and Özel, 2010).

The formation of this social alliance and the consolidation of the progressive political agenda were cemented by a radical change in economic theory and ideology. The Keynesian revolution challenged the sacred economic ideas of the period. Keynes and his followers analytically showed that the institutions of unregulated capitalism, i.e. the Gold Standard, independent central banks, and in particular free international capital mobility, rather than being pillars of economic stability and progress, were, in effect, the root sources of economic instability, social inequality and financial panics. At the same time, Keynesians provided the first broadly accepted theoretical approach to macroeconomic management that public authorities could use to guide their efforts to intervene and regulate the economic system in capitalist economies. In their insight, the principal task of governments should be to ensure full employment and high levels

[16] For instance, the responsibility of monetary policy conduct was transferred from the independent US Fed to the politically accountable US Treasury under Henry Morgenthau, who was himself a New Deal supporter. Furthermore, in response to the financial crisis of the 1930s, the US government put in place regulations to govern the operation of financial institutions and markets, such as the Glass-Steagall Act, that separated commercial from investment banking. .

of aggregate demand through the implementation of proactive fiscal and monetary policies and the enactment of appropriate institutions and economic regulations (see Kirshner, 1999; Palley, 2005; Davidson 2007; Rogers, 2008).

The devastating WWII experience fostered further the formation of this bloc of social forces and highlighted the urgent need for economic and financial reforms. In most western capitalist countries, the war demonstrated the potential effectiveness of exchange controls and of all sorts of domestic financial regulations that had, in fact, become integral parts of the war effort. Moreover, the economic crunch caused by the war made the accommodation of popular demands more compelling, hence hastening the maturation of a progressive political change already in motion. The protection of social classes from poverty, the provision of welfare goods, such as full employment and public health care, appeared as the primary policy targets of the emerging welfare state across all industrial countries (Cerny and Evans, 2004). In the aftermath of the WWII, the institutionalisation of this new policy agenda was facilitated by several favourable economic conditions. On the demand side, it was the unsatisfied demand resulting from the necessity to rebuild the devastated productive capacity in Europe and the desire of the European societies to catch up with the US living standards. On the supply side, the development of new technological and productive techniques during the wartime had left an abundance of potential production capacity that could form a basis for a further productive stimulus (Gilpin, 2000).

Following WWII, the emerging US hegemony in economic, political and military affairs facilitated the exploitation of those potentials. At the time when the US entered WWII, there was a strategic compromise already in place between the US capital and economic diplomacy that after the war, a new form of active political and economic leadership at global level should be put forth. The emergence of *Pax Americana* (Cox, 1993a; Strange, 2009) should rest on the adoption of a more non-discriminative, multilateral, policy approach based on legal and political concessions with the rest of the world, rather than on a crude exploitation of the US dominant power position. According to US policy-makers, this strategic plan, in turn, required: on the one hand, the economic rebuilding and stabilisation of the European economies and Japan; and, on the other, their incorporation into the new global economic order via trade liberalisation and expansion. Western Europe and Japan, both devastated by the chaos of the war accepted US hegemony. They considered it as an opportunity to reconstruct their economies and finance the welfare state (Panitch and Gindin, 2005).

By the end of WWII, there was a consensus among the advanced capitalist countries and economic elites that a necessary condition for establishing a new world order conducive to the abovementioned social, economic and geopolitical challenges was the repression of finance through the introduction of strict regulations on cross-border capital flows. Both J.M. Keynes and H.D. White, the chief negotiators at the 1944 Bretton Woods conference for the post-war reconstruction of the international economic system, were strongly supportive of the enactment of capital controls. [17] In their view, two reasons made a liberal financial order incompatible with the post-war environment (Gallagher, 2011; Crotty, 2000b). First, it was accepted that regulations on the international circulation of capital were vital for maintaining a fixed exchange rates system and the stability of the liberal trading regime which countries planned to construct. Speculative financial flows were thought of as a main reason of the foreign exchange disturbances appeared during the interwar period and a potential threat for a return to mercantilist-type protectionist policies. Consequently, if a fixed exchange rate system was to be established and economic multilaterism and trade integration and expansion to be promoted, the disequilibrating impact of large and speculative capital flows should at any rate be controlled.

Second, and perhaps most importantly, the institution of capital controls was held necessary to support the national macroeconomic planning measures of the new interventionist welfare state. Both Keynes and White had on the mind the destructive potential of capital flight triggered by short-term speculative motives. Keynes was also worried about incipient capital movements brought about by changes in interest rate differentials that could instigate uncontrolled capital outflows. His worry was that economies running capital account deficits would be unable to exercise a low interest rate policy geared towards stabilising demand at full employment levels. If financial markets were not regulated, financial capital would flow to countries that would offer higher interest rates (Mohamed 2008; see also Vernengo and Rochon, 2000). In their view, thus, inasmuch free capital circulation was contained governments could run proactive macroeconomic policies without worrying about the sustainability of their

[17] For an exposition of Keynes's insights about the need of capital controls, see also Crotty (1983) and Kirshner (1999).

external position. Capital controls were also seen to protect the new welfare state by discouraging wealthy people to transfer funds abroad for political reasons or by the desire to avoid burdens of social legislation (Helleiner, 1994).

However, it is worth noting that Keynes and White did not oppose all types of capital flows. They considered that disequilibrating capital movements should be controlled, but equilibrating ones should be encouraged. They favoured, namely, an international payment system, in which mobile capital could flow from economies with permanent current account surplus to current account deficit economies. Surplus countries should bear the onus of adjustment by stimulating demand and increasing imports. Those with deficits should refrain from eliminating deficits through deflation but be free to implement their own macroeconomic strategies. Besides that, despite being forceful opponents of speculative capital movements, both Keynes and White supported capital transfers that could be used in financing real investment. However, the basic principle in their early proposals was to give to the national governments the authority to regulate capital flows (Helleiner, 1994; Mohamed, 2008).[18]

The early proposals of Keynes and White faced the stiff opposition from both the US financial community and Congress. Financiers viewed the controls as a direct hindrance for the profitable business of accepting capital flight and as an institutional arrangement which would permit extensive state intervention in post-war economies (Helleiner, 1994). For the US Congress, on the other hand, the plan was unattractive due to the limited freedom of action provided to the US, as the US registered, at that time, large trade surpluses with the rest of the world (Walter, 2011). Hence, the final Bretton Woods's agreement departed to some extent from the initial ambitious plans. For some commentators, this is recognised as a victory of the US bureaucrats and financiers over Keynes's proposals (Epstein and Schor, 1992). However, despite the amendments, the conference finally succeeded in formulating unifying principles and rules that incorporated many of the ideas of the early drafts.

First, the rules set forth in the Bretton Woods agreement provided for a system of fixed exchange rates, hence promoting an open global trading regime. Participating countries were required to establish a parity of their national currencies in terms of gold at the predetermined value of $35 an ounce and to maintain this fixed exchange

[18] For details on Keynes views and role in the construction of the Bretton Woods international payment system, see Skidelsky (2000), Davidson (2007), Sardoni and Wray (2007).

rate parity by intervening in their foreign exchange markets.[19] Yet, currency rates were not irrevocably pegged. What was instituted, instead, was a sort of 'controlled flexibility' of exchange rates. Rather than anchoring to a rigid international monetary standard or anchor, as there was the case under the Gold Standard system, exchange rates were agreed to be sufficiently flexible oscillating within a narrow bandwidth, that is within plus or minus one percent of the par value. Additionally, if fundamental disequilibria emerged, member states could unilaterally alter their par value to tackle the situation. Such adjustments should yet be approved by the International Monetary Fund (IMF, henceforth, see Harvey, 2001; Bordo and Eichengreen, 1993).

Furthermore, the Bretton Woods agreement defended national macroeconomic independence and the policy autonomy of the new welfare state. Indeed, the provision of controlled short-run flexibility exchange rates along with that of long-run exchange rate adjustability, enabled national governments to gain a sufficient degree of policy insulation. The defence of policy autonomy was further supported by international organisations. The World Bank should provide productive and equilibrating capital and the IMF deficit financing (Mohamed, 2008). Above all, however, national policy space was backed by the IMF Article VIII that encouraged states to deploy exchange controls to contain currency speculation and provide a degree of certainty to financial markets. Special provisions were also given in order the efficacy and invulnerability of controls to be enhanced. The agreement outlined that national governments should on request provide the IMF with information about their financial flows and holdings and also mutually cooperate under the supervision of the IMF for the enforcement of capital controls (Woods, 2006; and Helleiner, 1994).

Overall, the early post-war period was an era with extensive use of restrictions on capital movements. Almost all countries of the capitalist world, with the important exception of the US, implemented controls on financial capital inflows, outflows or both. In this manner, the international economic and institutional order constructed in

[19] In this manner, Bretton Woods established, in effect, a US dollar-centred payment system, in which all member states currencies were fixed against the dollar, which, in turn, was convertible into gold. It is worth noting, however, that originally the global reserve currency would be the 'Bancor', as proposed by Keynes. Nevertheless, his plan was rejected by the US delegation and the US currency became the reserve currency of the Bretton Woods global monetary regime.

Bretton Woods secured a subtle compromise between liberal trade integration and the domestic responsibilities of national governments. Although states were accountable to Bretton Woods organisations regarding currency convertibility, trade liberalisation and international cooperation, the induction of capital controls enabled them to apply adjustment measures without sacrificing the welfare of domestic social groups and hence violating the new social contract occurred in the late 1930s (see Cox, 1994). In contrast to the previous liberal order, in which there was an implicit superimposition of the international dimension on domestic norms, mostly via its inherent deflationary bias, the new system set up negotiability and, in effect, reconciliation between global and domestic tensions (see Best, 2003). This reconciliation signalled the rise of a new order in international economic affairs, termed as 'embedded liberalism' (see Ruggie, 1982). The concept of 'embedded liberalism', in particular, referred to the idea that, whereas the Bretton Woods system was inherently liberal in the sense of encouraging international trade, this liberalism was, in practise, embedded within a social purpose, or better, within a wide consensus on societal values and political norms.

The Bretton Woods institutional arrangements established, therefore, a fully negotiated monetary order that permitted each nation to implement economic policies compatible with international stability. To this favourable constellation, as Gilpin (2000) notes also contributed the limited extent of trade integration and globalisation which reduced the scope for painful current account adjustments generated by greater variability of national macro policies. Supportive were also the symptom management policies that were purposefully pursued by member states with a view to preventing in advance the surge of external payment imbalances; and alleviating in the unfortunate case of fundamental disequilibria the correction costs. Such policy measures included, *inter alia*, coordinated interventions of national central banks in foreign exchange markets to maintain currency parities as well as a wide range of intergovernmental lending operations, as complement to the IMF credits. Gilpin (2000) also remarks that the moderate inflation performance of the US economy and the rapid economic and productivity growth that experienced most industrialised countries during the two first post-war decades were two additional parameters that limited the scope of those interventions and supported the smooth functioning of the international payment system.[20]

Moreover, the stability of the Bretton Woods regime was also self-consciously supported by the US. This attitude stemmed, in part, from the right of seigniorage that a dollar-centred international monetary system conferred on the US; and, in part, from the US strategic plan to integrate European economies to the new world order under US leadership. The escalation of the Cold War solidified further this stance. The US feared that the economic bridges built by some western European states to Eastern Europe might severely damage the US geopolitical interests in Europe. Open markets and stronger economic ties with the US was therefore an important element of the US plan to avert a slide to more regulated forms of capitalism, or even a possible upsurge of socialism in Western Europe. The toleration of an undervalued dollar parity rate, in conjunction with the introduction of several controls on US exports, were some policy measures consistent with this strategic interest.[21] To gain greater influence over and increase the dependency of European economies, the US also set up aid programmes; initially, the Marshall plan; and subsequently, the rearmament policy (see Mohamed, 2008). All these policy initiatives and programmes secured a sustained flow of dollars to Europe available for international use. This provided a solution to the problem of the dollar shortage, from which post-war world capitalism suffered and its stability could potentially be put at risk (Vasudevan, 2008). Moreover, they contributed to the political repression of European left and socialist forces that could pose a threat to the US interests.

Nevertheless, perhaps the most crucial factor lying behind the stable operation of the system was the widespread use of capital controls in most advanced economies. In fact, for most economies capital controls became a means to protect their stockpiles of foreign exchange reserves in case of rising demand for imports or strong incentives

[20] As Epstein and Schor (1992) note, a major factor behind the restrictive monetary policy was the relative independent status of the US Fed and its closer connection with private financial and banking interests.

[21] It should be noted that European and Japanese authorities agreed to keep their national currencies relatively weak against the US dollar because of the fear that a possible collapse of the Bretton Woods system would cause the withdrawal of US troops from overseas, particularly in a period, in which the sphere of influence of the Soviet Union was increasingly expanding.

for investment overseas. For other nations, mostly for those pursuing export-oriented strategies, e.g. Germany and Japan, controls also facilitated the creation and allocation of credit and the maintenance of a stable and relatively undervalued currency rate that were an important adjunct to their efforts to reap a larger share of world exports. The introduction of capital controls in almost all the western countries was supported by the US due to the conviction of many US Keynesian-minded policy-makers that these countries could grow faster with restrictions on capital flows (see Mohamed, 2008). Crotty and Epstein (1996), though, note that the implementation of exchange controls was, above all, the result of a shared belief among public officials, industrialists, and even financiers, across advanced countries on their usefulness to support their overall industrialisation strategies and safeguard the basis and functions of the welfare state. A turning point towards this development was the 1947 financial crisis, when the vast amount of speculation against the British pound and the massive flows of capital from Europe to the US manifested how vulnerable the European economies to speculative finance really were.

All in all, after WWII a certain institutional structure of western capitalism arose. At national level, this structure was formed by and rested on the occurrence and eventually ascendancy of a broad social, economic and ideological consensus centred on the necessity to regulate finance as a means for the sound and rapid development of the real productive forces of the economy; the establishment and protection of the interventionist character of the state; and the creation of an environment of sustainable and inclusive economic and social progress in light of the catastrophic consequences of the Great Depression and WWII. This consensus, at the international level, was reflected and sustained by a concrete set of international institutions that, under the US leadership, formalised a global financial and monetary architecture that imposed controls on cross-border capital flows, set up a system of semi-fixed exchange rates and encouraged trade integration and multilateral economic cooperation. As indicated below, the interaction of these institutional arrangements did not only permit western capitalism to recover from the debacles of the interwar period. More significantly, it succeeded in shaping the necessary conditions across most industrial countries for the emergence of a period of exceptional and widely shared economic prosperity, an era generally referred to as the 'Golden Age' of capitalism.

1.2.2 The Golden Age and the Keynesian macroeconomic regime

In the first three decades following WWII, in almost all countries of the advanced capitalist world, governments, unfettered from the policy dictates of financiers and protected from destabilising flights of hot money, intervened on the operation of their national economies and shaped the contours of economic development and capital accumulation in accordance with the policy priorities of the Keynesian welfare state. As a rule, the overriding policy objective of state interventionism and macroeconomic planning was the attainment and maintenance of high levels of employment and faster economic growth. Regulations on economic activity and the deliberate manipulation of aggregate demand became the main policy instruments to reach this goal.

The new macroeconomic priorities were principally reflected in the advanced role assigned to fiscal policy and the way it was implemented. Fiscal policy became a central tool of macroeconomic management to promote economic growth and achieve the objective of full employment. The deployment of proactive budgetary policy was justified on the grounds that employment and productive investment were important determinants of economic prosperity and social progress; and, consequently, it was too risky to be left entirely to the intrinsically unstable dynamics of free market. With the experience of the disastrous economic downturn of the Great Depression in mind and inspired by the Keynesian theory, that treated unemployment as an 'involuntary' phenomenon resulted from deficient aggregate demand, policy-makers attempted to sustain robust aggregate demand through income stabilisation policies and increased public spending. The eagerness of national governments to implement fiscal stimulus programmes and run budget deficits if required to revive demand and restore full employment, shaped a macroeconomic environment of low uncertainty. In addition, it created incentives for capital investment and private consumption (see Shaikh, 1999; and Snowdon and Vane, 2005).

Monetary policy also occupied an equally important role in the active pursuit of national full employment. As Hampton (2003) notes, the institutional insulation of national economies from reckless speculation in international financial markets made the shift from 'monetary internationalism' to 'monetary nationalism' possible in most advanced economies. A defining aspect of this new monetary approach comprised the active preoccupation of national treasuries to support domestic productive structures of national interest and expand employment opportunities. For this purpose, a variety of credit controls and regulations was imposed to direct credit allocation to national priority sectors, keep its cost low, ensure public debt financing at lower interest rates and block credit flows to unproductive uses. Moreover, specialised investment banks were founded to assist economic reconstruction and development. In some occasions, governments also acted as financial intermediaries providing state guarantees to assist certain groups of borrowers to meet private bank's credit standard requirements (see Capie, 1995; Arestis and Basu, 2003).

The new monetary policy orientation entailed also a change in the institutional role and operation of central banks. Nearly all central banks were brought under more public control and were reoriented to assist the pursuit of government goals. In fact, while adherence to fixed parities imposed restraints on money stock growth, central banks, unimpeded by financial market pressures, conducted expansionary monetary policies maintaining interest rates low and constant to support employment and the rebuilding and reconstruction of national economies. They also pursued elastic credit policies to private banks in order to satisfy rising loan demand and respond suitably to increasing transactions. Besides, central banks made use of financial regulations and techniques to achieve balance of payments equilibrium and to stabilise exchange rates low to keep exports competitive. They also became important devices for financing and managing basic government activities, e.g. deficit and debt financing, as well as for providing the liquidity needed to fund social welfare programmes (Epstein, 2006; Epstein and Schor, 1992).

What deserves some clarification is that the appearance of 'pure credit money' economies was not accompanied by increasing inflationary risks; a development that could incite an overreaction of financial elites and bankers. Domestically, inflationary forces were checked by financial regulations that permitted central banks to maintain firm control on private banks' operations and, hence, on their credit policies. Further, private bankers in their own did not oppose loose monetary policies and regulations to the extent that they regarded them as a major source of enhancing their profitability (see Epstein and Schor, 1992). Inflationary pressures were also kept under control due to intensified product market competition that induced industrialists to keep mark-ups low. Finally, the obligation of national authorities to sustain fixed exchange rates *vis-a-vis* the dollar was an additional factor contributing to moderate rates of inflation. In a US dollar-centred system, the US inflation rate fixed the average rate at which other countries' rates had to adjust, if external disequilibria and deflationary pressures were to be avoided. The fact that the US monetary authorities followed relatively tighter monetary policies and controlled domestic demand pressures, allowed the system as a whole to operate stably at fairly low inflation rates (Glyn, *et. al.*, 1992).

Central banks' attitude to run easy money policy strategies alongside national financial regulations shaped a favourable business environment that promoted rapid economic development (Duménil and Lévy, 2004). In fact, industrialists, benefited by low interest rate-bearing loans and free from their financing dependence on capital markets and shareholders' interests, set as primary goal to improve corporate growth potential through productive investment, rather than profitability *per se*. Crotty (2005; p.80) also underlines that inter-firm relations, characterised by a sort of corespective competition 'based on partial cooperation-rather than all-out war', improved further this thriving business environment. Crotty (2005), in particular, observes that private and public oligopolies avoided engaging into aggressive price and capital investment competition that could undermine profitability and create large-scale excess capacity. By setting upper bounds on capacity growth and lower limits on prices, core western corporations experienced secure oligopoly rents. Enjoying stable profits and limited exposure to domestic market competition, firms adopted a long-term perspective on their investment activities and attached more attention to the requirement to assure growing profitability over time.

Important institutional factors that fostered rapid industrial development and progress in the post-war era were also: the state's active intervention in the economy; and the stable and predictable capital-labour relations. Concerning the former issue, Crotty notes that the public sector through the pursuit of expansionary fiscal policies cultivated favourable supply and demand conditions that improved further industrial profitability and growth. On the supply side, governments embarked on large public investment projects, e.g. large-scale public works, investments in new technologies and research and development, in which private sector's participation was significant (Duménil and Lévy, 2004). On the demand side, the institution of an extensive net of welfare state payment transfers, e.g. unemployment benefits and progressive pension and public health systems, provided a large stimulus to domestic aggregate demand. Positive supply-side factors, therefore, in conjunction with high and sustainable levels of domestic demand and the perception that governments were prone, if necessary, to run budget deficits to buttress domestic demand, stimulated further industry's positive anticipations for future profitability and consequently longer-term industrial planning and investment in real assets.

At the same time, positive profit growth anticipations led industrialists to view the cost of governmental social programmes affordable and to accept also their partial funding. A new collective pattern of wage formation was instated, according to which nominal wages growth reflected both expected inflation rates and productivity gains. Supported by the active involvement of the state as the largest employer of the period, this wage-setting system consolidated institutionally and extended promptly to a wide range of sectors of the economy. Through collective bargaining and rising real wages, labourers succeeded in winning important rights and realised benefits, including their integration into corporatist processes, legislative protection and great improvements in living standards. This motivated them to work more intensively and keep productivity levels higher. Industrialists also managed to enjoy considerable labour discipline and predictability in labour relations. Furthermore, especially for the industrialists of the most efficient plants, increasing social spending became a means of undermining the competitive position of rival, less efficient, firms. Increasing oligopoly power together with higher wage demand and labour peace stimulated further profit expectations and capacity expanding investments, hence rising profit margins, labour productivity and employment growth.

Overall, therefore, after the war a particular pattern of development occurred in most industrial capitalist countries. This pattern, principally, consisted of a unique macroeconomic regime, characterised by the rapid and parallel growth of all variables involved in the profit-productivity-investment-wages-profit chain. At micro level, this structure was founded on and reproduced by a form of market organisation, marked by the absence of cut-throat competition; and by a system of production that involved the broad use of mass production techniques and work process standardisation. The compatibility between these macro- and microeconomic patterns was finally provided by a set of co-ordinating rules that included, on the one hand, systems of wage-setting and pricing that shaped the path of distribution between wages and profits; and on the other hand, Keynesian-inspired state interventionist policy measures, like the conduct of proactive fiscal and credit policies and the enactment of a wide range of economic regulations which maintained domestic demand and guaranteed incomes. According to Glyn *et al.* (1992), the coherence between and within these three spheres generated remarkably favourable economic conditions that virtually created all of the great post-war secular economic prosperity.

In fact, although a chance set of positive economic circumstances driving the post-war economic prosperity should not be ignored, Glyn *et al.* (1992) argue that the length, steadiness, speed and spread of the post-war boom were so exceptional in the history of capitalism so to suggest that it must be attributed to these domestic factors. During the 25 years following the WWII, advanced capitalist economies expanded on average at the rate of 5% per annum; a rate roughly double than that recorded in any previous periods since 1820. Several developing countries also enjoyed growth rates historically unprecedented and in excess of those achieved by the developed countries in their period of industrialisation. Appreciably, this strong growth record generated record employment gains. Several capitalist countries virtually reached for a quarter of century the full employment ‘barrier’. In reality, some western European countries, e.g. Germany and France, not only realised full employment, but were characterised by what Singh (2009) coins ‘overfull employment’, in that they offered jobs to large volume of foreign migrants besides the domestic labour force. Moreover, contrary to prior experience, in the post-war capitalist countries economic performance remained robust even in downswings. Based on this piece of evidence, it was often claimed that business cycles, crises and poverty had all disappeared; and full employment, rather than historical rarity, had become a historical norm.

It is, however, essential to recall that the factors propelling the post-war boom emerged and functioned within a particular international order, which incorporated a range of institutions governing the world economy. As already argued, a fundamental institution of this sort referred to an international monetary regime, formalised at the Bretton Woods conference, that set up clear rules and procedures to secure currency stability, foster trade integration and bridge external payment imbalances as a means of preventing a possible repetition of the calamities of the interwar era. This system, in turn, was shaped by and conditioned upon a social, political, ideological consensus on the need of suppressing the power of finance in global monetary politics, mainly through the introduction of a range of regulations on the free cross-border circulation of capital flows. Unfortunately, the history of the post-war financial order is one that culminated in the ultimate revenge of global finance and the restoration of a liberal international financial and economic system. This event could be attributed to various social, political, economic and ideological developments that altered the institutional basis of post-war capitalism.

1.3 The revenge of global finance and the rise of neoliberalism

In the late 1960s and early 1970s, the institutional basis of the post-WWII capitalism began to break down. Following a period of heightened uncertainty and instability, in the 1980s, the economic system of embedded liberalism and the Keynesian regime of state-regulated national capitalism eventually collapsed and a new neoliberal, finance-dominated, system of socioeconomic organisation emerged. In the analysis below, we initially outline the major events that contributed to the destruction of the Golden Age institutions and gave rise to neoliberalism. Then, we examine some specific structural features of the contemporary transformation of capitalism and its consequences on the process of capital accumulation, distribution and economic performance.

1.3.1 The fall of the Golden Age

While the post-WWII capital-labour settlement had provided the political basis of the state-regulated capitalism and the ensuing economic boom of the period, beginning in the 1960s, structural contradictions embedded within this fundamental Golden Age institution began to arise. The augmentation of labour's economic and political power after of twenty years of sustained full employment and growing social wage started to erode capital's social power and led to a surge of labour militancy. This era witnessed the eruption of mass labour conflicts and strikes in favour of higher wages and better working conditions, and militant worker demands for more control of the production process. These developments posed a direct challenge to corporate profitability. In response, industrialists tried to undermine labour power by transferring production out of union locations and safeguard profit margins by pushing prices up. Industrial capital also started to withdraw its political support from the Keynesian state. Its task to promote employment and provide social security and welfare programmes, initially seen as a means to discipline labour and improve corporate performance, turned into a factor responsible for falling profitability since it fuelled up labour militant demands, entailed heavy tax burdens and absorbed funds available for capital investment financing (see Crotty and Epstein, 1996; and also Armstrong *et al*., 1991; Marglin, 1992; Glyn, 2006, and Davidson, 2006a).[22]

In the late 1960s, the unravelling of the post-war social consensus came along with the structural crisis of the Fordist regime of capital accumulation, another central institution of the Golden Age. The first signpost of the crisis was the large decline of productivity growth throughout the OECD economies. Many insights have been cited explaining the source of this development. Duménil and Lévy (2004) locate the prime cause to the sustained protraction of fixed capital that took place in the first two post-war decades. Glyn (2006), on the other side, focuses on the profit squeeze associated with the rapid real wage growth and the erosion of factory discipline. Eichengreen (2007) deems as the major reason the near exhaustion of catch-up potential of the European economies which made it less attractive for unions to have a compromise agreement with employers over wages settlements. Regardless of the proximate cause of the slowdown in productivity, all come to the conclusion that a direct result of this trend was the sharp drop in profits, private investment and GDP growth rates across industrialised economies. The erosion of the Fordist accumulation model aggravated further social tensions. Industrialists, in the face of increasing wage bills and waning productivity, escalated their efforts to improve profitability by increasing prices. This meant persistently higher inflation and, hence, intensifying conflict over the relative shares of wages and profits (Pollin, 2007).

The deconstruction of the social basis and productive organisation of the post-WWII capitalism was accompanied by the gradual resurgence and empowerment of a global rentier class. The global rentier class evolved in part through the accumulation of savings and the growth of financial activities sustained by the post-war economic

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[22] The erosion of the post-war social consensus was a prospect overlooked by Keynes, but recognised by Michal Kalecki, a contemporary to Keynes economist. In his essay entitled 'The Political Aspects of Full Employment', Kalecki had argued that full employment capitalism was not viable in the long-run, since capitalists need to have the disciplinary power of the 'sack' in order to threaten workers and undermine the labour movement (see Kalecki, 1943).

prosperity. In most western economies, financial institutions of various types took part in the rapid growth of the manufacturing sector and encouraged and gained from the rapid expansion of consumerism. Moreover, investment banks, particularly in the US, played a central role in financing large capital-intensive infrastructure and in the replacement of corporate and government bond issues (Panitch and Gindin, 2005). At international level, finance responded to the increasing demand for financial services that accompanied the development of international trade and multinational corporate activity, and the return in the convertibility in the 1960s (Helleiner, 1994). Despite the low interest rates of the period and the regulated environment, in which it operated, the increasing volume of financial transactions supported financial sector profitability and expansion.

The resurrection of global finance was also stimulated by the structural crisis of Fordism. The plunge in industry's profit rate alongside governments' expansionary responses to tackle recession led to a veritable burst of the demand for credit. Argitis and Pitelis (2006) mention that the high levels of public debt in the 1960s and 1970s operated as a means of strengthening the role of rentiers within state apparatuses and facilitated the circulation of their interests in decision-making cycles. Holloway (1995) also notes that the rapid growth of credit inflation and bank overdrafts to firms gave rise to a qualitative change in the relationship between finance and industry. In a period of declining profitability, industrialists started to form coalitions with finance in their opposition to state economic interventionism and economic regulations, that inhibited their investment strategies (Pollin, 2007). The emergence of this new intra-capitalist alliance took also more concrete forms. Owing to the rapid accumulation of corporate debt, important segments of industrial and commercial capital came into the hands of finance. New financial-industrial conglomerates were set up and thus the functions and interests of financial and industrial capital effectively merged under one corporate roof. United, these social forces became politically powerful and began to press governments to implement policies supportive of their interests.

The breakdown of the Golden Age and the resurrection of finance's power in international economy were also facilitated by two key institutional changes. The first institutional change appeared in the mid-1950s and referred to the birth and growth of Euromarkets as international commercial money and capital markets. A major impact of these off-shore markets was that they created a regulation-free trading zone, where financial assets denominated in foreign currencies were traded. All traded currencies were detached from their national monetary base and were effectively under the direct control of private international financial institutions and their speculative activities. Euromarkets were the first capital and money market that functioned outside any kind of official control and regulatory framework since the WWII. They increased the size, depth and openness of financial markets in the 1960s which greatly contributed to the internationalisation of financial capital within the restrictive Bretton Woods financial architecture (Argitis, 2002). Crotty and Epstein (1996) underscore that, in a world of extensive controls on capital flows, Euromarkets represented a new liberal institutional structure that allowed private bankers, financial investors and rentiers to enact speculation as a widespread financial practise.

The appearance of this new open market structure was partially the outcome of the massive accumulation of dollar reserves in European banks resulting from the declining US trade position and the increasing involvement of the European banking sector in international financial activities (see Kiely, 2005). Euromarkets were also the outcome of the endeavour of international financial institutions to circumvent the range of domestic regulations and restrictions on the free mobility of capital flows. In particular, they were supported by the US and British financiers who desired to re-establish the London-New York financial nexus which had been active in the interwar era.[23] The creation and growth of Euromarkets were also endorsed by the US and the UK government. The US support stemmed from the dominant role of US banks in marketing financial products in Europe. US banks and multinational corporations also asked for more operational freedom to compensate for their losses following the US voluntary introduction of capital controls.[24] US bureaucrats, further, believed that an unregulated capital market dominated by their currency would enhance the dollar's attractiveness to investors and central banks, particularly at a time of increasing US payment imbalances (Panitch and Gindin, 2005). On the other hand, British officials and bankers considered Euromarkets as an opportunity to restore London as a major world financial centre and resurrect the British financial predominance (see Argitis, 2002 and Rajan and Zingales, 2003).

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[23] See Frieden (1997), cited in Argitis (2002).

[24] The implementation of capital controls by the US was intended to alleviate their ongoing balance of payments problems.

In an era of increasing trade integration and internationalisation of production, the development of these off-shore markets led to a tremendous growth in the demand for and supply of private credit. With rapid innovation in technology and information processing, Euromarkets grew enormously and became more integrated with national financial markets as governments sought to have access to them to finance fiscal and external deficits. Nevertheless, by providing a gigantic pool of short-term capital free of any state control and regulation, Euromarkets altered the long-established channels of liquidity creation, stimulated currency speculation and provided a remarkable boost to capital mobility. In this manner, the birth and expansion of these off-shore capital markets created growing cracks in the regime of fixed exchange rates and in the entire edifice of tight financial regulatory mechanisms. This, in turn, began to undermine the stability of the post-war international payment system and accordingly the monetary insulation of the national Keynesian welfare state (see Argitis, 2002; Dickens, 2005; and D'Arista, 2009).

The second institutional change that led to the demise of the Golden Age and stimulated global finance is what Glyn (2006) calls 'international disorganisation'. As already asserted, the Golden Age model was premised on the sustained US economic supremacy and the commanding role of the dollar in commercial trade. Starting in the 1960s, yet, the US prominence in international trade began to wane. The recovery of the western European economies and Japan, sustained by rapid productivity growth,[25] caused an intensifying international competition that ultimately challenged US firms in global markets. The poor US trading performance together with the growing public spending to finance the Vietnam War led to a dramatic increase in US current account and budget deficits. Increasingly, the accumulation of US debt began to question the role of the dollar as anchor of the system and to cast serious doubts by speculators on the sustainability of the entire monetary system. To this institutional development contributed also crucially the outbreak of inflation and especially the diverging rates of inflation and productivity growth that appeared among the OECD countries after the mid-1960s.

[25] Glyn (2006) lists the rapid expansion of capital stock, the abundant supply of low paid labour and technological advancements as the main contributing factors to fast productivity growth in Japan and Europe.

Against this background, Helleiner (1994) argues that the US began to retract its support for the Bretton Woods institutions and adopt a self-centred policy stance. In an effort to seek foreign resources to finance its unsustainable external imbalances, the US became adverse to capital controls and started endorsing the liberalisation of financial markets. In the early 1970s, there was a prevailing perception that thanks to the strength, liquidity and attractiveness of the US financial system relative to the overregulated markets in Europe and Japan, financial liberalisation would help the US defend its fragile hegemonic position and direct capital flows to the US economy. Moreover, a transition to floating exchange rates was considered as providing the US with a greater degree of policy flexibility and autonomy compared with the rigidities, underlying a fixed currency parity system. Additionally, flexible exchange rates were seen to halt the transmission of US inflation resulting from excessive public spending to the rest of the world, thus restoring financial confidence and stability.[26] As a result of these considerations, and on the occasion of a run against the US dollar, the Nixon administration unilaterally decided in August 1971 to suspend the convertibility of the dollar into gold. Three years later, after having repeatedly refused to participate in cooperative ventures to stymie cross border capital movements, the US removed also all capital controls.

The disintegration of the Bretton Woods signalled the beginning of a new era for the global monetary system. The initiative of the US to dismantle capital controls encouraged the internationalisation of financial capital and set in motion a process of competitive deregulation among national financial markets and centres (see Helleiner, 1995). In 1979, the British government of M. Thatcher in an attempt to protect the status of the City of London as an important international financial centre abolished the forty-year lasting capital controls. Under the danger of capital flight to the US and UK financial markets, other capitalist countries followed the lead of the US and Britain. In the mid- 1980s, Australia, New Zealand and Japan initiated comprehensive deregulation programmes to improve the attractiveness and competitiveness of their

[26] This essentially follows the Friedman’s argument that the exogenous excessive rate of money growth was a prime root cause of accelerating inflation in the US. Under the Bretton Woods monetary system US inflationary shock was spread around the world. Hence, the shift to flexible exchange rates would allow fiscally responsible governments to avoid inflation.

own financial markets. In continental Europe, the deregulation trend instigated first in France and Germany in the early 1980s, and subsequently other European countries followed suit. As it is discussed in chapter 3, in the European Community (EC) as a whole, the liberalisation of financial transactions was formally postulated by the 1985 Single European Act (SEA, henceforth). The ratification of the Maastricht Treaty, and thereafter the launch of the euro, completed the full liberalisation and integration of European capital and money markets. [27]

It is important to note that the trend of financial liberalisation and the abolition of capital controls have certainly been fostered by systemic forces, emanated from the high degree of trade integration and rising capital mobility, as well as by advances in information and communication technologies (Andrews, 1994; and Quiggin, 2005). However, without the explicit political decisions of states to fully lift capital controls, financial deregulation and integration would likely have been restricted. Arguably, political initiatives for financial liberalisation might also have not been undertaken, if during that period there was not the alliance between multinational industrial groups and strong financial interests that forcefully endorsed and pushed for the removal of capital controls and financial deregulation. Crotty (2000a) also reports the changing intellectual climate against state interventionism, orchestrated by conservative think-tanks, as another crucial factor behind market liberalisation. These free-market ideas inspired public officials, particularly those employed at finance departments, who were frustrated by the difficulties associated with financial market regulation and supervision in an increasingly open environment.

Yet, despite contrary anticipations, the abolition of the Bretton Woods system and the trend of financial deregulation fell short of appeasing the symptoms of the death of the Golden Age. In the 1970s, in most advanced capitalist economies, wage growth slowed down and industrial profits declined. Even worse, the demise of the Bretton Woods regime questioned the viability of the national systems of economic regulation and planning. A major consequence of the breakdown of Bretton Woods was the extrication of financial transactions from the obligations and the constraints

[27] It is worth noting that while most EU governments, notably the British, German and Dutch, actively supported capital flow liberalisation in Europe; Mitterrand's socialist administration blocked any official initiative for promoting capital mobility. However, after Mitterrand's *tournant* in 1983, France became supportive of the EU financial liberalisation strategy (Helleiner, 1994).

placed by the fixed exchange rate regime. This shift exerted a significant influence on economic policy-making, since it took place within an open financial landscape characterised by a high level of international capital mobility. The adoption of flexible exchange rates in combination with unrestricted capital mobility made it hard for governments to curb currency volatility without undermining the independence of national monetary policy (see Argitis, 2002; Eatwell and Taylor, 2000; Cornwall and Cornwall, 2005). Thus, the introduction of a floating exchange rate system after 1973 constrained states capacity to counter effectively the structural crisis in the 1970s. Additionally, the transition to currency floats became an additional factor which compelled national governments to forsake a core principle of the post-war economic paradigm, i.e. the policy independence of the welfare state (Argitis, 2002; and Felix, 2005).

Meanwhile, the destruction of Bretton Woods' institutions opened the way for a self-reinforcing expansion and empowerment of global rentiers and their allies. The shift to floating exchange rates and the removal of capital controls created exceptional profit opportunities for financial capitalists, permitting speculation among a variety of national currencies and capital markets (Yeldan, 2009). This, in turn, was stipulated by waves of 'hot money' and financial innovation that steadily inflated the financial sector (see Ferrari-Fihlo and De Paula, 2008-9). Gradually, heightened instability and uncertainty spawned by successive phases of speculative euphoria, fragility and panic became habitual cases of financial affairs (Minsky, 1982). Russo and Zanini (2010) and Davidson (2003) have underlined the great gains reaped by financial speculators after the breakdown of the Bretton Woods order and the consequent foreign exchange fluctuations. Strange (1986) aptly points out that those markets have virtually been transformed into a 'casino', in which financial traders extract a vast amount of profits from speculation. As we shall remark in the next chapter, currency speculation and excessive foreign exchange instability constitute systemic mechanisms that grant financial interests a powerful political representation within modern state apparatuses and also international organisations.

The two oil crises in the 1970s was a final major event that crucially helped to account for the end of the Golden Age. A direct outcome of the first oil crisis in 1973 was the dramatic deterioration of external accounts in most western economies. The crisis also triggered a record surge of cost-push price inflation and a harsh contraction of economic activity, hence signalling the era of global stagflation (Palley, 2005). For finance, though, the crisis became another episode in the process of its expansion and empowerment. The creation of massive international payment imbalances engendered a qualitative rise in cross border capital flows that further eroded national regulations on capital flows. It also resulted in a veritable explosion of private banks deposit basis that fed financial markets with extra amounts of speculative funds, boosting further financial volatility and profit margins. Besides, the vast accumulation of petrodollars, along with the mounting current account deficits of the non-oil producing economies, forced governments to increasingly rely on international capital markets to fund their external imbalances. This development implied a substantial increase in the economic power and political influence of finance within global economy, essentially making the entire international payment system reliant on it (Toporowski, 2005). The second OPEC oil price shock in 1979 accelerated this trend. Price inflation picked up again, income growth vanished and currency instability skyrocketed.

More importantly, however, the stagflationary episodes of the 1970s became a crucial catalyst for the break of the post-war social compromise, eventually provoking a radical transformation in the character of macroeconomic policy. Epstein and Schor (1992), in particular, mention that accelerating inflation intensified the distributional struggle as rising consumer prices squeezed real wages. Labour claims for higher real wages together with the seeming inflationary impact of governments' efforts to tackle recession by means of demand management policies solidified the common ground of interest among industrial and financial elites against the Keynesian welfare state and labour. They both asked for a neoliberal redirection of economic policy with the main focus being on curbing inflation and liberalising markets. Cutbacks in social welfare spending and wages, labour market deregulation, lower taxes on business and rentier income, ultra-tight monetary and fiscal policy were some major policy prescriptions of economic elites to transfer the burden of crisis management to labour and create the conditions held essential for macroeconomic stability and long-term recovery (see Campbell, 2005). Much like the process of financial liberalisation and deregulation, this neoliberal policy plan was aided by new developments within orthodox economic theory. Monetarism and New Classical economics, particularly, provided the capital opposition and states' bureaucrats with intellectual arguments to support monetary and fiscal austerity and neoliberal structural reforms (Lucarelli, 2009; Smithin, 1996).

The neoliberal shift inaugurated in the US in 1979 by Carter administration's deregulation programmes and the monetarist turn of the Fed following a speculation against the dollar. In the same year, M.Thatcher led Britain onto the path of neoliberal restructuring launching successful attacks on trade unions and market liberalisation.[28] Crotty and Epstein (1996) note that the spread of neoliberal policies during the 1980s resulted in a veritable expansion of deregulated financial markets swollen by high real interest rates, growing private and public debt and speculative furore. Harvey (2005), also mentions that neoliberalism fostered a burst of financial innovation producing far more sophisticated global interconnections and new types of financial markets. Orhangazi (2008) and Glyn (2006), on account of this, point out that the expansion of financial activities is closely related to the free-market policies implemented since the 1980s. In reality, the impact of neoliberal policies on financial sector's expansion was so profound that has led several analysts to treat neoliberalism as the principal root cause of unleashing finance and strengthening its role in modern capitalism. Kotz (2008), in this respect, notes that neoliberalism should mostly be held as the strategic reaction, under the peculiar conditions prevailing in the 1970s, of a relatively unified capitalist class to escape from the risks involved in real sector and redirect its profit-making activities towards the 'safer' financial sector. Harvey (2005) arrives at a similar conclusion, arguing that neoliberalism was a project of ruling classes to re-establish the conditions for capital accumulation with the great beneficiaries being financiers, managers of large firms and owners of some new high-tech sectors of the economy.

Without underestimating the role of neoliberalism in fuelling financial sector's expansion, a key point that needs recognition is how integral, if not consequential, the rise of neoliberalism seems to have been to the empowerment of global finance. Two events appear to support this assertion. First, it was the speculation against the dollar in the face of the eroding US trading hegemony and increasing financial stability that constituted the proximate cause of the fall of Bretton Woods's institutions in the early

[28] The spread of neoliberalism thereafter was facilitated by the collapse of socialism in Eastern Europe and the increasing integration of China into the world economy. In the 1990s, the electoral victories of the 'new' Labour Party in Britain and the Democrats in the US further reinforced the neoliberal shift in those countries (Kotz, 2008). As it is mentioned in chapter 3, the launch of the EMU programme was another important vehicle to promote neoliberalism.

1970s. Second, it was the run on the US dollar in 1979 that made possible the onset of monetarism and the hearsay of the neoliberal doctrines from the early 1980s on. The general landscape of uncertainty that accompanied the removal of capital controls, in common with the policies implemented thereafter, provided a further stimulus to the expansion of financial markets. With technological improvements, organisational innovations and, more critically, the lacking political will of governments to counter these developments at turning points of time, a vast ocean of speculative hot money emerged and poured into national markets, inflating systematically the financial sector, eventually challenging the Keynesian forms of regulations and social consensus and bringing the neoliberal revolution.

As a whole, therefore, the fall of the Golden Age could be best conceptualised as the result of a long historical process starting in the 1960s that involved the erosion of the post-war social accord, the disintegration of international economic institutions, concrete political initiatives and a sea-change in the dominant ideology of capitalism. This set of factors supported financial capital in its continuous struggle to overcome the repression of its power that was formally established through international and domestic institutional structures after the end of WWII. In so doing, it also facilitated the destruction of the Keynesian order and the transition to neoliberalism. As such, the resurgence of financial capital can be considered as one of the central underlying developments that explain, to a certain extent, the neoliberal transformation of capitalism. Nonetheless, it should be recalled that this clearly does not imply that neoliberalism in itself did not add much to the financial expansion and empowerment. Quite the opposite, the ascendancy of neoliberalism represents one of the driving forces behind financial dominance. In the analysis below we examine in more detail that assertion, by analysing the process of financialisation, a phenomenon embedded within the contemporary neoliberal mode of regulation.

1.3.2 Financialisation and the 'belle époque' of finance

The structural crisis of the 1970s, the collapse of the Bretton Woods institutions, the subsequent waves of financial liberalisation and deregulation, and the ascendancy and spread of the neoliberal doctrine and policies have profoundly altered the institutional and organisational form of capitalism. More specifically, it appears that the institutional arrangements of capitalism that arose after the late 1970s have resulted in a partial return to the pre-Great Depression '*laissez faire*' capitalism. In fact, many authors have observed that a dominant feature of the recent neoliberal restructuring of capitalism is the phenomenon of financialisation (see Aglietta, 2000; Krippner, 2005; Epstein, 2005; Lavoie, 2008; Palley, 2007; Hein, 2009a; Foster, 2010). Epstein (2005; p.3) defines financialisation as '[...] the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies.' Kotz (2008) considers financialisation as a long-term trend of capitalism released and flourished after the neoliberal revolution, beginning in the late 1970s.

Financialisation, as its definition suggests, entails a broad range of changes in the relationship between the financial and real sector in modern capitalist economies. The term is used to describe several trends such as the excess private and public sector indebtedness, the shareholder value orientation of firms, changes in attitudes of economic actors, growing incomes from financial activities, free international capital mobility and heightened economic and financial instability.[29] Despite the broad usage of the phrase, most scholars agree that financialisation is one of the key components of a wider shift in socio-economic relations marked the transition from the 'finance-regulated' early post-war era to a 'finance-dominated' regime of social and economic organisation. Key dimensions of this changing environment include: a) the expanding influence and, in effect, the increasing dominance of the financial sector over the sum total of economic and social activity; b) a regime of capital accumulation, in which profit making increasingly occurs through financial channels, and which systemically favours financial capital and fosters its expansion at the expense of real investment, income and employment growth performance.

In fact, a notable feature of financialisation often cited is the huge quantitative expansion of financial activities to levels even surpassing those of the real sector. To illustrate this, Bhaduri (1998) reports that daily foreign exchange transactions in the world economy have grown from about $15 billion in 1973 to $1,2 trillion in 1995, and, according to BIS (2010a), to $4 trillion in 2010. Further, Stockhammer (2010),

[29] See, for example, Stockhammer (2010) and Ertürk *et al.* (2008) for an exposition of the phenomena of financialisation.

focusing on the US economy data, shows that the stock market capitalisation today far exceeds real GDP growth, increasing from 58% of GDP in 1998 to 150% in 2008. The growth of stock market turnover appears even more astonishing over the same period, reaching 383% in 2008 relative to 33% in 1988. In the US also financial firms profits have risen from 1,6% of GDP in 1989 to over 3,5% in 2005.[30] Financialisation has also come with a striking increase in the volume of debt. Palley (2007) finds that total debt in the US has increased from 140% in 1973 to 328% of GDP in 2005, with financial sector indebtedness exhibiting a more dramatic rise than that of the non-financial sector. Although most of the data presented above refer to the US economy, in chapter 7 we provide sufficient empirical evidence suggesting that most European economies also move much in the direction of increased financialisation.

Financialisation has also entailed profound ramifications in the structure and operation of the financial sector itself. Russo and Zanini (2010) observe that in recent decades the financial sector has gradually shifted from traditional banking operations to more market-based activities. For Stockhammer (2010) this development has led to the proliferation of financial instruments, while for D'Arista and Schlesinger (1993) it has provided a thrust to financialisation.[31] Harmes (1998) also observes the increasing concentration of financial activities to few powerful market operators, in particular institutional investors, and notes their capacity to manage and guide financial motives and investment in capital markets. For Mohamed (2008), high financial competition and integration has raised pressures on fund managers for higher returns and has led to a much shorter perspective in financial markets. According to Terzi (2006) and Harmes (2001), this aspect has stimulated financial speculation and the propagation of endogenous boom-bust cycles, financial instability and fragility. Excessive market instability and fragility occurred in the episodes of crisis that hit several economies in the past twenty years (Diwan, 2001) and have recently emerged again in the collapse of US sub-prime mortgage market and the European debt crisis (Palley, 2007).

Apart from the changes in the size and organisational structure of the financial sector, an increasing number of scholars, from a heterodox perspective, has shifted their attention to evaluating the impact of financialisation on the functioning and the

[30] Cited in Palley (2007).

[31] Cited in Stockhammer (2010).

real performance of modern capitalist economies.[32] Most of the relevant literature relates financialisation to important distributional, institutional and social developments that have modified the entire macroeconomic structure relative to the one prevailing in the Golden Age and have given rise to a coherent accumulation pattern that is embedded within a neoliberal regime of regulation. An important characteristic of this regime is its proclivity to systematically generate sluggish real investment, slower and fragile consumption growth and thus structurally deficient aggregate demand. Seen from this perspective, the financialisation trend is considered as highly responsible for the poor income and employment performance that has marked the transition from the Golden Age to the neoliberal era (see e.g. Palley, 2007; Argitis and Michopoulou, 2011).[33]

A key feature of financialisation consists of the shift in the balance of power between finance and industry. In contrast to the Golden Age's full employment-easy money strategies, restrictive monetary policies and the top priority of price stability as the main policy target are key institutional developments in central banking, that are associated with neoliberalism and the financialisation process, and have led to higher interest rates (Wray, 2007a; Epstein 2002; Crotty, 2000a). In view of this evidence, several economists, treating interest rate as exogenous distribution parameter defined by central banks strategies, infer that financialisation may have well increased income flows from the real to financial sector (see Argitis and Pitelis, 2006; Hein 2007; Hein 2006). Furthermore, the magnitude of this distribution effect is considered greater in view of the higher debt-to-capital ratios of firms and the heightened price competition in product markets observed in the era of financialisation (Palley, 2007; and Crotty, 2005). Empirical studies on income distribution for a number of countries shows that, in fact, since the early 1980s financial corporations, rentiers and in general holders of financial assets have received a growing share of national income at the expense of non-financial corporations (NFCs) (see Duménil and Lévy, 2005; Epstein and Power, 2003; Epstein and Jayadev, 2005).

[32] See, for instance, Dutt (2006); Skott and Ryoo (2007); Hein (2009a); and Hein and van Treeck (2007).

[33] Attention is therefore primarily paid to the domestic determinants of aggregate demand and national income. The international dimension of financialisation and its consequences on growth, employment and income distribution are addressed in chapter 2.

A number of researchers have extensively discussed the adverse consequence of this distributional effect of financialisation on aggregate demand and on the rate of capital accumulation. Argitis and Michopoulou (2011) and Stockhammer (2008), for instance, report that a fall in industry's current and/or expected profit rate negatively influence NFCs investment in real assets. Treating investment as a major determinant of profits, as suggested by Kalecki (1971), these authors also argue that lower current investment activity may in turn further lower NFCs profits and thus the propensity to invest. Hein (2009b) and van Treeck (2008a) also underscore that the fall in industrial profits, along with higher debt burdens and interest payments aggravate businesses' financial constraint, thereby discouraging investment spending on capital stock. Stockhammer (2008) also mentions that financialisation and heightened financial volatility fuels investment uncertainty and tends to make physical investment projects unattractive. This, in turn, may induce a shift of firms' resources to financial assets, impeding further real accumulation (Orhangazi, 2008). Besides that, the retreat of the welfare state and the abandonment of proactive fiscal policies are two additional institutional changes related to neoliberalism and financialisation that tend to worsen the aggregate demand deficiency problem (Palley, 2007). In this regard, Crotty (2005) argues that the lower degree of public intervention in the economy and fiscal restraint may intensify market competition and conflict-driven labour relations that, in turn, protract the decline in capital accumulation.

A second feature of financialisation and a significant change from the Golden Age to neoliberal era is the growing income inequality and precarisation of the labour class. Contrary to the Golden Age's high labour relations, intense pressures on firms to raise profits so as to lessen their debt burdens and adjust to the competitive market conditions have led them to treat labour poorly. NFCs constantly try to improve their profitability by cutting jobs and freezing employees' pay. Further, a shift away from centralised bargaining to decentralised wage setting and an increasing causalisation of workers has also been documented. Mohamed (2008) and Onaran (2004) also stress that the ability of NFCs to compress labour costs has been increased by their threat of relocating production where labour costs are lower and labour markets less 'rigid', as well as by the successful exploitation of this threat to create a political momentum for labour market deregulation and increasing flexibility. Finally, according to Argitis and Michopoulou (2011), this distributional effect has been intensified by the higher unemployment rates and labour shrinking militancy to resist the deconstruction of the welfare state institutions. Giovannoni (2010) and Jayadev (2007) provide empirical data indicating that in many countries the labour share in national income has indeed declined. Given that private consumption is the largest single component of aggregate demand (Stockhammer, 2010), this development is expected to reinforce the plunge in aggregate demand and income growth.

Another major feature of the financialisation process is related to the interplay between financial and social aspects. In a deregulated financial environment, growing income inequality has forced workers and households to become actively involved in the workings of the financial system. The retreat of public social provisions and wage stagnation, for instance, has been exploited by the financial sector through the supply of credit consumption and investment products. It has further induced households to invest a larger portion of their savings in pension funds and other financial products. For Lapavitsas (2010), this development has led to a sort of 'financial expropriation', i.e. the direct extraction of vast financial profits via personal income transfers, while for Russo Zanini (2010) it has introduced a financial risk in the precarious living conditions of ordinary people. Langley (2008) also underlines that the financialisation of social life may also have far-reaching psychological consequences on individuals, contributing to the development of a mentality of financial self-discipline. According to Cox (2001), this process has important political implications which, as discussed in more detail in chapter 2, play a decisive role in the sustentation and reproduction of the structural power of financial capital in modern capitalism.

Nevertheless, some scholars, on account of the increasing social participation in financial markets, note that financialisation is likely to have a stimulative effect on consumption, compensating to an extent for the contractive impact of wage restraint. Palley (1996), for example, stresses the short-run positive consumption demand effect related to increasing household indebtedness. Dutt (2005; 2006), similarly, notes that the wealth from holding financial stocks and enhanced consumer credit access may boost households propensity to consume and, therefore, effective demand and growth. Bhaduri *et al*. (2006), on account of this wealth effect on private consumption, claim that financial wealth may prompt a wealth-credit boom and consumption growth over an extended period of time. In this respect, Boyer (2000) has even identified the case of a 'finance-led growth regime'. Yet, it is also argued that such an expansive wealth-household debt-consumption constellation may in the long-run become unsustainable with negative consequences on distribution, demand, growth and financial stability. The recent financial upheaval, starting with the subprime mortgage collapse in the US economy in 2007 and spreading all over the world since then, can be considered as an illustration of this process.

A further institutional aspect of the financialisation process is linked to the evolution in the relationship between firms and banks. As already noted, in the recent phase of financialisation, the banking sector has moved away from traditional lending and borrowing activities toward mediating transactions in open markets. It has also turned to financing households rather than firms (Ertürk and Solari, 2007; Lapavitsas, 2009). Financialisation has, consequently, led banks to abandon the credit allocation policies they implemented in the past as part of national industrial planning; and firms to focus increasingly on financial markets for their finance requirements. In this way, as Russo and Zanini (2010) contend, the financialisation trend encompasses dynamics similar to those of the expansion of 'finance capital' in the pre-1929 era (Hilferding, 1981). Yet, the intensification of finance has caused the split of the banking and NFC sector, with banks and firms engaging directly in financial activities, rather than being 'merged' through bank lending. According to Argitis and Michopoulou (2011), such a tendency reduces firms' propensity to invest to long-term productive investment, impending industrial expansion. It may also be a reason behind higher private sector indebtedness that can aggravate the distribution effect of restrictive monetary policies as well as financial instability.

Another important consequence of financialisation is associated with the role finance plays in influencing firms and reshaping corporate governance. The growing importance of institutional investors, the quicker turnover of shares in equity markets and the increased pressures on firms to raise profits through financial market channels have made market sentiments and stock indices important in motivating corporate behaviour. In this connection, Palley (2007) and Stockhammer (2004) argue that the trend of financialisation has caused a drift towards a sharevalue orientation in NCFs, leading, in effect, to an alignment of managers' interests with those of financiers. This institutional change, which has been most pronounced in Anglo-Saxon economies, is considered to exert influence on macroeconomic performance through two channels (see Hein, 2009b; Orhangazi, 2008): first by affecting income distribution as a result of higher financial payments; and second by influencing aggregate demand because of short-termism in investment strategies of the NFCs' management, that crowds out investment in real capital stock.

As to the impact of shareholder value on income distribution, Lazonick and O'Sullivan (2000) observe a shift in management strategy from 'retain and invest' to 'downsize and distribute'. They assert that management has become more purposeful to find shorter-term solutions (e.g. higher dividend payment, stock buybacks) to raise firms' market value and satisfy shareholders' interests. As a consequence, the share of profits of NFCs paid to financial sector has significantly increased. Boyer (2000) also points out the prospect shareholders' claims for higher distributed profits to be passed through to workers, thus reducing the wage share in national income. In this respect, Lavoie (2005) and Palley (2006a) emphasise on the phenomenon of 'cadrisme', i.e. the wage discrepancy between managers and blue collar workers. For Hein and van Treeck (2007), this trend best captures the distribution impact of financialisation since managerial pay is at present increasingly based on 'performance-related schemes', i.e. it depends on firms' profit performance and financial returns (Froud *et al.*, 2002). Nolan (2003) finally treats the shareholder value orientation as a central thrust of the merger and acquisition frenzy and the great concentration of production taken place since the 1990s. He argues that this global big business revolution is a key aspect of the trend of relocation and the ability of corporations to use it as an implicit threat to roll back government regulations and deconstruct the welfare state.

The macroeconomic consequences of the increased role of shareholders linked to financialisation have also been explored at length by various authors. The general proposition is that it restricts both the goals of NFCs and availability of finance for firms' real investment, thus impeding capital accumulation and growth. Stockhammer (2005-6) and Froud *et al.* (2002), for example, mention that the increased shareholder power has shifted NFCs preferences to achieve high and unrealistic financial returns. Stockhammer (2004) shows estimations that suggest that financialisation has, in this way, engendered a slowdown in the accumulation rate. A similar argument is made by Aglietta and Breton (2001) and Boyer (2000). Aglietta and Breton (2001) point out that higher dividend payouts and stock buybacks absorb firms' funds committed to real investment. Boyer (2000) likewise asserts that stockholders set up a 'financial norm' on NFCs' management with detrimental effects on investment spending in real assets. Duménil and Lévy (2005) present empirical evidence that retained profits, i.e. profits after interest and dividend payments, have diminished over the recent decades, leaving firms with smaller amounts of internal funds to finance investment. Similar results have been reached by Orhangazi (2008) and Crotty (2005), according to which increased financial investments, as response to the portfolio view of NFCs, have been associated with lower investment in physical capital.

From the analysis above, emerges the picture that financialisation tends to create a macro environment structurally diverse from that of the Golden Age. In fact, the institutional change driven by neoliberal policies after the capitalist crisis of the 1970s (e.g. deregulations, privatisation, tight anti-inflationary macro policies) has been a central factor behind a veritable hypertrophy of the financial sector and the recovery of financial profits since the 1980s in the leading capitalist economies. This trend has co-evolved with a slowdown in real investment spending and consumption growth, lower retained profits, destructive and intensifying market competition and the erosion of the organisational strength of labour. Much of the favourable economic conditions that had characterised the first two post-war decades and underpinned the rapid economic expansion of that period have hence disappeared. As discussed in the course of our dissertation, financialisation dynamics and phenomena produced by the particular European policy institutions can be considered as main responsible for the inadequate macroeconomic developments in the Euro area and also as a cause for its current deep crisis.

Against this background, the crucial issue that plausibly comes up is related to the prospect of capitalist economies in pursuing a progressive macroeconomic policy that would prioritise income and employment growth to reverse the contractive impact of financialisation on economic activity. As long as macroeconomic policy shapes to some extent micro elements in capitalist economies and demand-led macroeconomic policies have been proved to be effective for stimulating economic performance, one should expect that states would have certainly considered this policy choice attractive. Nonetheless, national governments remain committed to a neoliberal policy agenda of market deregulation, privatisation and tight macroeconomic discipline. In our view, in dealing with this puzzling issue, attention should be attached to some critical political aspects associated with financialisation and neoliberalism. In the following chapter, we argue that the globalisation of financial activities, an important dimension of the financialisation process, together with the diffusion of free market ideas on policy-making cycles and a broad range of social activity have transformed financial markets into structures of significant political power. This structure, nowadays, restricts policy alternatives, deepens and spreads neoliberal dominance and financialisation, and by implication, consolidates financial interests within modern capitalist societies.

Chapter 2: Global Financial Structure of Power and the Reproduction of Neoliberalism and Financialisation

2.1 Introduction

As argued in chapter 1, since the last three decades global capitalism has entered into a fairly unstable stage of development. The Keynesian era of strong growth, sustained employment creation and financial stability has been succeeded by the present era of neoliberal dominance characterised by high unemployment, income stagnation, social inequality and high risks of financial crisis and debt-deflation episodes. The neoliberal fallout has reinforced voices mainly of the political and intellectual left that typically dispute the efficiency potential of free market capitalism and pinpoint the underlying inconsistency between its ethical and moral foundations and its proclivity to lead to deep and persistent problems of unfairness and instability. Many scholars based on this record pose questions about the long-term sustainability of neoliberalism,[34] whilst others on the occasion of the recent global financial and economic crisis even herald its imminent end.[35] These critical theorisations to neoliberalism frequently come along with constructive analyses for the conditions and structural characteristics of a 'new deal' that could form the basis for a more efficient and socially inclusive management of global capitalism.[36]

Despite the calamities produced by neoliberalism and the range of alternative policy proposals and development agendas, the neoliberal paradigm still dominates in the mind and practice of decision-makers, dominant political parties, international organisations, prominent economists and even ordinary populace. Left-oriented policy strategies that to an important extent drove the Golden Age of capitalism are meet with relentless criticism and challenged for many reasons. Economic policy continues to be formed on a set of orthodox conventions that prioritise price stability and fiscal rigour and assert the efficiency gains of free markets. The resilience of the neoliberal

[34] See, for example, Duménil and Lévy (2011).

[35] See Birch and Mykhnenko (2010).

[36] For alternative policy proposals to neoliberalism see, for instance, Davidson (1992), Tobin (1996); Epstein (2003); Arestis *et al*. (2005); PERI (2008); Pollin (2009); Hein and Truger (2010); UN (2010); Palley (1999); and Pollin and Thompson (2011).

agenda is blindly clear in the ongoing policy debate on the way out of the present economic and financial crisis. Non-mainstream insights that aptly locate the financial disruption on the set of neoliberal policies implemented in the last three decades are principally marginalised. Political energy is rather used up to policy initiatives that resolve to a single call for further market-promoting reforms and economic austerity. The political economy of capitalism clearly seems entrapped in a peculiar situation. Governments and international regulators prefer to sacrifice economic growth and social protection programmes to slay inflation and promote free market structures.

The key purpose of this chapter is to provide a political economy framework of analysis in an attempt to resolve this puzzling yet precarious situation. To do so, we try to scrutinise the relationship between the continuing tenacity of neoliberalism and institutional aspects of political power with the former being illustrative of the latter. Our main argument is that nation states economic policy options are today exposed to the existence of a hegemonic structure entrenched in the present neoliberal capitalist order which reflects and institutionalises the economic interests and politics of global finance. The power and conceptual coherence of this hegemonic structure derive from both material and normative aspects of social life, notably the liberal organisation of global financial markets and the role of dominant ideology, and are crystallised through formal institutional formations and disciplinary modes of governance. The interaction of those elements promotes and consolidates the representation of financial interests in economic policy-making and in essence constructs the real constraints that national governments and policy makers presently face to consider and pursue alternatives to the dominant neoliberal agenda and thereby effectively combat the contractionary impacts of financialisation quoted in the previous chapter.

The remainder of the chapter is structured as follows. Section 2 deals with the notion of constrained policy space developed from the examination of the margins left to national authorities for policy discretion in open economies under a regime of fixed and floating exchange rates. It outlines the pressures that international capital markets exert on the autonomy of national macroeconomic policy in a context of free capital mobility and sketches the way through which the current open global financial system bestows upon financial markets the power to inflict their deflationary preferences on the formation and character of contemporary policy-making. In Section 3, the role of the concept of policy credibility as a political counterpart of financial structural power is addressed. It is highlighted its function to institutionalise deflationary discipline in economic policy practice and to underlie the adoption of concrete institutional devices that impose, sustain and expand neoliberal restructuring and financialisation. Section 4 considers the contribution of normative factors to the legitimisation of deflationary economic policies and reproduction of the neoliberal order. In this connection, special attention is placed to the role of orthodox (neoclassical) economic theory in defending and propagating neoliberal policy prescriptions and institutional arrangements, despite the dislocations they create.

2.2 Capital account liberalisation and macroeconomic policy space

During the last decades, there has been observed a broadening gap between the task of sovereign governments to control their economic policy goals, as defined by domestic social, political and economic considerations at any point of time, and the outcome of their actions to achieve these targets. Although governments are still held accountable to their constituencies for the conduct of economic policy and the overall performance of the economy, the degree of state control over the determination of economic policy and the very means available to public authorities to manipulate policy outcomes have been drastically restricted by the decisions and world-scale activities of multinational corporations and in particular of financial institutions, which zeal for speculating and reaping immense profits in global financial markets is indisputably very strong. With the expanding economic role and power of transnational financial capital, national economic policies have become more responsive to the strategic interests and policy predilections of foreign financial investors, who control and determine the operation of global financial markets, rather than to the imperatives of domestic socioeconomic stability and political legitimacy (see Argitis, 2002; Epstein, 2009; Akyüz, 2007; and Underhill and Zhang, 2003).

To understand the impact of financial globalisation and speculative capital on the conduct of autonomous economic policies, we shall first set out the main features and rules that govern the operation and scope of activities of global financial markets. Today, financial markets are dominated by short-term speculative flows that surpass national borders in the search for the highest possible returns (Baker *et al.*, 1998). A great deal of these flows is controlled by dominant financial institutions that manage diversified investment portfolios and make profitable business by selling and buying assets denominated in various currencies. The degree of capital mobility, speculation, and asset substitutability between different financial markets represent thus important factors that determine the demand and supply conditions for national currencies and so the impact of capital flows on exchange rates.[37] Meanwhile, fiscal and monetary policy exerts influences over both domestic price inflation and interest rates, which, in conjunction with other parameters, affect the value of the national currency relative to foreign currencies. Therefore, policy interventions of national authorities which make domestic inflation, interest rates and the external position of the economy differ from those prevailing elsewhere directly influence currency dynamics and expectations and risk premia (Argitis, 2002).

The abovementioned factors affect the current and expected return of financial investors on interest bearing financial assets and to currency trading and therefore the speculative businesses and expected profit margins of global rentiers. Macroeconomic policy thus seems to be a decisive factor in determining the gains and attractiveness of holding different financial instruments denominated in national currency. Changes in the stance of macroeconomic policy that modify real interest rates and exchange rates directly impinge upon the profit-making strategies of financial investors in national capital markets and influence the conditions for financial investments relative to those present in other competing nations. In an open global financial marketplace with free capital mobility, this means that the formation and character of national economic policy represents a key determinant of the relative competitiveness and attractiveness of national financial markets. This, in turn, crucially affects one economy’s financing conditions, and thus its prospects for long-run economic and financial stability (ibid).

In this manner, financial openness and arbitrage have entailed an intrinsic link between the internal balance of national economies measured in terms of interest rates inflation, employment and output growth and the external balance determined by its balance of payment position and exchange rate. In a liberal financial system in which

[37] While financial capital circulates freely in the contemporary monetary system, it should be noted that it is neither perfectly mobile, nor perfectly substitutable internationally. As argued below, volatile risk assessments and expectations under conditions of fundamental uncertainty play also a central role in international financial trading, hence strongly influencing investors’ cross-border investment decisions.

international capital markets are highly integrated all these measures inevitably affect one another. This situation arguably involves an inevitable policy trade-off. Targeting one domestic policy variable requires the abdication of control over an external policy goal (see Pauly, 1997). In fact, given that independent economic policies may change domestic economic fundamentals and generate differential rates of expected financial returns and therefore volatile capital flows with disruptive potentials for the economy, the execution of policies exclusively centred on domestic considerations becomes very difficult. National governments should hence internalise such external pressures and adjust their policy targets accordingly (Oatley, 1999). To the extent that expansionary economic policies adversely influence financial profit expectations, this situation arguably implies serious constraints on the viability and effectiveness of pro-growth macroeconomic strategies (Moses, 1994; Keohane and Milner, 1996).

The channels through which financial markets constraint the implementation of expansionary policies vary depending on the policy choice of each country about its exchange rate regime. In the case of fixed exchange rates, a naïve, but informative, illustration of this situation is provided by what is known in standard international macroeconomics as the Mundell-Fleming model.[38] The model postulates that under conditions of free cross-border capital mobility there is a clear trade-off between two different policy options: exchange rate stability and monetary policy autonomy. This policy dilemma ensues because, given interest parity conditions and the high interest rate sensitivity of financial assets and liabilities, a monetary policy that substantially diverges from international trends will generate massive capital flows and exchange rate strains. From the logic of the argument therefore it becomes clear that a proactive monetary stance with a view to stimulating the domestic economy is fruitless since it will sooner or later lead to a rapid depletion of foreign exchange reserves and thereby to destabilising currency depreciation. Under fixed exchange rates thus an integrated financial system has obviously curtailed monetary authorities' option to carry out a stimulating monetary expansion. Gearing policy to keep currency stable takes clearly precedence over any other policy priority, if they want to avoid dwarfing international

[38] The original version of the model is found in Fleming (1962) and Mundell (1963). Note that any reference to the model does not imply full acceptance of its assumptions and policy implications. See below on that issue.

currency reserves and a possible financial crisis.[39] (see Cohen 2003a; Obstfeld *et al.*, 2004; and Dunn and Mutti, 2004).[40]

Under a currency peg, it is, yet, presumed that some policy space is preserved by fiscal authorities to stimulate real economy in a 'standard' Keynesian way (Weeks, 2009). In fact, with monetary autonomy lost and exchange rate policy devoted to the price stability goal, authorities can employ fiscal tools for growth and employment.[41] Yet, short-run external stability developments, i.e. market strains on the currency and balance of payment, often pre-empt the economy's long-run growth path. Continuous budget deficits and/or an unexpected loss of international competitiveness following a devaluation of trading partners' currencies are possible to spill over into external debt excesses, higher inflation and balance of payment disequilibrium. This may undercut investors' confidence in the viability of the fixed exchange, hence setting the stage for an abrupt capital exit and a large market correction of the exchange rate. The typical case is Argentina in 2001 (O'Connell, 2005), but similar problems were also evident in Mexico in 1994 and East Asia in 1997 (see Palley, 2001). Consequently, in a fixed exchange rate system with untamed capital mobility, fiscal policy also appears overly exposed to serious risks, if solely assigned to domestic real economy targets. Much like monetary policy, it should be sacrificed to placate financial investors' sentiments and expectations and preserve currency value stability (see Bradford, 2005).

The constraints facing expansionary strategies under fixed exchange rates are not merely related to policy induced changes in fundamentals. There are also aspects inherent to this exchange rate regime that the make the pursuit of progressive policies

[39] The devaluation of the British pound in 1992, leading to the withdrawal of the UK from the European Exchange Rate Mechanism (ERM) is illustrative of a policy strategy internally contradictory in terms of the aforesaid interdependency argument.

[40] As underlined in the next subsection of the chapter, this loss of policy autonomy is often considered by orthodox economists beneficial, when central banks lack credibility because of a track record of high inflation.

[41] Under a fixed currency rate regime, fiscal policy is an effective tool for real macroeconomic goals as the interest rate parity compels the central bank to accommodate the fiscal stimulus. More specifically, it is presumed that the fiscal stimulus will expand demand and hence income. The initial rise in interest rates triggered by higher deficit spending will then be counterbalanced by central bank intervention in the forex market to stabilise the national currency. The net outcome will be an expansion in national income with no changes in the exchange rate.

difficult. Palley (2003), for instance, notes that currency pegs face a constant problem of speculation, as investors can reap large capital gains by forcing an abandonment of the peg.[42] Furthermore, fixed exchange rates create a discounted risk of depreciation. This, in turn, creates incentives for imprudent borrowing in foreign currency, thereby leading to soaring external liabilities and financial fragility. Fixed currency rates also tend to bring about real appreciations as a result of slower price adjustments in non-traded goods sectors. In this manner, they may undermine export competitiveness and widen trade imbalances (UNCTAD, 2006).[43] Still, without the option of exchange rate adjustment to correct payment imbalances and accommodate real disturbances, economies exhibit greater vulnerability to asymmetric financial and economic shocks (Silva *et al.*, 2000). All these features inherent to currency pegging open the regime to significant currency risk which in turn can fuel expectations of a pending devaluation, since there is no a firm commitment to defend the peg. Hence, higher interest premia are required to maintain market confidence. Otherwise, abrupt speculation and capital flight may arise, eventually precipitating a currency collapse and the economic dislocations associated with such episodes.

These visible tensions between national policy autonomy and fixed exchange rates have recently led the strategy to fall out of favour. In its place, currency floating has gained eminence among orthodox analysts as the optimal choice for modern open economies (Dunn and Mutti, 2004; Rogoff *et al.*, 2003; and Bernanke and Mishkin, 1997). A flexible exchange rate is deemed as an effective absorber of macroeconomic shocks[44] and a device which permits public authorities[45] to recruit some policy space

[42] In reality, as Palley (2003; p. 69) argues, fixed currency rates provides for speculators a kind of 'one-way' gamble. If investors speculate against the currency and force devaluation, they reap huge capital gains. On the other hand, if monetary authorities succeed in averting the depreciation of the currency, speculators' losses will comprise a loss of the interest for a short period and the relevant transaction costs, which arguably are small given the advances in market technologies and electronic trading (ibid).

[43] This is because non-traded goods sectors are less exposed to competitive pressures on prices and real wages than traded goods sectors. This problem is particularly acute when the currency's exchange rate is used as a nominal anchor to curb inflation.

[44] In effect, in the event of an external economic shock the exchange rate is the price that adjusts to preserve balance trade equilibrium. Hence, if, say, export demand contracts due to an adverse external shock, the government can devalue the domestic currency to reduce export prices, improve trade competitiveness and thereby restore demand. Similarly, in the case of an internal shock, e.g. a domestic

due to the symmetric relationship between interest and nominal currency rates and its favourable spillover impact upon the trade balance.[46] Additionally, floating rates introduce a degree of currency uncertainty which guards against imprudent borrowing and lending practices. Thus, they make the economy less financially fragile and allow national authorities to ensure domestic economic balance without any preoccupation on external stability. However, since the 1970s the experience of the great majority of countries with currency floats does not support these arguments. This experience has been characterised by increased currency market volatility, excessive macroeconomic instability, chronic trade imbalances and frequent financial crises. These peculiarities have been associated with the well-known 'fear floating' (Calvo and Reinhart, 2002) and 'floating with a life jacket' (Calvo and Mishkin, 2003) hypotheses. In a world of free capital mobility, thus, also a system of market-determined currency rates seems to represent an exogenous constraint on monetary authorities to regain some policy autonomy and manage at will domestic real macroeconomic variables.

The reason of the inconsistency between theoretical premise and stylised facts is likely to situate to a neglected by the conventional analysis reality: the non-ergodic nature of financial exchange. Financial investment, as Kregel (1998) notes, is exposed to fundamental Keynesian uncertainty, i.e. agents are unable to make any determinate probability distribution over future returns, but only an unquantifiable estimation.[47] In the absence of appropriate institutions to manage uncertainty, Dow (2009) holds that capital allocation may well respond to investors interdependent expectations and herd,

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boom, the increase in interest rates will induce capital to flow to domestic economy and exchange rate to appreciate. The appreciation of the local currency will, in turn, hurt exports and encourage a shift in consumption from indigenously produced goods towards imports, hence putting a damper on the boom. Interestingly, such adjustment mechanism presupposes that Marshal-Lerner condition is fulfilled (see Weeks, 2009).

[45] In fact, in a floating exchange rate regime, only monetary policy is perceived effective in stimulating GDP growth as fiscal policy for growth, under a floating rate regime, is seen to drive interest rates and the currency value up, thereby nullifying the initial stimulative impact of the fiscal expansion (Oatley, 1999).

[46] For example, if the economy slides into slump, the central bank can set lower interest rates in order to induce a capital flight, which, in turn, depreciates the local currency and increases the demand for net exports.

[47] For a comprehensive analysis on Keynesian uncertainty and its micro- and macroeconomic implications, see Dow and Hillard (2002).

driven by successive streams of optimism and gloom.[48] Boom-bust cycles in capital flows and brutal currency gyrations and misalignments may hence become dominant features in forex markets infested by short-term, 'hot money' flows (Minsky, 1986). In phases of euphoric expectations, risk underestimation may prompt capital inflows, credit overexpansion and currency appreciation. The resulting build-up of debt and fragility or unforeseen policy shifts can however suddenly reverse this trend. Risk reassessment can cause abrupt capital flow reversals, credit crunch and a hard landing of the currency. Therefore, under this setting, exchange rate movements and capital flows, rather than portraying rational, rent-seeking, decisions predicated on economic fundamentals, are principally determined by short-term speculative instincts subject to the state of uncertainty (see Blecker 2003; and Harvey, 2010).

The existence of uncertainty and information asymmetries as endemic features of liberalised financial markets has important implications for exchange rate dynamics and macroeconomic management. Volatile market sentiments can negate the assumed market-clearing property of exchange rate floats, leading rather to multiple currency equilibria and jumps between them (Taylor, 2004). This can in turn impart excessive volatility to asset prices and interest rates and therefore provoke undue financial and macroeconomic instability (see Palley, 2001). Financial herding may also lead capital flows and currency rates to behave pro-cyclically and in this way to produce chronic external imbalances and rising fragility (D'Arista, 1996; Taylor and Eatwell, 2000).[49] Elastic expectations can further render the linkage between interest and exchange rate uncertain and unstable. Consequently, interest rate adjustments necessary to stabilise markets and the real economy may generate perverse influences on capital flows and the exchange rate, exaggerating, rather than alleviating, macroeconomic and financial instability (Akyüz, 2007). More essentially, endemic proclivities to financial runs and panics is likely to render any policy-induced change in fundamentals, that negatively

[48] As stressed below, conventions are also crucial in influencing and managing the herding instincts of financial investors.

[49] In boom phases, for instance, a tight monetary policy stance required to head off overheating may trigger a large influx of foreign capital in excess of the current account financing requirements of the economy. This can give rise to a currency appreciation and higher arbitrage profits, therefore further reinforcing inflows of financial capital and aggravating the country's fragile financial position (Akyüz 2007).

impinges upon investors profit expectations, susceptible to rapid and arbitrary market overreactions, often resulting in currency crisis and deep recessions (Cohen, 2003b). As a result, under uncertainty conditions, macroeconomic policy becomes powerless in managing the exchange rate and macroeconomic swings related to capital surges flight. Markets are instead in position to shape their own trend and fundamentals on the basis of financial agents' subjective expectations on speculative profit making (Davidson, 2003). This attribute imposes significant limitations on the formation and viability of an expansionary policy under a flexible exchange rate regime.

The implementation of an expansionary macroeconomic strategy with the setting of lower interest rates, use of deficit spending and presage of higher inflation and larger trade deficits, may be an event able to reverse rapidly investors' sentiments and trigger a severe capital flight. Large and sudden financial outflows may therefore dramatically reduce the currency value to levels that veer far from those suggested by fundamentals. Currency depreciation can also give birth to anticipations for a further depreciation, thus setting off a self-reinforcing process of additional capital flight and currency plunge. Furthermore, expectations of import price-led inflationary pressures, along with private sector's borrowing in hard currency to ease higher service burdens on foreign currency denominated debt, are likely to make exchange rate adjustments even more violent. In addition, abrupt capital reversals may also cause a crash in asset prices and interest rates hikes in money markets reducing demand and ushering in a deep recession. A loose monetary policy needed to avoid this situation may accelerate capital flight. Policy-makers may hence be forced to procyclical responses tightening their stance to check capital outflow drift and stabilise the currency. However, under crisis conditions, liquidity constraints imposed by international lenders can emerge. In consequence, procyclical policy measures may be unable to prevent the collapse of the currency.[50]

Furthermore, violent exchange rate misalignments and asset prices crumbling can undermine financial stability especially in economies with large foreign currency denominated debts. Debt servicing difficulties, liquidity and solvency problems may

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[50] This plausibly explains why austerity economic programmes implemented during financial crises in several developing countries as a condition for receiving IMF 'rescue' loans proved incapable of preventing a currency collapse. As argued below, these programmes contribute instead to exaggerating financial system instability and deepening economic recession with significant social cost.

in turn pave the way for a full-blown banking and corporate crisis, thereby deepening recession. Additionally, financial turmoil and economic contraction may protract, if exchange rate misalignments become unable to rectify the trade imbalance. This may arise as a result of the time lags involved between the exchange rate and trade position adjustment. It can also ensue from high pass-through costs that may prevent a nominal depreciation from leading to a real depreciation and hence to substantial competitive gains (Lopez and Perrotini, 2006). Finally, Kriesler and Nevile (2003) point out that the Marshal-Lerner condition may not be satisfied,[51] so that even a real devaluation is likely not to improve the trade balance. If the trade position does not respond rapidly and positively to currency depreciation, this may nurture expectations for a further depreciation in the exchange rate. As a result, a second round of capital exit and credit crunch may be set in motion perpetuating financial and economic disruption.

The abovementioned economic costs associated with financial speculation in a regime of floating rates can also amplify the contractionary effect inherent to currency devaluations. There are various reasons why devaluation can be contractionary. These reasons include the decline in real wages and the rise in the mark-up in firms' pricing that depress private consumption, as well as the higher cost of imported goods utilised in production and of servicing foreign currency debt (Krugman and Taylor, 1978; and Razmi, 2007).[52] In addition, devaluations may discourage private investment activity owing to expectations of a possible increase in future interest rates and the higher debt ratios of firms with foreign currency denominated liabilities. Moreover, devaluations and exchange rate volatility bring with them real costs related to currency uncertainty and risk. To protect against exchange rate exposure producers may, for instance, be forced to sustain inefficient overall excess capacity. Besides, hedging against currency risk increases the cost of international trade and therefore firms tend to diversify their

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[51] The Marshall-Lerner condition is not satisfied when the sum of price elasticities for exports and imports in absolute terms is less that unity. While these elasticities are generally low in the short-run and may rise in the long-run, as implied by the J-curve concept of trade balance adjustment (given that consumers and producers will adjust to the new prices), this long-term improvement may never happen provided that the initial short-run J-curve worsening in the trade balance may feed expectations for a further devaluation, thereby generating a new J-curve and a new reduction in the value of exports (see Davidson, 2007, cited in Blecker 2009).

[52] Cited in Blecker (2009).

sources of production geographically. Such hedge-driven globalisation of production erodes labour unions' bargaining power and hence tilts income distribution away from wages (Palley, 2003). Exchange rate volatility and mispricing can thus also contribute to the increasing income inequality associated with globalisation, cited in the previous chapter.

The above analysis brings hence out clearly that under both fixed and floating exchange rate regimes left-oriented macro policy management becomes problematic, if a country is fully committed to free capital flows. In the former case, it runs the risk of creating actual or expected inconsistencies between fundamentals and fixed parity that jeopardise financial returns and thus currency stability. Furthermore, economies with a currency peg are exposed to the inherent propensity of the regime to engender financial fragility and encourage speculation because of the absence of the exchange rate as macro adjustment mechanism. In the latter case, expansionary macroeconomic policy is challenged by the asset market character of foreign exchange markets. This opens it to speculative manias and herding, exchange rate overshooting, trade balance misalignments and excessive financial and macroeconomic instability. On account of the destructive economic and financial potentials of a capital exit that may accompany the implementation of a progressive macroeconomic agenda, governments and policy-makers are today increasingly compelled to eradicate real economy policy objectives (i.e. growth and jobs) from the spectrum of their strategic policy options and decisions (Bradford, 2005).

In terms of macroeconomic policy management therefore the contemporary global financial architecture has essentially restored one of the fundamental attributes of the *laissez-faire* organisation that the Bretton Woods regime intended to break; i.e. the incompatibility of full employment national policies within an environment of free capital mobility. In fact, as Ghosh (2005) argues, the current financial order inflicts on economies much as constraints as the pre-WWII international monetary system did. Financial sector proclivity to engender increased instability, fragility and speculation acts as adamant constraint on the pursuit of socially inclusive policies. Any attempt of governments to follow a full employment strategy is apt to build adverse expectations to market speculators and lead to an overwhelming crisis. Davidson (2007) relates this phenomenon to the tendency for international interest rate equalisation which results from arbitrage capital flows among national capital markets and the desire of national governments to shield their economies from capital exit. Moore (2004) and Vernengo and Rochon (2000) mention that interest rates effectively tend to converge to a higher equilibrium level owing to heightened competition among countries to attract mobile capital and counter potential speculative manias. Economic policy is thus increasingly shaped by market dynamics driven by the sentiment and deflationary preferences of speculative finance (Argitis, 2002). Considering this trend, Felix (2005) and Mosley (2003) emphasise that unrestricted international capital mobility imposes considerable market discipline on national macroeconomic policies with important contractionary effects on real income and employment (see also Ocampo, 2010; Kirshner, 2003a; and Akyüz, 2000).

This situation arguably also implies a radical reconfiguration of the structural relationship between nation states and international financial markets. Cohen (2008) argues that the disruptive capacity of capital mobility becomes a threat that sways the range and path of national economic policies. State officials have no ample margins for mistakes or sidetrack as markets can penalise any macro strategy seen to be out of sync (Genschel, 2004). The predicated outcome is the rollback of both the regulatory functions of the state and the social infrastructure of national policies (Strange, 1997). Redistributive policies related to welfare state interventionism, which otherwise could be effective, lose their attractiveness and public policy is nowadays increasingly re-directed to sustain financial order (Swank, 2005). This development represents a clear break from the policy approach prevailing over the early post-war epoch, when states acted as prudent guardians of market excesses and economic policies unhampered by market pressures responded to wider public demands and social expectations. Capital mobility, from this perspective, is a structure that systemically constraints the policy space of nation states (Andrews, 1994) and eventually enforces a sort of 'embedded financial orthodoxy' on the policy-making processes (Cerny, 1994).This development reasonably raises serious questions concerning the democratic legitimacy of national economic institutions and the social credibility of governments across capitalist states (Underhill and Zhang, 2006; Pharr *et al*. 2000).

The restricted autonomy of national economic policies by the global scope of markets has also noticeably increased the power and influence of financial actors at both national and transnational level. Gill and Law (1989), Walter (1993), Argitis and Pitelis (2006) and Seabrooke (2001) assert that financial globalisation has stimulated the formation of a ‘global financial structure of power’ by which financial capitalists coercively constraint policy options and contour the conditions under which national policy makers make decisions according to their material interests. This type of power stems from the ability of global wealth owners to judge the investment climate around the world and channel funds rapidly and massively where they expect to obtain higher financial returns. According to Harmes (2001) and Sinclair (2005), this conception of power involves also important elements of hierarchy and control. In this respect, the authors indentify the prominent role of key financial actors, e.g. institutional investors and credit-rating agencies, in centralising and collectivising investment behaviour and activity. Due to their capacity to control a large part of global credit supply and shape markets sentiment, Harmes and Sinclair conclude that these financial institutions are, in effect, the new masters of capital and underline their authority to impose what they consider as a sound and optimal policy practice on sovereign borrowers.

This form of power reasonably turns out to enclose a strong social dimension, altering the political aspirations of and distribution of power between social groups in modern political economies. Inasmuch as private financial agencies have the capacity to mobilise at will large blocks of capital and to the extent that this action may bring harmful economic repercussions, these market actors are able to narrow in a coercive manner the range of choices and the bargaining power of less powerful social forces, such as domestically-oriented firms and labour, concerning the character and direction of macro policy. In fact, Epstein (2002) observes a remarkable retreat of the political power of labour and domestic industry to promote full employment policies, typically associated with their interests, as a result of financiers’ credible threat of capital flight. This political element plausibly appears even more acute in the contemporary phase of financialisation marked by rising income inequality, market risks and dislocations that mostly afflict these less internationally mobile factors of production. In this way, capital market openness and the ensuing right to exit has clearly assigned to financial speculators a forceful political voice (Hirschman, 1970). A potential investment strike becomes a strong bargaining tool in the hand of leading financial institutions to veto policies, economic targets and broad social claims that deviate from their norms and interests (see also Epstein, 2009; Rodrik, 1999).

One important point that deserves recognition is that the disciplinary power of unrestricted speculative capital in the face of an expansionary policy does not develop smoothly and in tandem with the benefits this stance. It can rather occur in a rush well before the benefits occur, just on the anticipation of events risking financial interests. Investment decisions are typically made on the basis of shared propositions of what is a prudent policy. When these ideas, however, are shared by enough people, they may turn into self-fulfilling prophecies able to doom any progressive policy proposal, only because of the common belief that this policy stance is unsustainable (Eatwell, 1996). [53] In consequence, beliefs and expectations of financial institutions represent another source of the structural power of capital markets to discipline proactive demand-side policy programmes. Under the fear and potential of self-fulfilling speculative capital flights, governments are therefore often prevented from even designing policies that could signal to financial investors that the country might deviate from their norms and prerogatives (see Terzi, 2006; Grabel, 2003; and Pollin, 2000).

These constraints are reasonably greater for small, trade dependent developing economies, where the regulatory and institutional framework is weaker and debt ratios are high and mostly denominated in foreign currencies (UNCTAD, 2006). But even larger countries have suffered from the disciplinary power of financial capitalists. The French franc crisis in 1982, the British sterling and Swedish krone crises of 1992 and recently the Euro sovereign debt turmoil are some episodes linked to investment strike and capital flight. Moreover, Argitis (2002) underlines the appearance of new reserve currencies and the increasing competition among leading economies to improve the competitiveness of their national financial centres to attract global finance as a major reason behind the increasing constrains over policy autonomy. Stockhammer (2010) also comments that the post-Bretton Woods capital account liberalisation has enabled countries to run large and growing current account deficits over a prolonged period of time. This has in turn increased exchange markets fragility and the potential for sharp capital inflow reversals and currency crises. For Grabel (2004), financial liberalisation and integration has allowed the spread of a crisis and its disastrous economic effects

[53] Expectations and fears, for example, about the likely inflationary and budgetary repercussions of an expansionary policy stance may generate a sharp market reaction, leading to abrupt increases in interest rates and overshooting of the exchange rate, even if inflation and/or fiscal imbalances do not emerge. Sky-rocked interest rates and violent exchange rate misalignments can then result in an overall failure of such policies and, even worse, doom the economy to a deep recession. The 1982 speculation against the French franc and the subsequent Mitterrand's 'U-turn' is a well-known case in point.

to other countries, a process known as ‘contagion effect’, thereby expanding financial discipline and power to countries that seemingly pursue sound, i.e. financially robust, policies. This threat has become amply evident in the 1997 South East Asian crisis, but also in the current global financial meltdown.

Moreover, the disciplinary power of financial capital over expansionary macro policies has been amplified by increased trade openness resulting from globalisation. Blecker (2009) contends that if countries under the danger of capital exit are unable to keep interest rates sufficiently low to foster employment, they may be tempted to run export-led strategies instead through wage deflation. This policy approach is yet likely to prompt retaliations in the form of beggar thy neighbour trade policies, eventually triggering global deflation. In addition, free trade contains a significant contractionary bias in that it shifts the entire onus of adjustment to countries running current account deficits. While surplus countries can keep their surplus accumulating boundlessly by amassing foreign currency reserves, deficit economies, in the absence of equilibrating capital flows, need to bridge their payment imbalances through deflationary policies. In this way, Blecker (2009) mentions that the international payment system may drag down the world economy due to lower export demand. These considerations have led several authors to treat the balance of payment position, in a context of both trade and capital liberalisation, as the constraint of the maximum growth rate which capitalist economies can sustain in the long-run (Thirlwall, 1979).[54] Under this setting, higher growth directly hinges on macroeconomic policies that boost market confidence and help attract capital inflows.

The disciplinary potential and structural empowerment of modern finance has also been reinforced by the absence and the difficulties involved in the construction of an effective pattern of international economic policy coordination. There are several obstacles that impede the building of a viable institutional and operational context for international policy coordination. First, cooperative arrangements would require long time to be launched provided that macroeconomic policy adjustments entail complex and asymmetric effects among different economies and domestic rival interest groups (Frieden, 1991). Furthermore, these initiatives would arguably require strong political support and commitment- a prospect quite uncertain as regards the leading economies,

[54] See also McCombie and Thirlwall (2004), McCombie (1997), Moreno-Brid (1998-1999) and Blecker (1998) on the balance of payments constrained growth model pioneered by Thirlwall (1979).

because in the current, highly competitive world economic order their national policy autonomy and monetary power vitally depends on the attractiveness of their financial markets and dominance of their currencies in international markets. Cohen (2003a), finally, asserts that an effective blueprint of international policy coordination would require the patronage of international financial institutions, given markets inclination to react rapidly to any policy mandate. However, in the present era of financialisation, in which social and economic power has shifted towards financial interests, finance's support to these initiatives appears reasonably very doubtful. Convincingly, all these impediments for coordinative plans are important and plausibly amplify the restraints on the space for autonomous national macroeconomic policy.

As a whole, therefore, from the preceding assessment it comes out that under conditions in which financial funds spill in and out of national borders, the authority of national governments to make substantive decisions influencing their own material prospects, and especially their capacity to deliberately manipulate domestic economy is currently shifting out of their control and towards capital markets. Financial market preferences form a strong constraint on the conduct of autonomous macroeconomic policies and national policy-makers must consider them when making choices about policies. If macro policy fails to comply with investors' preferences, then the negative expectations of making profits may bring about an investment strike and capital flight toward countries that offer an investment climate more hospitable to financial capital. In this manner, capital exit constitutes a serious threat that has assigned to the private market institutions and people that manage large mobile asset portfolios a significant structural power through which they can veto any policy agenda that contravenes their material interests. In consequence, in a regime of high level capital mobility, national macroeconomic policy is practically held captive to the expectations and speculative appetites of international financial investors. A potential investment strike and capital exit appear as strategic weapons in the hand of wealth owners, that public authorities cannot ignore with impunity, because, if exercised, may give rise to a severe currency crisis with destructive repercussions for the real economy.

2.3 The notion of policy credibility and the constitutionalisation of neoliberalism

Governments facing the irresistible threat of potential capital flight are today obliged, as never before, to preserve market credibility. Credibility has become a bedrock and popular policy notion among contemporary policy-makers and essentially summarises the central priority of contemporary macroeconomic policy. It emerges as the unique option available to build market confidence and win favour with international money-lenders. The policy credibility argument simply states that the unique policy option to avoid speculative attacks and disruptive instability in national economy is to convince financial investors that macroeconomic policy will be lastingly committed to a policy agenda that minifies financial risk and fosters a favourable environment for financial investment. If that goal is attained and policy succeeds in conciliating capital markets and win investors' support, then financial flows of foreign capital on reasonable terms are also expected to be encouraged. This, in turn, is supposed to facilitate countries to fund their specific development patterns and improve the international attractiveness of their national currencies (see Coulibaly, 2011; Buiter, 2002; Grabel, 2000; Palley, 2001; Argitis, 2002; and Eatwell and Taylor, 1998).

The credibility of national policy is scrutinised and judged by a small group of financial elite present in the capital markets and financial agencies of some advanced economies (Mohamed, 2008). In evaluating governments' credibility, markets focus on few macro aggregates, policies institutional design and track record based on their own assumptions about economic rectitude.[55] As such, the policy credibility criterion basically depicts capital markets preferences for and views on the character of policy processes and outcomes (Clift and Tomlinson, 2004). Dominant financial institutions also validate the credibility of the implemented policies to other market investors and national policy-makers. The infusion of capital flows, for example, acts on itself as a sufficient and uncontested indication of high policy credibility thereby shaping market sentiment and determining policy effectiveness (Grabel, 2000). Since capital inflows loosen the borrowing constraints of the economy, financial valuations about national

[55] Credibility analysis is hence based on value judgments (Clift and Tomlinson, 2004). As underlined below, central assumptions and postulations of neoclassical economics, and of its various strands, play a key role in this process.

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policy credibility also designates the degree of flexibility and policy space for national authorities to pursue 'independent' policies. Therefore, the notion of policy credibility essentially operates as a tool by which financial imperatives in a world of high capital mobility exercise pressures on national policy-makers and social forces. It occurs, in other words, as a central policy concept that underpins investors' power to discipline states that perform policies inconsistent with their material interests.

The credibility of national macroeconomic policies is directly associated with investors' profit making expectations and the state of uncertainty and risk of holding national financial assets. In this regard, credible policies are perceived those that give total priority to the stabilisation of monetary variables as the primary macroeconomic policy goal. This agenda typically recapitulated as macroeconomic discipline (Eatwell and Taylor, 1998) entails the pursuit of low and stable inflation and balanced national budgets (Balls, 1998). Credibility is also acquired through policies that assure a small role for state in the economy (deregulations and privatisations), as well as by policies that promote financial sector liberalisation and free trade (Huerta, 2008) This policy project is nowadays set out and formally consolidated by the 'Washington Consensus' agenda (Williamson, 2000). Beeson and Islam (2005) remark that this project captures the transition to global neoliberalism following the displacement of Keynesianism and imparts a free-market, deflationary policy bias to the national economic systems that largely reflects the views of multinational financial institutions about the development path of both advanced and emerging economies. Any departure from this financial orthodoxy may become a sign of a loss of credibility and thus elicit a severe financial punishment.

This coercive enforcement of neoliberal, restrictive economic programmes on states under the fear of a potential destructive capital exit describes a political process that Gill (1995) labels as 'disciplinary neoliberalism'. According to Gill, disciplinary neoliberalism denotes a central arrangement of the contemporary political economy of globalisation and delineates the powerful structural position of finance in a world of unrestricted capital mobility. It explains the increasing conformity of states towards a neoliberal policy agenda set by financial markets in an attempt to shape a predictable and financially reliable, i.e. low risk-bearing, investment climate, which would enable them to secure greater financial stability and redirect their effort toward improving the domestic economy. The origin of this finance-led neoliberal discipline is found in the capacity of financial capital to scan in a highly integrated global financial marketplace the degree of countries hospitality to foreign mobile capital. Its mediating force is the notion of policy credibility building and its institutionalisation is manifested through policy prioritisation against inflation and the promotion of market-oriented economic goals.

The disciplinary neoliberal governance system could therefore be theorised as the particular institutional arrangement that portrays the systemic contractionary bias inflicted by the present open and highly speculative world financial order on national macroeconomic outcomes. As a matter of fact, it reasonably delineates the underlying political and systemic barriers that most national economies face in the present phase of neoliberal financialisation to deal with the perverse social and economic effects of the process by means of activist macroeconomic strategies. In fact, as the construction of policy credibility and states ability to gain a certain amount of policy space directly depend on the neoliberal predilections and speculative discretion of finance, countries enjoy little if anything margins to deviate from the policy agenda of financial markets; hence are forced to be vigorously committed to a neoliberal policy programme. In this way, the idea of policy credibility in effect holds national policy processes and social deliberations over its direction 'hostage' to neoliberal practices and its pursuit makes financial markets 'the *de facto* makers of policy' (Palley, 2001; p.113). Consequently, what is pretended as a concept intended to help the conduct of macro policy ends up a 'trap' (ibid) that virtually surrenders national economies into an unfortunate situation of perpetuated stagflation and macroeconomic instability.

Perhaps more importantly, as far as sustained infusions of foreign capital and monetary power are supposedly largely contingent on the establishment of neoliberal policy institutions; and neoliberal restructuring, as underlined in chapter 1, represents a principal impetus behind the expanding role of finance within economic and social activity, disciplinary neoliberalism can also be conceived as a policy arrangement that deepens and expands the financial-led transformation of capitalism, thereby imposing what can be termed as 'disciplinary financialisation'. This phenomenon influences all economies with liberalised capital markets, with different intensity and extent though. For industrialised economies already lying on the path of financialised restructuring it entails the intensification of the finance-led accumulation regime and of its associated patterns of financial profit extraction and dominance over the productive forces of the society. For emerging economies, it implies the constant retreat of national systems of financial repression and a corresponding tendency of convergence towards an Anglo-Saxon financialised type of capitalism. Therefore, disciplinary financialisation can be conceptualised as a process that reinforces and effectively proliferates the risks of the financialisation trend itself: it places additional constraints on national policy-making, escalates macroeconomic instability and increases social polarisation and insecurity. In our opinion, this spin-off phenomenon of finance-led neoliberal discipline provides important insights into the structural causes for the severeness of the global financial and economic malaise and for current moment of crisis of EMU particularly.

In the modern political economy of neoliberalism, policy convergence towards financial economic orthodoxy and disciplinary financialisation are not the mere result of market forces. They are also institutionalised through the mobilisation of particular forms of political arrangements and multilevel governance (see Munck, 2005). These political structures represent a sort of 'new constitutionalism' that aims at putting into effect legislative neoliberal reforms with a view of securing macro discipline, private property and maximum investor freedom (Gill, 2000; 2001). The ultimate objective of this strategy is to make public institutions and society more open to the discipline of finance and thereby produce and secure the highest degree of policy credibility. In this perspective, 'new constitutionalism' can be considered as a governance project that in practice provides the politico-legal dimension of the structural power of highly mobile global capital (ibid), and thus of the trend of disciplinary financialisation. As a result, it denotes the concrete set of institutional arrangements accountable for the perverse economic and social developments observed in current era of financialisation

This new form of governance functions at both national and international level in an interconnected way. Domestically, it is closely related to the quasi-restructuring of the state into an active organisation of adjusting national policies to the imperatives of a financialised global economy. The modern nation-state, in other words, acts as a device that transmits particular sets of neoliberal norms and principles into domestic regulatory and policy-making framework, where hitherto it had operated as a rampart protecting domestic economic welfare and social regulations from external shocks. In this context, the institutionalisation of the power of global finance within the state and civil society formations involves active and concrete governmental initiatives (Jessop, 2002). For Cerny (2000), this process can be best captured by the gradual shift from the post-war industrial welfare state to the modern 'competition state'. Holman (2001) considers the rise of competition states as a part of what neo-Gramscians describe as the 'internationalisation of the state' (Cox, 1992), a process that incorporates both external and internal concepts of hegemonic control.[56] In like manner, Harvey (2005), observes the emergence of a 'neoliberal state' that protects the new reach and depth of capitalist elite interests through procedural and rule-governed approaches. This set of domestic governance initiatives includes a concrete transformation of the institutional and administrative environment of anti-inflationary economic policy.

At macroeconomic policy level, discipline is safeguarded through institutional or legal amendments that intend to expel any aspect of social deliberation, instruction, guidance or interference from policy formulation and execution. This is seen to render policy conduct unwaveringly committed to a sound anti-inflationary strategy (Grabel, 2000). The most common institutional reform believed to carry out disinflation policy more credibly is central bank independence (Posen, 1998). The rationale for central bank independence hinges on the conviction that politically accountable governments are inclined to renege on prudent policies previously committed to in an effort to buy political support and achieve certain real economic objectives. As a result, monetary authorities may engage in an inflationary behaviour, even if are aware of the harmful longer-term effects of their actions. Independent central bankers, on the contrary, are not exposed to such temptations. Freed from undue political control and drawn from a social group traditionally hostile to inflation, these actors are supposed to endorse and run policies that advance long-lasting price stability (see Hall, 2008). This, in turn, is expected to deliver a credibility bonus to monetary policy and help market inflation expectations stay steadily anchored at low levels (Polillo and Gullién, 2005; Alesina and Stella, 2010).

[56] This implies that external market pressures are internalised and indeed diffused through institutional processes and forces within a given local social formation. In this respect, important is the significant empowerment of public agencies, like finance ministries and central banks, that deal with international economic issues relative to those dedicated to matters related to domestic employment and welfare, like ministries of labour, health, industry and environmental protection. As argued below, this process also involves the construction of a broader social alliance that considers its interests in closest touch with the development and workings of the financial sector.

The institutional insulation of monetary policy from short-sighted, inflation-prompting, political objectives includes also the adoption of appropriate guidelines to set monetary practise. In this context, it is suggested that a rule-based monetary policy is the best policy practise to further promote central bank anti-inflationary credibility. By adopting a rule, the central bank is supposed to pre-commit to avoid expansionary monetary shocks, hence disappearing any problem of dynamic inconsistency. A rule-based policy strategy also permits monetary authorities to draft a contingent plan for their future policy responses. This stabilises financial markets price expectations and contributes to the de-escalation of inflation (see Nikolov, 2002; and Woodford, 2000). Monetary or inflation targets represent typical forms of such rules. A monetary target is regarded to serve as a commitment device on account of the stable long-run relation between money growth and inflation (Mishkin, 2002). Inflation targeting, on the other hand, refers to the firm commitment of a central bank that the primary objective of its monetary policy is to reach and maintain a specific, low, rate of inflation over a pre-determined time horizon (Bernanke *et al*., 1999). As argued in chapter 4, a preference shift towards inflation targeting is today in progress. Yet, in both monetary strategies the purpose appears identical, i.e. to send to financial traders a uniform and consistent signal about the political determination of public authorities to put the economy on the 'right' and credible direction.

In some other instances, the thrust for a credible anti-inflationary commitment has also encouraged the adoption of fixed exchange rates. Fixing the exchange rate is held to serve as a mechanism that impedes monetary authorities to run esxpansionary policies, as it provides a highly visible commitment to market agents and hence raises the economic and political cost of a currency fall, following a loose monetary policy. Some countries have also opted for the adoption of a currency board to build further credibility. Apart from being committed to a fixed exchange rate, under this monetary system public authorities give up control over the local money and are locked into an arrangement, whereby the growth of the domestic money base in circulation is legally bound to foreign exchange holdings. This regime ties the hands of policy makers and supposedly enhances credibility by limiting the possibility for monetary authorities to implement an inflationary quantitative easing or pursue policy goals other than price stability. In few occasions, there has also been occurred a regime shift to dollarization. This entails the full replacement of the domestic currency with a hard currency so that the national currency unit virtually ceases to exist. This strategy is intended to foster credibility by eliminating any risk of currency devaluation and surprise inflation, thus leading to lower credibility risk premia in dollarized economies (see Palley, 2001; and also UNCTAD, 2001; Hanke, 2002; and Aizenman and Glick, 2008).[57]

Legal and administrative arrangements regulating the institutional context and conduct of a stability-oriented policy are also ushered in the area of fiscal policy. This is primarily reflected in the strict budgetary rules and regulations established to abate any active use of fiscal policy tools and safeguard fiscal discipline. Consistent with a political economy conception of the government as opportunistic actor, the rationale for these institutions is to make authorities commit to a prudent fiscal behaviour that may well contradict their short-term interests in the light of other immediate, political, priorities. Besides, a rule-based fiscal system is also recognised to lower uncertainty about future fiscal developments and enhance the accountability of policy-makers to markets, thereby creating incentives for them to adhere to sound fiscal strategies. In this manner, fiscal rules are perceived as an effective disciplining mechanism, which guarantees persistent fiscal consolidation and enhances investors trust in governments commitment to long-term public finances sustainability (Drazen, 2002; Kopits and Symansky, 1998). This is supposed to reduce interest rates risk premia; support and reinforce central bank independence; and secure an overall, financially sound, anti-inflationary policy-mix. Based on this insight, Manganelli and Wolswijk (2007) note that fiscal institutions constitute a necessary political complement and, in effect, a strong promoter of financial market discipline on national fiscal processes.

There are several examples of fiscal deficit rules and regulations in operation worldwide that apply across every tier of governance from local authorities to nation states. Schematically, one can distinguish between three types of institutional settings. The most common refers to the introduction of numerical budgetary rules. Such rules typically target the public deficit and debt ratios (deficit balance and debt rules), on an annual basis, or on average over a given period. They are enshrined constitutionally or legally and supplemented by strict monitoring and enforcement mechanisms. Another way of curbing fiscal profligacy is through procedural rules of the budgetary process,

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[57] This especially applies in countries that lack technical and institutional capacity to perform inflation targeting. For the institutional requirements of implementing inflation monetary strategy, see in chapter 4.

i.e. the process stipulated in law or constitution, which governs the elaboration and approval of the annual budget. A final option concerns the enactment of independent committees in charge of providing unbiased inputs, drafting assessment reports and/or formulating recommendations on public finances with the aim to increasing reputation costs for pursuing irresponsible policies. Recent proposals by orthodox academia call also for the delegation of fiscal policy to independent fiscal agencies (Calmfors, 2003; Wyplosz, 2005). While presently there is no example of such an agency in operation, these proposals portray initiatives towards further secluding fiscal policy from the vagaries of political consultation, where presumably inflation-prone objectives often predominate.

Although the new form economic governance identifies price stability as the fundamental macroeconomic concern of modern societies and deploys constitutional arrangements to renounce stimulatory fiscal and monetary policies, political measures of restrain are also introduced at microeconomic level. These usually take the form of governmental initiatives that promote neoliberal micro-structural reforms. Their aim is to ‘roll back’ remnants of the regulationist welfare state and ‘roll forward’ market-centred forms of governance. This is deemed to close off the inherent inflationary and inefficient state interference on the economy, thereby cementing policy credibility and entrenching country’s competitive position in global financial markets. Such state-led neoliberal micro reforms include labour markets deregulations, reduction in taxes on business and investing class, privatisation of public services and state-owned firms, the full liberalisation of capital movements, cutbacks or even the abolition of social welfare programmes and, in many occasions, privatisation of pension systems (Glyn, 2006). Perhaps the clearest example of increased state activism for the promotion of competitiveness is the struggle against trade unions in the UK and the US during the 1980s. Similar trends of state action have since then appeared in continental Europe, Latin America and Third World countries, and currently across Eurozone member states as part of their scramble to rebuild the shaken confidence in the sovereign debt markets.

This institutionalised redirection of state intervention toward the promotion of policy credibility through neoliberal micro reforms is not static in time and space, but features dynamic attributes. In this connection, Scharpf (1997) observes a process of ‘competitive deregulation’ that refers to the incessant deregulating arbitrage between countries to attract a larger share of capital flows. Cerny (2008) similarly reports a re-regulation trend, i.e. a complex process of drafting new regulations, that protects and promotes free market order, designed to advance economies' competitive position in global financial markets. These structural reforms are implemented either gradually or abruptly in the form of shock therapy policy measures. Grabel (2000), yet, remarks that a rapid and decisive reform plan is typically seen as the most financially credible approach because it conveys to markets a clearer indication about the direction of the economy. Reformers are also able to carry out a radical change only in the early stage of the new regime before any political reaction put the implementation of the reform programme in danger. Still, when authorities lack the political capacity to inaugurate credible structural reforms in the face of heavy social unrest, a strong internal security and in few cases even political repression is often required to be exercised. The cases of Chile and Argentina are perhaps the most paradigmatic of promoting neoliberalism through state repression and other authoritative sources of power.

Apart from the mobilisation of domestic institutional lock-in mechanisms, the enforcement of neoliberal restructuring via credible constitutional and legal structures is also achieved through participation in intergovernmental financial institutions and other politico-economic structures, like the IMF, World Bank, OECD, etc. At official level, the rationale, design and operation of these international institutions are based on the principle of multilateral cooperation aiming at promoting a high level of policy coordination and economic stability among participating member states. In practice, however, participation is contained within a certain form of authority that embodies principles, norms and practises that facilitate the coercive expansion and universality of neoliberal economic formations and the domination of global financial forces and interests (see Cox, 1993b; Bhagwati 1998; Porter, 1999; and Stiglitz 2003).

This is accomplished through both direct and indirect patterns of authoritative power. On the one hand, they involve policy recommendations and expert consulting that propagandise neoliberal restructuring among sovereign borrowers. The energetic involvement of the IMF and OECD, for example, in participating countries through policy surveillance functions, data collection and regular publication of their opinion on governments' economic policy rectitude represent devices that contribute to a pro-market intellectual climate of opinion and policy exercise. On the other, international institutions have also been responsible for the coercive promotion of neoliberal policy agendas. Especially critical are, in this respect, the structural adjustment programmes (SAPs) implemented by the IMF and the World Bank in countries with large financial imbalances as precondition of external funding. Such structural programmes primarily consist of the imposition of internal changes, e.g. privatisations, deregulations, an end to subsidies and large reduction in social spending, as well as external ones, such as opening the economy to foreign trade. Several analysts underscore that such 'bail-out' programmes in effect act as financial threats that blackmail troubled countries to fully comply with and meet the policy requests and recommendations of their international lenders (see Saad-Fihlo, 2005a; and Stiglitz, 2003).

Acting as both supervisors and enforcers of neoliberal practises and norms, such international institutions can be regarded as a sort of an 'enforcement structure', that is an integral constituent of what Epstein and Gintis (1992) term as 'International Credit Regime'.[58] The purpose of this enforcement structure is two-fold: first of all, to institutionalise practises, norms and rules in order to restrain recalcitrant borrowers, and hence to minimise investors risk of any potential policy reversal; and second, to provide a formal external ascertainment of the credibility of neoliberal reforms. In this sense, debtor countries by participating on those institutional formations attempt to import credibility and ensure sustained external funding. As we shall underline in the next chapter, the creation and the precise institutional blueprint and functioning of the EMU project appears integral to this structure and EU member states participation reflects a desire to acquire an external validation of the credibility of their policies. Nevertheless, membership in the particular neoliberal governance mode of EMU also contributed to their increasing financialisation and eventually culminated in the recent crisis.

Summing up, the scale and nature of international capital mobility embedded in the contemporary financialisation trend has become the infrastructure of a profound transformation of the institutional basis and regulatory role of modern nation states. Such transformations relate to the enactment of legal and constitutional arrangements

[58] According to Epstein and Gintis (1992), the second component of the 'international credit regime' is the 'repayment structure', in which debtor countries are subsumed in order to become more dependent to creditors and more attractive to foreign lending and investment. According to this view, parts of these structures are the central bank independence as well as several agreements of free trade that make more susceptible to the potential economic sanctions imposed by creditors.

that have reshaped public policy formulation, implementation and institutional setting and are promoted through concrete domestic and international institutional initiatives. Central intention of those arrangements is to secure policy insulation from social and political pressures with a view to preventing national authorities to engage in active expansionary policies and hence maximising the credibility of their counter-inflation strategies and allegedly ensuring robust monetary and financial conditions in domestic economy. In consequence, they are institutional supplements of the structural power of financial capital to discipline states and thus guarantee finance's dominant position within societies via the continuous threat of capital exit. Yet, governance institutions, albeit important reflections of social power balance and structural change, require broad legitimacy to become consolidated and perform their functions. As illustrated below, finance dominance is nowadays also legitimised by the supremacy and social diffusion of a free market ideology that justifies and instructs neoliberal restructuring.

2.4 Globalitarian market ideology: neoliberalism in consent

If the return to free international capital mobility inherent in the present-day economic globalisation process has transformed financial market into a structure of considerable political power, that restricts in a coercive manner the capacity of sovereign states to deliberately shape their own domestic policy agenda to tackle the perverse outcomes financialisation, then reasonably the persistence of such a global structure remains an unresolved puzzle. In fact, following Polanyi's (1944) concept of 'double-movement', one would expect that nation-states and decision-makers, in the face of the increasing economic dislocations and the potential mobilisation of the populace to self-protect from the ravages of market forces, would react by undertaking concrete political initiatives to redesign the current global financial institutional architecture. However, both states and international regulators seem to hold a rather apathetic stance and in many occasions keep supporting the current open financial regime, regarding it as the only optimal way of organising the international payment system.[59]

[59] This is not to say that national policy-makers and regulators do not recognise the current institutional framework as dysfunctional. However, as underlined below, recent proposals are shaped more by the

Why is it so? Is the already mentioned structural position of financial capital in the current economic order so strong and powerful that renders all forms of extra-market interventions obsolete? While not downsizing the role of structural factors[60] in driving policy decisions and determining the path of institutional restructuring, in our opinion a particular attention on ideational factors is also crucial to conceptualise in depth the rise and consolidation of the current regime and accordingly comprehend the hegemonic position of finance within the neoliberal capitalist order. Emphasis on normative discourses is critical because ideas operate as an interpretative framework and normative instructor that enables decision-makers to understand the dubious and complex relationships that make up a monetary production economy and judge proper and hence 'improper' policy practises. Moreover, given that macroeconomic policies are not politically neutral, ideas can guide policy-making in such a way that preserves existing power hierarchy and inequality within civil society, thus acting as a powerful political weapon for those who benefit the most from these asymmetries (Kirshner, 2003b, McNamara, 1999; Blyth 2001).

Set in such a context, an important constituent of the hegemonic dominance of global finance stems from the rise, spread and consolidation of a normative discursive formation that consistently contends to portray the current liberal financial regime as the best possible way to organise the world's payment system and manifest neoliberal restructuring, and the related new constitutional structures of governance, as the most desirable developmental plan of the whole capitalist world. To this end, the dominant discursive formation exhibits both positive and negative aspects of ideology. The positive refers to the equation of free financial exchange with economic efficiency and individual freedom. The negative is associated with the ideological condemnation of earlier developmental strategies from socialism to Keynesian state-led capitalism. This includes the view about the vainness or even the folly of national governments and regulators to effectively manipulate the economic life and generally to implement economic policies that are at variance with the 'beneficial' dictates of the international capital markets.

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dogmatic belief in the self-correcting power of unrestricted markets, rather than by stylised facts on the inherently unstable microstructure of markets.

[60] Especially market structures and state centred-interests and competition related to the current global capitalist order.

The theoretical justification of this neoliberal discursive formation is found on two principal assumptions of neoclassical economics on the nature of economic life. The first is the 'efficient market hypothesis' that states that unregulated competitive markets collect and distribute information effectively, ensuring that market prices are accurate depictions of the real economy. The second proposition is the 'fundamental theorem of welfare economics' that declares that an efficient market always provides the most optimal allocation of resources, yielding Pareto optimal equilibria and social welfare. To those neoclassical tenets, new classical theory adds a third one: the 'rational expectations hypothesis' that postulates that all market actors converge on a correct model of the economy. Together these three axiomatic propositions provide a strong argument for the superiority of the free market mechanism. Economic activity, if left to operate unimpeded, always tends to a supply-side determined and stable 'natural' equilibrium. In addition to this, as economic and social efficiency inevitably corresponds to the free exchange of goods, labour and capital, market liberalisation is desirable because it entails the removal of any extra-market distortion (Eatwell, 1996; and Schettkat, 2010).

From this framework of theoretical precepts and postulations, it appears clear that the modern economic theory contains a powerful ideological element in that it is partly an explanatory theory and partly a filter that prevents contrary data from being interpreted as invalidating it. In fact, as Grabel (2003; p. 26) underlines 'the theory is elevated to a single truth' and 'the policies inspired by it are fundamentally untestable and empirically irrefutable'. Nevertheless, there are also good reasons to perceive the modern theory as a more ideological and political discourse. For even if one accepts its propositions as true, and the efficiency market hypothesis as the true condition of markets, it is still reasonable to argue that the modern theory has a strong ideological background and specific social purpose. Masked under a socially neutral, analytically delicate and visionary optimistic cloak such ideas operate as a powerful weapon of legitimising a particular set of policies and of defining a concrete pattern of economic reconstruction that profoundly privileges financial interests.

Indeed, by defining what the economy is and how operates, the modern theory offers a 'scientific' and 'normative' critique of the Keynesian institutions. In a period of growing economic uncertainty, the modern theory became a major power resource of financial interests to delegitimise the Keynesian system and the restrictive financial order, on which it actually rested (Gamble, 2001). As noted in chapter 1, monetarism and new classical economics became a basic part of this struggle. Based on a purely micro-founded analytical framework, they demonstrated that Keynesian economics were intellectually flawed and ill-equipped to tackle the Great Inflation of the 1970s and thus succeeded in casting previous solutions as contemporary problems (Smithin, 1996).[61] Since then, the precise economic problem is the socialdemocratic economic management that guarantees employment above the structurally determined 'natural rate'. Rather than stimulating the real economy, proactive macroeconomic policies and welfare state measures are seen to produce only accelerating inflation, large fiscal imbalances, market scleroses and distortions (Minford, 1986; Roberts 2006; Larsson 2012). At any rate, unemployment is no longer a social burden to justify active state interventionism but a rational choice under the given institutional environment (Pons-Vignon, 2011). Similarly, the reconstitution of selective controls on the international flows of capital is by definition fruitless since delivers considerable efficiency losses (Edison *et al.*, 2005) and induces evasion behaviour from clever, fully informed and rationally acting private agents (see Forbes, 2005).

Beyond a normative critique of the Keynesian institutions, the modern theory also provides a normative layout of prudential institutional restructuring and policy harmonisation along neoliberal lines. In this manner, it arguably assigns, frames and theoretically legitimises the institutional arrangements of neoliberal governance and the disciplinary economic practises that are coercively institutionalised by finance's threat of capital flight. Grounded on the natural rate hypothesis, inflation imposes real economic costs in that it distorts the efficacy of price system (Barro, 1995). Therefore it must be tamed at any cost. Governments must further forgo to pursue discretionary industrial, fiscal and monetary policies and exert instead their authoritative power to introduce a new credible division of labour: make the central bank independent with

[61] Smithin (1996) and Best and Widmaier (2006) associate the empirical problems of the Keynesian orthodoxy with the false conceptual framework on which Keynesian economics had been developed. Specifically, they argue that the Keynesian orthodoxy of the early post-war period relied more on a utilitarian version of Keynesianism, the so-called 'Neoclassical Synthesis' that blended both Keynesian and classical ideas, rather than on the original contribution of Keynes. This made the synthesis more vulnerable to the micro-oriented counter-attack of monetarist and new classical economists.

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the only appropriate objective being the maintenance of price stability; ensure public finance sustainability through a strong commitment to fiscal discipline; and deregulate labour markets, in effect letting labour unions responsible for low wages. In response, it is expected that rational agents to adjust their expectations downwards. This is in turn deemed to push prices and wages down and generate substantial competitiveness improvements through the free market mechanism (see Rogoff, 1986; Persson and Tabellini, 1990; Notermans, 2000; and Heckman, 2002).

In fact, in a rational expectation-natural rate-conceptual context, politically-led activism, be it monetary or fiscal, is declared inherently disturbing as it may generate persistent inflation, thereby inflicting excessive instability and uncertainty on the real economy. Thus, insulating economic policy from political influence through a ‘sound’ institutional setting is the precondition for establishing an environment conducive to output trend growth and price stability. Restrictive macroeconomic policies are, as a consequence, innocent; they do not impinge upon growth and unemployment directly, but only indirectly and supposedly beneficially through their impact on expectations dynamics. Stable monetary conditions are viewed to inspire market confidence about policy commitment to a low inflation path and, as a result, to direct and firmly anchor expectations at the real, natural, state of the economy. Still, to improve employment growth, confidence-boost structural reforms on labour market institutions are crucial. Labour market deregulation and primarily wage repression by changing the incentive structure of the economy, is thought to relax the inflationary constraint facing policy-makers, hence producing lower levels of structural unemployment.

The fight against inflation is not, however, a sufficient policy practise on its own. Orthodox economic theory also offers an ideological justification for allowing financial capital to be released from its spatial rigidities. In this respect, it is declared that anti-inflationary policy must be accompanied by a comprehensive programme of financial deregulation as this is supposedly supportive of long-run growth. This claim hinges on various reasons, all rooted in efficiency assumptions of neoclassical theory (see e.g. Mussa and Feldstein, 1993; Fischer, 1997; Eatwell and Taylor, 2000; Levine, 2001). First, the liberalisation of financial activities brings a more efficient allocation of funds among diverse investment projects, by allowing savings to be directed where they obtain the highest return. At microeconomic level, this implies that profits will be redistributed among firms through the financial system in the most efficient way.

At macro level, it suggests that mobile capital will flow from economies with excess saving to those with relative capital scarcity, thus eliminating interest rate differentials and instigating a convergence of world living standards. This convergence process is also expected to occur at a higher steady-state rate of investment and growth since, by enhancing competition, financial liberalisation generates substantial efficiency gains in terms of lower interest rates.

Moreover, financial liberalisation is seen to facilitate growth by amplifying the range of investment opportunities and the possibilities for risk diversification. This in turn fosters the efficiency of portfolios and risk management and therefore economic well-being. Financial liberalisation also promotes foreign direct investment (FDI) and facilitates the organisation of global production. This is considered to improve global productive efficiency via the application of the principle of comparative advantage, hence benefiting all countries. Financial deregulation also reduces costly rent-seeking, emanating from agents efforts to evade regulations on capital transactions. Besides, it promotes technology transfer and financial development, and together this prompts further efficiency and economic growth. Finally, by promoting free capital mobility, financial liberalisation provides a market discipline that wards off market disturbing interventionist policies, therefore improving the quality of policy and governance (see e.g. Summers, 1998). It also creates incentives for a 'race to the top' among countries, since they compete to attract capital flows. This results in even better governance and more efficient markets, free of government distortions (see Oates, 2002; Law, 2008).

Offering an interpretive framework of how the economy actually operates and proposing specific institutional and policy solutions to cure the 'problem' of inflation and boost growth, the modern theory provides to governments a way of translating its tenets into a concrete programme of policy action (Blyth, 2003). Indeed, partly due to the global decline of the left (Arestis and Sawyer, 2005) and the pressures of financial lobbyists on state officials, its propositions have proved influential in setting the course of economic policy and institutional restructuring from the late 1970s onwards. Governments are nowadays cognitively locked to the idea that inflation is primarily a function of social democracy and give support to the argument that Keynesianism represents an anachronistic, less efficient, model of economic organisation. Under the truly ideological motto 'there is no other alternative', political energy is hence used up in deregulating domestic financial systems and labour markets, downsizing welfare state intervention and targeting inflation in anticipation of more efficiency and faster economic growth. Other, more social responsive policy objectives, e.g. the promotion of full employment, are all ruled out, since under the natural rate-market efficiency hypothesis, are declared to bring about substantial efficiency losses with disruptive consequences on economic performance and stability.

Yet, whilst, as stressed in chapter 1, empirical data invalidate the 'irrefutable' propositions of economic orthodoxy and the problems of excess productive capacity, market instability and social polarisation swell and demand serious attention and immediate solutions, public authorities and international organisations continue to push for macroeconomic discipline and market liberalisation. It is here that the role of orthodox economic theory becomes once again important. As Kirshner (2003c:p. 264) notes, ideas, especially when they become unquestioning and 'harden into ideology', can skew 'the ways by which policy makers understand and react to problems', hence imposing artificial, yet strong, constraints on policy-making. In this way, ideas can have asymmetric distributional effects independent of the agents that deployed them. One prominent illustration is the tentative monetary responses of central bankers, albeit the current recessionary conditions, in search for high policy credibility (Bibow, 2005a). Another is the explanation of persistent unemployment with sclerotic labour markets and the repeated call for more flexibility as policy measure to combat it (see Baker *et al.*, 2004). But at times of financial panic the fixation on market efficiency and policy credibility may become even more harmful. Building credibility is usually associated with contractionary policy responses that exacerbate financial distress, escalate pro-cyclical deflation and often lead to even a massive collapse. The crises in Argentina, South East Asia and at the moment in EMU are some cases in point of such crises of mind (see e.g. Pieper and Taylor, 1998; and Evans, 2010).

What it is more unsettling, however, is that ordinary people typically pay the costs of these episodes in terms of losing jobs, lost savings and lower living standards. Meanwhile the financial community is able to rely on the market-oriented rhetoric of national and international regulators. Persuaded that the current liberal system is the best mode of organising capital flows and restrictive economic policies the necessary condition for achieving and sustaining market stability, top-level policy-makers reject alternative theorisations that locate instability in endemic dynamics of capital markets (see Ferrari-Fihlo, 2011; and Kregel, 2008). They identify instead the prime reason behind financial instability to external to markets factors, e.g. misguided economic policies and domestic institutional weakness, hence seeking the cure through market-promoting reforms, such as transparency codes and a more rigorous commitment to macroeconomic discipline (see e.g. Best and Widmaier, 2006). Once again, the role of orthodox theory to offer sizeable political power to financial interests is critical in this regards. It represents an ideational shield that protects market speculators against calls for more fundamental reforms, e.g. financial sector re-regulation and progressive re-orientation of economic policy (Hein and Truger, 2010), whilst it absolves them from any responsibility about the outcome of their own actions. Providing an 'indisputable' interpretative context of the function of modern capitalist economies, orthodox theory allows therefore market participants to accuse the victim and to take the reward for managing risks (Blyth, 2003).[62]

The crucial question that emerges is that if the current regime provides skewed distributions, low growth and systemic instability, why do states still favour it? Posen (1998) argues that independent central banks can exist only where there is a sizeable political coalition supportive of the policies these institutions produce. By analogy, it appears reasonable to mention that political strategies that maintain and reproduce the current regime should be conceptualised with a focus on the degree to which liberal economic ideas are diffused and embedded within civil society. If so, then these ideas can shape and provide the necessary ideological legitimisation of what Cox (2001: p. 475) labels 'the social construction of the need to reform' and thereby influence the political preferences and strategy of dominant political parties with regard to domestic and international economic issues.

Indeed, the social basis of many contemporary capitalist political economies has been transformed considerably. As already argued, a growing number of societal actors is, nowadays, actively involved into the dominant patterns of trading exhibited

[62] On that issue, Blyth (2003) underlines the role of the IMF-sponsored bailouts. Whereas such bailouts aim at stabilising economies under crisis, in practise operate as a means of redistributing the burdens of post-crisis adjustment. As these funds are not grants but interest-bearing loans, they must be paid back by the local taxpayers, while at the same time provide strong guarantees of repayment to creditors. As such, international financial investors can speculate without any considerable risk, since risk premia are usually socialised by local citizens' ability to pay taxes.

in financial markets resulting a veritable embedment of financial behavioural norms into the structure of modern societies (Ertürk *et. al*, 2008; Aalbers, 2007). Argitis and Pitelis (2008) observe the emergence of a 'financial market civilisation' that refers to the diffusion and institutionalisation of financial motives, money-making norms and practises within society and in fact to the very financialisation of economic and social life. For Harmes (1998), this increasing financial marketisation of broad elements of civil society has led to the creation of a new class structure that has vested interests in the well-being of financial sector. This new 'dynamic' societal establishment tends to adopt the core principles of economic and financial orthodoxy and is currently oriented to advocate political formations and programmes that give priority to stability-oriented economic policies and market-centred reforms. The continuation and political endorsement of current economic and financial system can therefore be conceptualised as strategically embedded in the social relationships and preferences of an emerging electoral basis that governments and dominant political parties seek to hold together.

The impact of economic beliefs, ideology and norms upon the life of ordinary people goes, yet, beyond their capacity to control events, influence political strategies and determine political choices. As Kirshner (2003b) underscores, what distinguishes economic ideas is their tendency to shape market sentiment in such a way that affect even the outcome of macroeconomic policies. From this perspective, ideas do not merely determine what is the possible, but also what is the feasible economic policy option (Schettkat, 2010). In fact, if asset values reflect investors' expectations about which way the market is more likely to move in the future and if such expectations are myopic and non-rational, then any information that could provide a guide for market swings is of profound significance. And it is here why the orthodox economic theory crucially matters once again. To the extent that its precepts are socially embedded and are held as 'articles of faith' among market participants, they offer a normative basis that defines and shapes the inter-subjective conventions held by the 'average opinion' about what is the true model of the economy, ultimately becoming a 'self-fulfilling' prophecy.

Against this background, expansionary policies may become unsustainable as long as modern theory dictates so. To the extent that 'common sense' suggests that progressive policies will by definition produce accelerating inflation without any real outcome, any expansionary and redistributive policy package is *de facto* doomed to fail. Operating as a normative instructor for investors' assessments and decisions, the modern theory invigorates the intrinsic inclination of financial markets not to give to expansionary policies the benefit of the doubt, by informing market actors about the anticipating inflationary outcome of an expansionary policy stance. Such anticipations eventually tend to front load the possible inflationary impact of the expansion, hence leading to a larger plunge in the currency's value than that suggested by the standard model. Large exchange rate depreciation will, in turn, produce the very inflation that financial markets expected forcing monetary authorities to raise interest rates, thereby dampening any expansion.

It is exactly the unique attribute of financial factors to influence and in effect determine the actual performance of the real economy that ascribes such powerful ideological and political aspects to the orthodox macroeconomic theory. Providing an allegedly true picture of how the economy operates, the theory is able to produce the same order that declares. Guided by its conventions, if market participants anticipate that higher deficits will result in higher interest rates, then so they will, irrespective of the underlying fundamentals of the economy. By the same token, even if the current macroeconomic environment makes plausible, if not imperative, the implementation of pro-growth and more egalitarian economic policies, if market participants believe that progressive policies will be unsustainable, so they will, only because of their own responses to such policies.

The fact that in a non-ergodic and non-deterministic financial environment, mainstream economic principles are becoming self-confirming reveals how they can bestow a legitimacy that makes financial investors believe that they are right, while masking sharp distributional conflicts. Indeed, the political power of orthodox theory is not merely related to its ability to drive decision-makers to regard expansionary and egalitarian policies as an imprudent and unsound pattern of economic management. True, acting as cognitive locks, it is important in charting the course of institutional change and policy-making. But what is more critical is its capacity to render any left-oriented economic management a veritably unfeasible policy option. As long as there is neither the political will, nor a broad social coalition capable of putting the present international financial system in a subordinate position, neoclassical economic ideas will continue to shape the status of conventions and coordinate myopic and divergent expectations in markets towards a false model of the economy. In so doing, they will continue to represent the legitimising backdrop for the implementation of the new conservative politics of sharp pro-capital redistribution, social deprivation and growth stagnation, ultimately forcing policy-makers fully embrace Thatcher's notorious slogan that in reality 'there is no alternative' to neoliberalism and to the financialised phase of capitalism.

It was actually this particular political attribute of economic ideas that Keynes had in his mind when he proposed the Bretton Woods institutions. Such institutional arrangements were not merely essential to contain the ability of financial speculators and wealth holders to inflict a contractionary bias on all domestic economies and bring the 'euthanasia of rentiers'. They were rather seen as a mechanism necessary in a world of fundamental uncertainty and inherent instability to structure the divergent, non-rational expectations and coordinate them in such a way as to guarantee market stability, long-lasting economic prosperity and social progress. This is why Keynes firmly favoured a managed state-led capitalist system. The extension of the traditional governmental functions and the 'socialisation of the investment' were perceived vital to create a common baseline of expectations in order the stability and prosperity of capitalist political economies to become endogenous and equally distributed to all.

As it is addressed in the following chapter, the international rationale behind the construction and operation of the European monetary integration project appears embedded in and indeed responsive to the aforementioned structural and ideological dimensions of the financial hegemony prevalent in the post-Bretton Woods era. The EMU, as a core political and emblematic project of the EU, represents an institutional formation that seeks to offer specific governance solutions to the range of constraints and challenges that imposed upon the European political economies the integration of world financial markets, the crumbling of the post-war modes of social regulation and intensive accumulation, the configuration and particular policy preferences of a new transnational elite alliance, the changing intellectual and political climate against state interventionism and the revitalisation of the neoliberal rhetoric of 'free markets'. This conceptualisation of the EMU plan *inter alia* arises from the history of the events that led to EMU and the official arguments deployed to rationalise monetary union and the restrictive and disciplinary nature of its institutional and regulatory design. Common vision and motivation behind this long and complex process of institutional building is the issue of policy credibility as a vehicle for restoring structural monetary power and economic competitiveness in Europe, while the predicted outcome is a neoliberal, financialised reorganisation of European capitalism.

Chapter 3: EMU and the Emerging World Order: the Constitutionalisation of Global Finance in the EU

3.1 Introduction

Over the last two decades, the political and economic environment in Europe has been profoundly transformed. The relative monetary independence that most European states enjoyed during the early post-war era has been abandoned and a new approach to monetary politics has taken place. Nowadays, an Economic and Monetary Union has been established. Old and prestigious national currencies have given their place to one single currency; and monetary policy, a key instrument of macroeconomic policy and symbol of national sovereignty, has been delegated to a supranational institution, the European Central Bank. The ECB has been granted much more autonomy than any other EU institution[63] and great independence in managing the common currency and monetary developments in the Euroland. Meanwhile, fiscal policy, the only policy tool in the hands of European governments to react to macroeconomic events, while, in principle, remains a national competency, is conducted under the strict limitations and regulations of the SGP. The same applies to employment policies that should be steered so as to be fully consistent with the EU policy recommendations and employment initiatives. As a whole, there is no other EU institutional arrangement in the context of European integration where centralisation of power in EU institutions has promoted so much (Martin and Ross, 2004).

European monetary integration has become a vibrant field of study, and a broad array of insights has been provided for understanding its nature, its driving force, and also its moments of crisis. Theoretical debates on the EU often frame the process of monetary integration as a contest between neo-functionalist and inter-governmentalist approaches. The former broadly focuses on supranational institutions and assumes integration as the direct outcome of a positive institutional spill-over process. The latter stresses the priority of intergovernmental institutions and views integration as the immediate result of inter-state treaty bargain. Despite their different theoretical lenses, both strands, yet, mostly share one common feature by placing emphasis almost exclusively on the institutional dynamics within the EU's multi-level

[63] Perhaps with the important exception of the European Court of Justice (ECJ).

system. They rarely concentrate on the recent launching of the European monetary integration and its concrete form in the wider context of the crisis and restructuring of global capitalism. Consequently, they tend to overlook important aspects of structural change and shift in power relations involved in the present world order configuration.[64]

Informed by the literature in International Political Economy and European Studies, particularly, though not exclusively, of the neo-Gramscian theoretical strand, this chapter considers European politics and integration as an open-ended process the result of which is an integral part of the particular economic, political and ideological conditions and social power relations prevalent in the contemporary neoliberal phase of capitalism. Taking this understanding as backdrop of our analysis, it is held that the creation and the concrete structure and content of EMU is part and parcel of a wider EU project, initiated and supported by state actors, domestic and transnational interest groups and supranational actors with the ultimate purpose to strengthen EU economic competitiveness against the background of the post-Bretton Woods transformation of global financial order, the transnationalisation of production and the delegitimisation of the Keynesian mode of capital accumulation and social regulation. The promotion, consolidation and alleged stability of this transnational hegemonic project appears contingent to the requirement of a 'strong euro strategy' and the preservation of a high degree of policy credibility in financial markets. This is principally attained through the institutionalisation of a specific neoliberal regulatory regime that enforces severe constraints on national policy space and anchors austere macroeconomic strategies and market-promoting reforms.

Against this background, an attempt is made to assess the EMU agenda under the prism of the hegemonic policy discourses of 'disciplinary neoliberalism' and 'new constitutionalism', both related to the emerging financial hegemony in contemporary global political economy. EMU constructs an institutional mechanism that through its legal and economic constraints weakens, the ability of the EU members to pursue employment and social policies which are not market-oriented and subordinated to the neoliberal imperatives of global financial markets. This, on the one hand, involves a much narrower scope of social regulation of economic and social life and, therefore, a

[64] For a brief exposition and critical assessment of mainstream theories of integration, see Bieler and Morton (2001).

radical drawback of the achievements of the Keynesian welfare state in Europe. At the same time, on account of the already assessed causal relationship between neoliberal restructuring and financialisation trend, it arguably also entails a disciplinary tendency of convergence of European states towards a market-deregulatory financialised model of capitalism and hence the establishment of new forms of financial dominance within European political economies. As a whole, therefore, it is addressed the social scope and content of EMU as an institution that coercively shapes distributional patterns and contours accumulation conditions in Europe in favour of financial interests.

It is yet worth noting in this introductory section that EMU as an important institutional organisation embedded to the complex EU system, certainly, incorporates some social inclusionist elements subsequent to the closer economic integration. This can, to a large extent, be regarded as a result of the effort to re-contextualise the main pillars of European social model rooted in the welfare statist tradition of the European political economies and hence to build social support for the agenda of the 'embedded neoliberalism'. Nevertheless, as it shall be attempted to be explained in the course of the study, despite the inclusion of a 'social dimension' in the EMU project, at least in our opinion, this does not appear to contribute to a genuine social inclusive model of governance and consequently to alter significantly the character of EMU as a selective and radical neoliberal project.

In our opinion, the focus on the complex interaction between economic, social and ideological elements of power as underlying rationale of the European monetary integration is crucial because they did not simply influence the particular institutional architecture of EMU and its policy direction. Rather, they are fundamental in that they essentially define the spectrum of possible policy options available to decision makers in the EU and hence lie at the core of the debate initiated long since by several Post-Keynesian analysts and at present rekindled on the occasion of the severe economic crisis, on the need of a radical institutional reform and reorientation of policy-making in EMU. Moreover, such an approach will plausibly add much to our understanding about the root source of the prevailing deflationary conditions across the EU. Drawing a parallel between global patterns of financial authority and policy choice at the EU level, it shall provide both theoretical insights and a methodological framework of analysis on the way specific aspects of social power and distribution are major driving forces behind the weak economic performance and social conditions in the Euro area.

Finally, a critical assessment of the concept such as that of the European social model will arguably accentuate the need for a reconceptualisation of the project of embedded neoliberalism, currently popular among neo-Gramscian scholarship to describe the precise content of European integration.

The remainder of the chapter proceeds as follows. The first section provides a political economy perspective on economic power and conceives the re-launch of the integration process, ultimately culminating in the foundation of the EMU, as an elite project of transnational capital and supranational actors to reconsolidate European economic policy and competitiveness against the dissolution of the Keynesian system of regulation, growing financial speculation and US unilateralism in monetary affairs after the disintegration of the Bretton Woods's international financial order. Milestone and key reflection of this strategy was the appearance of a policy consensus towards a credible commitment to sound macro policies through the institution of a European-wide system of fixed currency rates. The second part of the chapter outlines in more detail the justification for monetary union and maps out the historic sequence of events that finally led to EMU. It focuses on the instabilities facing earlier monetary arrangements, elite formations and broader social dynamics supportive to EMU, concrete political strategies of European states and how all these elements built the foundations for and led the way to EMU. In the last section, the chapter explores the particular structure of neoliberal governance set up by the EMU project. It concludes that, albeit the socio-economic inclusion of larger parts of populace via compensation policies, EMU constellation constitutes a significant qualitative step towards global neoliberal restructuring and increasing financialisation. Central mediating force of this process is a complex system of credible regulations and rules that is spelled out by the Maastricht Treaty and we termed as ‘finance-led austerity and absolutism’.

3.2 European monetary integration and transnational neoliberal restructuring

During its earliest beginnings, the process of European integration had two key policy priorities: a) to avert another European war especially between Germany and France; and b) to encourage the recovery and post-war reconstruction of Europe. In economic affairs, the main purpose was the formation of a customs Union, i.e. the establishment of a bloc of free trade within Western Europe with a common external tariff. This goal was reached by the end of the 1960s. European free trade was successfully matched with the national right to regulate the economic system for certain economic, social or other objectives (Bieler, 2006). Consequently, it was part of the international order of 'embedded liberalism' (Ruggie, 1982) and 'old regionalism' (Spindler, 2003).[65] Things, however, would change in two decades between 1965 and 1985, when little further progress in European integration took place.[66] It was against the background of the structural crisis of the post- war national accumulation systems and the turbulences of 1970s subsequent to the fall of the Bretton Woods global financial architecture that European integration came to a halt.

By the end of the 1960s, most fundamental elements that had underpinned the European growth miracle of the early post-WWII period had begun to eclipse. On the demand-side, the demand stimulus springing from the post-war public reconstruction programmes had vanished. On the supply-side, the backlog of high-return investment, a major drive behind the post-war productivity boom and technological modernisation of European productive capacity had been exhausted; while the underemployed rural labour that had fostered the expansion of urban manufacturing was fully utilised. Due to these changes, institutions designed to encourage wage moderation, real investment activity and industrial profitability began gradually to come under strain. In the 1970s, the OPEC oil-price shock deteriorated further the economic prospects in Europe, since this event constituted an important disturbance to a European economy dependent on energy supply imports. Increasingly, the erosion of the European accumulation regime and the oil crises began to cast doubts on Europe's capacity to maintain the customary growth rates experienced over the earlier decades. In fact, from the mid-1970s on growth began to decelerate and Europe entered into a prolonged period of stagnation, later coined as 'Europessimism' (Sandholtz *et al.*, 1992). This era was characterised by a renationalisation of politics with European states constantly struggling to tackle

[65] Cited in Bieler (2006).

[66] This period begins with the de Gaulle's empty chair policy and ends with the initiation of the Internal Market programme.

economic recessions, rising unemployment rates and increasing problems of social regulation.[67]

The collapse of the Bretton Woods system created three sources of uncertainty that impeded governments to tackle effectively the stagnating conditions of the 1970s. The first was related to the impact of floating exchange rates and free capital mobility on national macroeconomic planning and stability (Underhill, 2002). The combination of currency floats and capital mobility stimulated financial speculation and heightened the volatility among the world's key currencies. Large currency instability and capital flight, in turn, restricted the use of Keynesian-type proactive strategies. Governments' attempts to expand the economy through lower interest rates and fiscal impulses were often vetoed by financial capital and resulted in severe financial and economic crises. Destabilising capital movements and currency fluctuations cut also the exchange rate anchor line that had supported price stability in the Bretton Woods era. Exchange rate pass-through effects eroded further wage discipline and export competitiveness and accelerated financial fragility and uncertainty. In an environment of growing financial and macroeconomic turmoil, national policy sovereignty in Europe progressively lost to the emerging financial structure. From the late 1970s, EU countries started to show little confidence in demand management policies targeting full employment and to focus their energies on the quest of currency stability (Huffschmid, 2005)

The breakdown of the Bretton Woods institutions and the resulting turbulence in global capital markets posed also serious threats to the cohesion of the Community and the dynamism of world trade (Eichengreen, 2007). Europeans feared that unstable exchange rates would interfere with the growth of intra-EU trade that had contributed to the golden age of export-led growth. In a period of mounting payment imbalances, the move to flexible exchange rates also risked a return back to mercantilist-type trade practises that could imperil political support for customs Union. Furthermore, volatile shifts in exchange rate dynamics disrupted also the smooth operation of the Common Agricultural Policy (CAP), whose costs were a substantial portion of the EU budget (Mongelli, 2008). The liberalisation of financial trading and currency valuation from the restrictive financial arrangements of the Bretton Woods structure made, therefore, the pursuit of monetary stability, long seen necessary for forging intra-European trade

[67] For a thorough examination of the major post-war economic developments in Western Europe and of the process of European integration see Tsoukalis (1997) and also Eichengreen (2007).

and economic integration, conditional upon the surrender of national policy autonomy and disengagement from the ideology and institutional form of the 'embedded liberal' order. The failure to implement the Werner Report and the fall of the European Snake system of pegged exchange rates after repeated balance of payment crises evinced that monetary sovereignty in Europe was, indeed, steadily becoming incompatible with the retention of currency stability and European integrationist objectives.[68]

Complicating further the issue of economic policy sovereignty and the process of integration, US monetary hegemony turned into more self-interested and coercive. An important indication of this US policy shift was the rapid accumulation of large external and budget deficits that started in the 1960s. The structural power of the US largely relied on the role of the dollar as a global currency and the well-developed US capital markets that enabled US authorities to enjoy an easy access to cheap credit and thereby an ample policy space (Helleiner, 1994; and Vermeiren 2013a). Despite these benefits, the exploitative monetary power of the US was a major source of instability for the international financial system and a serious threat for the structural position of EU economies within it. First, it has provided the US with the ability to postpone the required economic adjustments, thus creating incentives for the exercise of unilateral macro policy strategies that exacerbated global imbalances and currency instability. In addition, it has permitted US authorities to transfer the onus of adjustment to payment imbalances to their European trade partners. In fact, there were many instances where the US government policy of keeping the dollar undervalued has forced many EU governments to implement stimulating macro strategies to balance out the economic damage caused by weak export performance. This bolstered US export demand and alleviated market strains on the external payment position of the US economy, but severely undermined any effort of monetary policy cooperation, eventually bringing the problem of eroding monetary power and shrinking policy autonomy of Europe to the fore of policy debate in the EU (see Vermeiren 2013b).

The outbreak of economic crisis of the 1970s, the transnational expansion and deepening of financial transactions and their detrimental implications on the monetary power of EU economies paved the way for some critical changes in the social basis of European states. The labour-capital consensus that had underpinned the more socially

[68] The Snake was essentially an attempt to create a regional monetary system similar to Bretton Woods. It established a mechanism for managed floating currencies within narrow limits against the US dollar.

inclusive and protective elements of Europe's post-war socio-economic model began to unravel. Waning productivity performance and rapid real wage growth fuelled by organised labour's strong bargaining power after an era of sustained full employment, impaired industrial profitability and became the perceived reasons behind accelerating inflation and disinvestment. Increasingly, the discourse of 'Eurosclerosis' gained wide political currency as the main explanation of the crisis in Europe. Stagflation was seen as the product of institutional rigidities caused by state interventionism inherent in the European mixed economy model, from which its global competitors, like the US, did not suffer. European market fragmentation and the failure of national responses to the crisis by expanding money supply and according new social rights and benefits deteriorated further the competition deficiency of European capital (van Apeldoorn, 2002). In the early 1980s, a formulation of a new social and political alliance in EU countries began to take shape. This configuration endorsed a complete reversal of the post-war macroeconomic priorities to restore market competitiveness and pushed for a political agreement on European corporation to promote and institutionalise this new policy project (van der Pijl, 2001).

At the turn of the 1980s, the revitalisation of European integration appeared as a political project integral to the challenges facing European states in the post-Bretton Woods capitalist order and to the strategic interests of an emerging elite consensus rooted to this process. In a globalising economy, European nation-states realised that they were no longer able on their own to sustain macroeconomic stability and react to intensifying competition. A united Europe, on the other hand, seemed to provide the scale required to confront growing competition in world markets. The formation of an economic integrated area was seen to serve as a catalyst for business expansion into global markets and protection against international competition. It was also deemed to protect the EU from US unilateralist proclivities and financial speculation and thereby to restore Europe's eroded policy independence. Hence, the ambition was the revival of the strength and autonomy of the European economy through the relaunch of the European integration and the active incorporation of EU states and elites into the new global structures of accumulation and power. Europeanisation was seen to provide a sort of collective autonomy within a highly volatile global economic environment and present the main answer to Europe's economic decline (see Vermeiren, 2013b). The creation of supranational institutions and the delegation of certain state competencies to them became the preferred means for attaining that strategic goal (van Apeldoorn, 2002).

Despite the set of different currents of opinion on the design and content of the European integration, the project clearly revolved around neoliberalism. A neoliberal restructuring of the EU was seen as the most appropriate coordinated strategy to force a structural transformation of European sclerotic regulation model. Lifting exchange barriers was also assumed to create a unified market with tougher competition, higher efficiency gains and greater profits, and thus to facilitate European capital penetration to foreign markets. The promotion of free market institutions was supplemented by a call for a thorough reorientation of policy practice towards rigorous counter-inflation strategies. A solid commitment to sound anti-inflation policies was expected to tackle the distributional conflict at European level and anchor investors' confidence on long term monetary stability and sustainability of the implemented policies. This was seen to reinstate currency stability, promote market deepening and export competitiveness, hence attenuating pressures on EU member states' autonomy and power arising from globalisation and US disturbing policies (see Hermann, 2007). A neoliberal drive of European integration became, therefore, the chosen scheme to abolish the inefficient post-war Keynesian regulations in the EU and adjust effectively states' structures, institutions and policies into the new politics and dynamics of internationalisation (see Rumford, 2000).

The neoliberal substance and character of the European integration agenda was also impelled by the voluntary conversion to macroeconomic discipline of several EU states. Portes (2001) argues that this trend reflected a changing intellectual climate away from the Phillips Curve and fine tuning macro policies towards a new economic paradigm. This new orthodoxy adopted price stability as the ultimate legitimate target of monetary policy and central bank independence as indispensable prerequisite for a successful stability-oriented monetary policy. In the 1980s, this policy prioritisation against inflation was also facilitated by the upsurge of support for right-wing parties in Europe that for more than one decade dominated national politics and deliberations over European integration (Moss, 2005a). Pollack (2000) also underscores Germany's successful anti-inflationary record as a major underlying factor behind the increasing popularity of restrictive strategies. Bundesbank's pragmatic monetarism provided a powerful and convincing example of the merits of austere policies for other EU public authorities and central banks to emulate.[69] Finally, Dyson (2008) asserts the important role of a broad community of prominent academic economists, state bureaucrats and technocrats appointed to top central banks posts in culminating the neoliberal policy paradigm. These elite constituencies embraced the free market doctrine and succeeded in presenting it as the most promising alternative to the incrusted and rigid structures of European regulation model.

It is broadly recognised that the neoliberal nature of European integration was also shaped by the strategies of and the rivalry between transnational capitalist forces. One important elite organisation of these dominant capitalists groups constitutes the European Roundtable of Industrialists (ERT). Van Apeldoorn (2001) points out that within the ranks of European corporate elites existed two contending agendas for the future institutional formation of Europe. The first one, the 'neo-mercantilist' agenda, was principally supported by firms producing for the EU home market and favoured a strengthening of the European industrial sector via both regulatory and deregulatory initiatives. The second, the 'neoliberal' one, advocated stronger market deregulatory reforms and was proactively promoted by dominant financial elite groups, as well as industrial transnational corporations with global priorities. Van Apeldoorn (2001) notes that the balance of forces within the ERT shifted during the 1980s in favour of the neoliberal camp. He attributes this development to large EU firms' interests that progressively went more global rather than regional. Bradanini (2009) argues that the ERT has thereafter been transformed into a key elite institution that systematically promotes the needs, world vision and interests of the globalist segment of European capital within the European political arena. Bohle (2006) underlines, for instance, the tight collaboration of the ERT with EU officials- that in many instances sidestepped national authorities, in promoting important initiatives of the European integration project.

[69] McNamara (2006) argues that continental European 'pragmatic monetarism' differed from the ideologically pure Anglo-Saxon type of monetarism in two important elements. First, in the use of monetary targets, since, while most European central banks had introduced monetary targeting, meeting the predefined monetary targets was not the sole policy goal of their strategy. Second, in the exchange rate regime, i.e. while monetarist theory proposed free floating currency rates, since the only policy target under consideration is money supply, EU governments considered fixed exchange rates as an effective strategy for successful disinflation.

Against the background of the fundamental socioeconomic crisis of the 1980s, the project of this transnational elite configuration over the neoliberal character of the integration prevailed also in the wide social and political context. Decisive role in this development played the climate of de-legitimisation of Keynesian norms and policies. In response to the successive episodes of failed implementation of Keynesian policies to combat stagflation, European centre-left political forces, workers and trade unions, became more receptive to free market ideas and saw the promotion of a supranational regulatory framework as the best strategy to find solutions to the problems linked with globalisation which could not be addressed within the confines of the nation state (see Ross, 1995; Bieling, 2001).[70] According to Helleiner (2003-4), part of the European socialdemocracy supported EU neoliberal project in the anticipation that the promised competitiveness gains and greater factor flexibility represented the most rational way of boosting employment and taming inflation dynamics and financial speculation. A neoliberal policy framework was also seen to create a predictable and stable economic environment in which progressive supply-side reforms could be undertaken to support social equity and sustainable income growth. Finally, accepting the neoliberal outlook of the integration process was regarded as a major step towards further political union, including also a social union, thus comprising the vital re-regulation at European level (Bieling, 2001).

Within this internal working of external factors, the revival of the integration agenda can, therefore, plausibly be conceptualised as a project of ‘open regionalism’ (Strange, 2009) integral to the global reconstruction of transnational social relations and capitalist accumulation modes associated with the post-Bretton Woods economic environment. It stems, in other words, from international developments and represents a passive adjustment to systemic pressures exercised from above by globally-oriented and domestic elite alliances (Pelerin and Overbeek, 2001). The ultimate goal was the improvement of EU economic competitiveness in an increasingly globalised world economy, crucial for regaining monetary sovereignty and fostering the extension and consolidation of internationally-oriented interests. Neoliberal principles and financial rules and norms, already transplanted to national political and social structures, e.g. national ministries and left-wing political forces, cemented this move and presented it

[70] Cited in Bohle (2006).

as the most radical alternative to the past socialdemocratic European economic model (McNamara, 2006). In the mid-1980s, this new consensus formation of material and ideological elements began to take shape into a concrete policy project. The initiation of the Single Market, the EU competition policy and the participation in international organisations, e.g. the World Trade Organisation, signalled the transformation of the EU into a neoliberal, outward-oriented institution and mirrored the plan of European elites to adjust member states internal institutional structures and policy strategies to the new patterns of power and authority of an increasingly integrated world economy. However, perhaps the most important initiative of this process was the launch of a formal, Union-wide regime of fixed exchange rates.

In fact, the pursuit for greater macroeconomic stability and power in the global monetary system provided the international rationale for the foundation of a regional monetary order of fixed exchange rates (see Klein, 1998; and Gregory and Weiserbs, 1998). Competition to attract financial capital among both governments and national producers made such a regulatory arrangement attractive to political and economic elites in Europe. Market expectations for inflation had become a key factor for public authorities to keep in mind. With the concentration of savings in institutional funds, exchange rate fluctuations were increasingly driven by the volatile expectations and investment decisions of a small elite group of fund managers. In this context, attaining credibility and reputation in monetary policy became critical in influencing investors' expectations (Dyson *et al*., 1998). Market sanctions in the form of higher interest rate risk premiums enhanced the quest for credible counter-inflationary policies. Pegging exchange rates to a credible anchor currency was seen as the best approach to improve policy credibility and discourage the implementation of risky inflationary policies (see Rodríguez *et al.*, 2008).

With their currencies fixed to a rigid exchange rate rule, monetary authorities could enhance their credibility by containing the scope for discretionary policies. This was especially the case for EU countries with inflation-prone currencies, e.g. France, Italy and Spain (Webb, 1995). By fixing their currencies to a credible nominal anchor, high-inflation countries could import credibility reinforcing perceptions about their strong determination to lower inflation. In fact, from the early 1980s on all the efforts for monetary cooperation among European states reflected the idea that sticking to a rigid monetary rule could deliver significant benefits, while depreciations were a risky and counterproductive approach to rebalancing the domestic economy.[71] The rejection of currency depreciation as a viable option for correcting macroeconomic imbalances would also compel member states to embark on internal devaluation policies to retain competitiveness, setting in motion a cumulative process of 'competitive disinflation' (see Dyson *et al.*, 1998). A monetary regime of fixed exchange rates could, as a result, impose the perceived need for prudent and disciplined monetary policy that seeks a permanently low inflation rate (Forder, 1998; and Torres, 2008).

The creation of a credible fixed exchange rate arrangement in the EU was also consistent with the strategic interests of the emerging transnational oriented capitalist class in Europe. This policy choice was mainly backed by powerful corporate forces to overcome the crisis of profitability and attain price competitiveness advantages in global markets. A system of fixed exchange rates would insulate domestic political agenda from social manipulations about the content and operation of macroeconomic policy. As Hermann (2007) underlines, tying national currencies to a credible nominal anchor would secure price stability as the top policy priority and rule out politics from economic processes, thereby ensuring deflationary macroeconomic adjustment falling into wages and labour market regulations. Hence, the move towards deeper monetary cooperation in the EU did not solely result from the need to relax financial constraints on national policy space and intra-EU trade, but also from a concrete political choice and ideological proclivity of European policy networks and cycles to support capital, as part of the hegemonic plan of a new competitive Europe. Achieving exchange rate stability via a legal institutional arrangement became the means and method to get rid of rigidities in national labour markets and increase business profits, indispensable for revitalising Europe's economic strength within a highly integrated world economy (see Bonefeld, 2001).

As such, the project of monetary integration can be seen as a response against wage-driven inflation charted in the central banks of EU member states in support of a reserve currency within an emerging financial regime competition (Moss, 2005b). It represents a basic institutional component of the post-Bretton Woods financial order and responds to the interests of the most transnationlised sections of European capital and concerns of the states in charge of building its institutional structure (Cafruny and

[71] See also Bofinger (2000a).

Ryner, 2007). Here there is, yet, an apparent paradox. Regionalisation was deemed to improve the competitiveness of European economy (Bieling and Jäger, 2009). In fact, by establishing a 'zone of monetary stability', a regional monetary integration would insulate EU states from destructive financial speculation and improve investment climate (see Gros and Thygesen, 1999). Yet, the concrete content of this strategy was essentially defined by financial transnational elites. Indeed, as the power shifted away from national states to financial markets, financial actors dictated the political content of the project in terms of its institutional design and policy course (Dyson, 2000). The transition to monetary integration was hence a political project that enabled financial speculators to gain from the instability generated by globalised financial markets, and in due course to acquire enhanced authority, influence and political voice. Thus, while the design of monetary integration was constructed by core European nation-states and supported by business elites and broader social forces, it practically reflected their own subordination to the emerging transnational financial hegemony. In this process, of critical importance has been the contribution of EU national central bankers to the institutional design and policy direction of integration process (Gofas, 2001). Central bankers imposed price stability as the overriding policy objective, thereby serving almost exclusively the interests of private financiers and rentiers.

Clearly, the creation of a regional monetary system in the EU was not the only credible policy option for the pursuit of macroeconomic discipline and the promotion of the neoliberal conversion of Europe. European governments could, instead, commit themselves to prudent policies and free market structural changes, without belonging to a fixed exchange rate system, or even to a currency union. Given that such a regime involves a certain degree of policy autonomy loss, national leaders could well dismiss the idea and adopt conventional unilateral measures for attaining the required markets credibility on policy reform.[72] The political rationale though for monetary integration rested on the belief that a fixed exchange rate regime could offer a more credible way of insulating national economic policy from political control and thus implementing the vital neoliberal adjustments. This is because unilateral institutional arrangements could be postponed or cancelled at any time, e.g. for electoral considerations. A fixed

[72] Unilateral institutional arrangements that could, in theory, enhance the credibility of monetary policy include *inter alia*: the independence of the central bank, a Bundesbank-style legal commitment to price stability or a unilateral peg to a strong foreign currency (anchor) with a firm low-inflation record.

exchange rate regime would also tie the hands of future governments, since it would be costly, mostly for peripheral member states, to withdraw from such an institutional arrangement. Furthermore, under a Union-wide monetary structure, the imposition of deflationary policies would be politically less costly. Domestic political leaders could, namely, impose strict economic discipline and reforms, by stressing that they retained no firm control of those policies (Sandholtz, 1993).

Direct evidence revealing the determination of European national governments to acquire a high level of financial credibility by pegging their currencies into a stable nominal anchor is the decisive role of the German Bundesbank in the construction of the European monetary order. Given that the D-mark was the strongest currency and Germany had a strong counter-inflationary reputation, the Bundesbank represented the major agent of transplanting the German monetarist mindset and beliefs to the rest European political economies (Dyson, 2002).[73] Its tight monetary practises served as an institutional blueprint for other EU governments to create a good track record of credibility, while a currency regime centred around the mark constituted the concrete institutional apparatus of imposing economic austerity on other EU economies (Grahl, 1999; Lucarelli, 2004). A project of monetary corporation governed by Bundesbank's anti-inflationary standards and rules was used as an external constraint to engineer otherwise elusive reforms in the social and political infrastructure of other European countries. It was deployed as a source of discipline to overcome societal veto-points, modulate a different political structure and internalise neoliberal norms and values within EU member states domestic policy processes (see Featherstone, 2004).

The determined attempts of EU countries to search for policy credibility with capital markets to strengthen their monetary power and international competitiveness implied a radical redefinition of states and elites interests in monetary cooperation in Europe. Initially, the formation of the European Monetary System (EMS) and later of the EMU signified the growing volition of national governments to eschew authority over monetary policy and become subordinated into a highly centralised institutional

[73] In 1973, after the fall of the Bretton Woods system, the Bundesbank announced the adoption of a restrictive monetary policy strategy in order to support Germany's export-led growth model. In fact, price stability together with exchange rate stability delivered substantial competitive gains to German's exporters. This strategy was also supported by a corporatist model of wage setting that kept labour cost relatively low.

regime. As argued below, these projects aimed at constitutionalising forms of credible policy governance at the EU level that profoundly transformed European capitalism, essentially signalling the return of Europe back to the *laissez-faire* order of the pre-war era. In fact, they implied a clear break with European Keynesianism, challenging established social inclusive, national patterns of economic regulation and formulating an anti-inflation, market friendly, policy orientation. Establishing new EU institutions with common tight rules and regulations became therefore a form of political control and a means of adjusting European political economies to a finance-led mode of accumulation and socioeconomic organisation.

3.3 From EMS to EMU: Europe in search for disinflationary policy credibility

As a recent political project, European monetary integration can be considered as the outcome of a whole process of initiatives complementary to the structural changes in the global socioeconomic order following the collapse of the Bretton Woods regime. This break, illustrated by the tremendous growth of capital mobility; the appearance of new powerful economic and state actors; the excessive exchange rate volatility; the ideological consensus on the virtues of price stability and market liberalisation, made the quest for macroeconomic discipline and credibility as the overriding policy goals. Although this trend appeared in most capitalist countries, the concern of controlling inflation dynamics became particularly important in the EU. Inflation rates for the EU as a whole were higher compared with the international levels, notably with those of the US and Japan. Further, within the EU, the lower German inflation rates put other EU member states under intense competitive pressure (see Gregory and Weisberg, 1998).[74] High and variable inflation rates, as a result, undermined the macroeconomic stability and sovereignty of EU states, but also seriously endangered the future of integration in Europe. For EU states and interest groups the chosen means of curbing inflationary pressures was a credible commitment to fixed exchange rates via the establishment of a Union-wide institutional arrangement.

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[74] Germans were also concerned about the potential competitive disadvantages that could result from the periodic devaluations undertaken by their inflation-prone EU trade partners, as a consequence of the latter's higher inflation rates.

In 1978-9, after the disintegration of the Bretton Woods financial regime and the implementation failure of the Werner plan and the European monetary Snake, the EU members founded the EMS.[75] Its creation was related to the growing uncertainty and instability in foreign exchange markets and the practical difficulties it implied for the EU states (Eichengreen, 2007). These factors added to French president Giscard d'Estaing and German chancellor Schmidt a common political determination to set up a regional 'zone of monetary stability' much similar to that of the Bretton Woods era (Portes, 2001). In contrast to the previous attempts, however, the motivation behind the EMS underlined a concrete political intention to shape an environment of price stability against inflation surges arising from fast wage growth and dollar devaluation. France favoured the idea because the EMS could serve as an external discipline for internal austerity, in particular after d'Estaing's liberalisation programme. This was also true for Italy and other high deficit countries, which secured additional financial assistance in an era of increased real interest rates and tightened credit conditions. For Germany, on the other hand, EMS reflected a way to stop the appreciation of the mark against the US dollar and the German willingness to take responsibility for European cooperation (see e.g. Oppenheimer, 1998). The establishment of the EMS was the first example of how currency instability took priority over macro policy independence in Europe.

All EU member states, with the important exception of the UK, belonged to the EMS, but only those who decided to join in participated in the Exchange Rate Mechanism (ERM). The prime aim of the EMS was to reduce the disruptive impact of sizeable exchange rate devaluations and regulate changes in parities. Currency parities were determined bilaterally with one another, forming a 'parity grid' that countries were committed to sustain within +/- 2, 25 % band of fluctuation, with the possibility of a broader band of +/- 6 % (Grahl, 1999; and Bofinger, 2000a). Whenever currency rates ran up these limits, national central banks were obliged to intervene. As a result,

[75] The 1970 'Werner plan' was essentially the first initiative of setting up a formal monetary system in Europe. It also proposed a stage-by-stage transition to a monetary union completed by 1980. But the collapse of the Bretton Woods regime and the resulting exchange rate instability badly affected the first attempt of monetary coordination. Massive currency speculation, in conjunction with the oil crises of the 1970s and policy divergence were also the major reasons behind the disruption of the European Snake.

the EMS had theorised advantages, since it set up a form of semi-fixed exchange rates adjustable under mutual consent according to the economic conditions prevailing in each member state (Wyplosz, 2002). After a short period of a fairly flexible operation with rather numerous realignments of the value of the high deficit countries currencies to defend export competitiveness, in 1983 the EMS function became more rigid, thus making a decisive contribution to the fight against excessive exchange rate volatility and capital flight in Europe (Eichengreen and Frieden, 2000). Because of its enhanced performance the UK and subsequently Spain and Portugal opted for joining the ERM in this period.

Under the *de facto* leadership of the German Bundesbank the operation of the EMS contributed to a process of credible policy convergence and discipline.[76] Over the 1980s, the average inflation rate across EU states fell by more than half (Bofinger, 2000a). Currency realignments were virtually incomplete to compensate for inflation differentials, thus exerting pressures for sustained disinflation efforts. The successful disinflationary process under the EMS can be attributed to two particular factors (see Gregory and Weiserbs, 1998). First, by pegging their currency rates to that of trading partners with lower inflation, mainly Germany, higher inflation economies benefited from lower priced import, while parity adjustments were so judged that stroke an effective balance between competitiveness gains and pressures for disinflation efforts. Second, the formal commitment to fixed exchange rate parities served elites to stiffen anti-inflationary policies and made it easier for them to justify unpopular deflationary measures. A striking case in point was Italy. There, participation in the ERM allowed governments to dismantle the wage indexing system and divorce Banca D'Italia from the Treasury, thereby removing an important component of inflation mechanism and containing expectations of accelerating inflation (Simonazzi and Vianello, 2000).

The early progress in nominal convergence in Europe, in conjunction with the unwavering anti-inflationary posture of many governments, led to an even more rigid operation of the system from 1987 on (Mazier, 2008).[77] However, the eager adoption of the EMS as an external constraint for disinflation had an unplanned consequence.

[76] Indeed, British entry into the ERM in 1990 was basically motivated by the expectation of benefiting from its disciplinary effects.

[77] This period lasted until 1992, when speculative attacks severely disrupted the smooth functioning of the system. On that episode and how it influenced the drive to EMU see below.

Some states began to express discontent with EMS operation. The D-mark was the *de facto* nominal anchor of the system (Issing, 2010). While the hard money philosophy of the Bundesbank fostered macroeconomic discipline and market confidence on the implemented policies, the adjustment burdens to maintain parities were borne by the weak currencies. Any divergence from Bundesbank's tight policies became the trigger to action compelling other EU member states to converge towards the lower German inflation rates (Martin and Ross, 2004). In this way, the German-led EMS enforced the generalisation of monetarist economic principles and supported the anti-inflation policy reorientation across Europe. Nonetheless, becoming a deflationary institutional tool managed by the German authorities, the EMS enabled Germany, and particularly the Bundesbank, to take eventually direct control over exchange rate coordination in Europe.[78]

The EMS asymmetric operation renewed attempts to remedy this institutional defect by deepening monetary integration and moving towards EMU. Debate on EMU gained momentum after the failure of Mitterrand's experiment with 'social democracy in one country' (see Ross, 2004). Facing harsh financial speculation, the French 'turn to austerity' immolated the socialist choice for Europe and signalled the ending of two decades of 'Europessimism' (Abdelal, 2006). It was the era, when the EU underwent a profound change in its political priorities and an emerging consent to the neoliberal principles of rigorous disinflation, market deregulation, flexibility and privatisation to answer its competitiveness problems (Bieling, 2001). In the mid-1980s, the generation of the Internal Market initiative became an integral part to this neoliberal integration strategy (Bieler and Morton, 2001). The Single European Act (SEA), while it made no explicit provisions for macroeconomic management, inserted vague references about European monetary policy coordination and arranged the complete abolition of capital controls in the EU (see Eichengreen and Frieden 2000; and Stone, 2011). The Internal Market project was the first important step that marked the transition of Europe from the period of 'Eurosclerosis' into a new neoliberal era that intended to transform the EU into a new competitive power structure within an increasingly interdependent global economy.

[78] In fact, under the EMS system, currency rates could be realigned only by the unanimous consent of EU member states. This practically enabled Bundesbank to make the adoption of disinflation measures a condition for approving any currency devaluation.

The EMU programme was inaugurated as an institutional by-product of this new competitiveness architecture of the EU. While the SEA eliminated any barrier on trade and capital flows, EMU fortified tight money and fiscal discipline (Hermann, 2007). As the course of events made clear, the move to EMU was the result of an alliance of EU governments, central bankers, technocrats and elites concerned with setting national economic policies into a credible EU-wide structure. With the general trend towards financial market deregulation, the stimulus of new financial flows gave birth to new risks of speculative attacks on national currencies and produced serious troubles in pursuing independent monetary policies (Lucarelli, 2004). Exchange rates became more susceptible to volatile market expectations, compelling central banks to frequent interventions to stabilise currency rates (Volz, 2010). The Commission and central bankers stressed the incompatibility between fixed currency rates and untamed capital flows (Padoa-Schioppa, 1987). To overcome it, they asked the abandonment of national currencies and the establishment of a common monetary policy controlled by a supranational central bank. The result was the Basle-Nyborg agreement in 1987and subsequently the launch of the EMU programme. [79]

The EMS speculative crises gave further thrust toward monetary unification providing useful lessons on how free capital mobility can disrupt regional monetary regimes when currencies rates are inconsistent with underlying inflation and interest rates (Eichengreen, 2000). More decisively, yet, the turmoil presented to governments the primacy of the sound money paradigm as a new macro policy blueprint. Principal attention must be paid on sustaining price stability and a currency union would be the most credible way of attaining it. A single currency, coupled with a prudent common monetary policy handed over a supranational institution, would 'once and for all' tie policy makers' hands to pursue contractionary policies (Giavazzi and Pagano, 1991). National macroeconomic policies would therefore remain outside political influences, thereby providing the highest level of policy credibility. EMU would also strengthen

[79] The Basle-Nyborg agreement established a more rigid strategy for safeguarding exchange rate stability in Europe that involved *inter alia*: stronger monitoring of macroeconomic and financial developments; more timely joint monetary interventions; and fuller use of the fluctuation bands to prevent speculative attacks against the national currencies. However, despite the initial expectations, it did not succeed in warding off the 1988 violent speculation against the French franc.

macro discipline because it would force countries to grant to their central banks a high degree of political independence. This would constitutionally commit monetary policy to a credible, anti-inflationary course (Sandholtz, 1993). Despite the fact that the EMS had, to some extent, succeeded in harmonising member states monetary policies and delivering currency stabilisation, the expectation was that a likely economic recession would trigger 'backsliding or spillback' from the EMS to currency depreciations and protectionism (Moss, 2005b' p. 115). A monetary union would, in this framework, eliminate any potential spillover effect, while preserving the credibility and reputation of monetary policy.

Although the zeal for establishing a zone of monetary stability in Europe was, certainly, a major impetus behind monetary unification, there were further aspects that also accounted to set out on the path to EMU. Kenen and Meade (2008), for instance, argue that EMU reflected *inter alia* the aspiration of many political leaders to deepen and strengthen corporation within the EU and thereby enhance tendencies towards an 'ever closer union'. Transferring monetary sovereignty to a common institution was a major step in this direction. EMU was also seen to ensure a stronger European control of a re-unified Germany. Huffschmid (2005), specifically, notes that EMU was in part the product of a complex compromise reached in the Franco-German axis. Germany, originally reluctant to renounce Bundesbank's statutory autonomy,[80] gave its support to the EMU project in exchange for France's promise to accept its re-unification. For France, Italy and other peripheral economies, EMU was an opportunity to overcome Bundesbank's dominance in EU monetary affairs. Europeanising monetary policy was viewed to gain power and voice over policy by sharing it with Germany (see Scharpf, 2011). EMU was finally considered as the appropriate means of eliminating monetary coordination problems in the EU that could potentially prompt beggar-thy neighbour actions, thus endangering financial stability and the single market with no benefits to anyone (Padoa-Schioppa, 1994).

Such considerations clearly indicate that nationally defined interests and spill-over effects did, actually, play a major role in the process of decision making towards

[80] German authorities and firms were satisfied with the operation of the EMS, since it successfully curbed inflation, while keeping the D-mark slightly undervalued. The Bundesbank also feared that the move towards EMU and the introduction of a single European currency would allow deficit countries to disrupt monetary stability in Europe (see Howarth, 2001).

monetary unification. Nonetheless, it would be inadequate to reduce EMU to an inter-state bargain or neo-functionalist grounds. As already mentioned, the inception of the monetary integration is linked to the quest for disinflationary discipline to strengthen the European economic competitiveness within the confines and challenges set by the post-Bretton Woods financial order. This objective provided the political rationale for EMU and constituted the blueprint for its concrete institutional structure. Important in this process were the exchange rate crises that forced the EU governments to stiffen macroeconomic discipline. In fact, the 1983 crisis provoked the onset of the *franc fort* policy. Subsequently, the 1987 turbulence precipitated the debate about the drive to EMU, while the 1992-3 crises *post facto* demonstrated the disruptive exposure of EU economies on speculative funds and the need for constitutionalising macroeconomic austerity to counteract escalating market volatility (Dyson *et al.*, 1998). Governments' profligacy and irresponsibility in the use of fiscal policy were increasingly deemed as the principal route source of all economic troubles of the era. Therefore, the cure was to be found in the area of monetary policy. With the intellectual ascendancy of sound money ideas and the empowerment of central bankers in domestic politics particularly after the EMS crises, fighting price inflation and restoring monetary stability became the central policy objectives (Marcussen, 2000). [81]

A further indication supporting this proposition concerns the German assertion that the ECB should copy the monetary practices and the model of statutory autonomy of the Bundesbank. Support for this idea from EU partners came, to some extent, from their desire to obtain policy credibility through active political participation in the EU institutions (see Sandholtz, 1993; and Howarth and Loedel, 2003). EMU would exert on all member states the necessary discipline that it was politically hard to be imposed domestically. Another indication is related to the very character of the currency union. Governments agreed not only upon the independence of the ECB from national and Community political authorities, but also that the ECB should be constitutionally bound to give to the pursuit of low inflation clear priority over all other policy targets

[81] The EMS crises were a chance for national central bankers to advance their structural position within domestic politics, since many governments resorted to their technical expertise and financial assistance to deal with heightened market instability. They also enabled central bankers to argue that the financial stability could be restored, if the credibility and reputation of national macroeconomic policy were increased through central bank independence.

(Sandholtz, 1993). The ultimate intention was a legal arrangement for the abolition of national currencies and the introduction of the euro. Adopting a rigid exchange rule appeared as the only way to irreversibly isolate monetary policy from inflation-prone partisan business cycles and irresponsible politics. No longer could a government resort to devaluations to accommodate higher domestic inflation and bridge external imbalances (ibid). An independent central bank in charge of maintaining low inflation would restore market confidence in price stability across Europe (De Grauwe, 2000). Consequently, for each individual EU government the single currency represented the most credible commitment to low inflation, macroeconomic discipline and monetary stability.

The consent given by other EU member states to the German proposals on the future institutional structure of EMU involved, however, gradually and was exposed to compromises and exceptions. Although for the smaller EU economies, that lacked a long track record of policy credibility, such a German-led blueprint for EMU seemed attractive; France was initially reluctant to agree. France originally favoured a ‘soft’ monetary union and the inclusion of a political counterweight to the independent ECB through concrete structures of economic governance. However, it eventually gave its approval on the project. French’s full acceptance of the virtues of bank independence and non-inflationary growth along with the promise for the foundation of the Euro-X Council, renamed Eurogroup in 2000, as the economic government of EMU lifted any initial reservation to a German-style EMU.[82] On the flipside, the UK was granted an opt-out clause, meaning that it was not required to adopt the single currency. The City was an independent power with privileged relations with the Treasury and truly global reach. Inflation had also been successfully curtailed by austere policy measures and labour movement defeat since the mid-1970s. Thus, there was no good reason for UK public officials to subject themselves to EU regulations that might jeopardise national monetary sovereignty and parochialise City’s global trading. The issue of acquiring financial credibility had long been resolved in the UK because of the status of the City and the precocious espousal of monetarism (Moss, 2005b).

[82] Although the Eurogroup was supposed to function as the economic government of EMU, in reality, it merely serves to police member states fiscal strategies, with virtually no active role in the formulation of EMU macroeconomic policies, as originally envisaged by the French.

The official blueprint for EMU was formally laid down by the 1989 Delors Report on the feasibility of a monetary union in Europe.[83] Mainly drafted by central bankers, the Report advised the adoption of binding procedures to constraint national authorities and to strengthen the commitment to low inflation. It advocated a common currency and put forward discrete evolutionary steps to EMU supplemented by strict convergence criteria on selected monetary variables. It was said that such a procedure would 'reinforce credibility towards economic and monetary union' with a European System of Central Banks (ESCB) 'committed to the objective of price stability' and 'independent of instructions from national governments and Community authorities'. Essentially, this arguably indicated the full espousal of Bundesbank's monetary policy standards and claims on the future institutional design of EMU: EMU's overriding objective would be price stability and the commitment to this target would be written into the legislation creating its institutions. A legally binding exchange rate constraint would rule out the quest for profligate inflationary policies in the whole EU, imposing a 'good and prudent housekeeping'. Besides, placing any burden of competitiveness adjustment on labour markets, sound macro policies and financial discipline would be consolidated (Sardoni and Wray, 2007; and Kregel, 1999). Consequently, the EMU regime would emulate the culture of monetary stability and wage moderation that had been important elements of the successful German export-led strategy (Knupp, 2011). Moss (2005b) states that this arrangement was seen critical by the Kohl administration to overturn Bundesbank's opposition on the EMU programme and build in Germany a broad pro-EMU social coalition.

The foundation of a stability-oriented monetary union and the inception of the euro were expected to deliver substantial gains and provide a powerful stimulus to the project of restoring EU's autonomy and competiveness (ECB, 2008a; Delors Report, 1989). Ensuring price stability and public finance sustainability in the Eurozone was viewed to offer adequate protection against financial speculation opportunities and to prevent the vicious cycles of wage-price spirals and currency rate deprecations of the past. A stable macroeconomic environment would also lead to lower interest rates and increased cross border investment activity by reducing markets' risk premiums, hence providing the basis for high and sustainable economic growth and the convergence in

[83] See the Committee for the Study of Economic and Monetary Union (1989).

living standards within the EU. Besides, a strong common currency would give added thrust to a truly integration of goods, service and capital, crucial to reduce transactions costs, bring price transparency and retain the gains of the Single Market. The resulting competitive trickle-down effect would, in turn, facilitate corporate restructuring and create additional incentives for more investment and trade. Finally, a single currency based on strong economic fundamentals would inspire investors confidence in foreign exchange markets. This was expected to displace the dominance of the US dollar in the international financial system with both economic and political benefits for Europe (see Cohen, 2000).

The policy recommendations of the Delors Report were supported by the *One Market, One Money*[84] study drafted by Commission economists close to the European Industrial confederation. Employers became perhaps the most enthusiastic advocates of EMU. For corporate interests, the common currency entailed the elimination of any currency risk involved in cross border transactions within the EU, and a direct linkage to further deregulation. EMU would intensify competitive pressures on wage claims and the imposed politics of austerity would assist the dismantlement of the sclerotic European welfare model (see Verdun, 1996). Strong labour discipline would in turn improve corporate profitability and enable EU firms to confront effectively outside competitors. Financial interests also supported the launch of the euro as an incentive to open national capital markets and impetus to European financial integration. This would expand and diversify investment operations, protect savings returns and propel a rentier-monetarist social basis (Balanya *et al.*, 2003). Major domestic social forces, such as finance ministers, technocrats and central bankers, also conceived EMU as a chance to defend their interests and gain influence and power within state apparatuses (Featherstone, 2004).[85] This transnational bloc of powerful interest groups constructed the principal political formation that rigorously promoted both EMU and its neoliberal substance. For them, a strong euro policy implied squeezing inflation out of the EMU

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[84] See Emerson *et al*. (1992).

[85] For national central bankers, who lacked autonomy, EMU was considered as a change to gain an independent status. For finance ministers, on the other hand, EMU promised an advanced position within national governmental systems and bureaucracy. They also sought to set up Community policy organs, e.g. Ecofin and EU Monetary Committees, through which they could exert some control and influence over key macroeconomic issues. For further analysis see Featherstone (2004).

system through subjecting national governments to the discipline and surveillance of financial markets (Frieden, 1998).

Although EMU was mainly initiated as a transnational elite programme, it also found, much like other relevant neoliberal EU initiatives, broad popular support and consent in European societies. Critical in this regard was the support of trade unions and social democratic parties that, yet by no means all, embrace its neoliberal content. Social democrats and trade unions, particularly in core EU countries, accepted the euro considering the less importance of keeping the national currency as an absorber of asymmetric shocks, since they met to a large extent optimal currency area criteria. In states with corporatist traditions, EMU also represented a chance of rekindling corporatist social arrangements, in which decentralised social protection programmes and bargaining would be critical means of the adjustment process. Political forces on the left also saw the EMU as a decisive move towards the creation of a stronger EU with a traditional social democratic agenda. In some countries, the choice reflected the anticipation that EMU would promote employment rights at the EU level and foster a Union-wide collective bargaining. Finally, trade unions found attractive the inclusion of a social dimension in the EMU programme and the institution of large-scale fiscal transfers to promote economic and social cohesion (Helleiner, 2003-4; Verdun, 2002; Notermans, 2001).[86] Many analysts point out that the support provided by European socialdemocracy to EMU has been critical to the success of the programme (Rhodes, 2002; and Josselin, 2001).[87]

The agreed schedule for monetary integration essentially incorporated many of the Delors Report proposals and mirrored the transnational elite plan to promote the European agenda of market-deepening and macroeconomic discipline (Bieling and Schulten, 2001). The Treaty on European Union stipulated a three stage transition to EMU. The first stage commenced in July 1990 with the dismantlement of all internal barriers to free capital mobility within the EU. In January 1994, stage two founded the European Monetary Institute (EMI), forerunner of the ECB, entrusted to prepare stage three and monitor the convergence criteria used to judge eligibility for membership in

[86] The latter was especially the case in the poorer EU peripheral states, e.g. Spain, Greece and Portugal.

[87] Cited in Helleiner (2003-4).

EMU.[88] EMU went into effect in Stage 3, in January1999 with monetary union, and two years later with the circulation of the euro banknotes and coins.[89] (see Arestis *et al*., 1999). The Treaty was a victory of the monetarist free market forces and German liberal view that supported nominal convergence, minimal state role and indivisibility of monetary policy (see Cafruny and Ryner, 2007). It rejected the idea of an EU-wide system of active fiscal co-ordination and intervention and gave instead importance only on the fiscal conditions for a monetary union (Panico and Suàrez, 2007). Binding constraints on national budgetary policies together with a rule-based anti-inflationary monetary policy strategy imposed a framework of stringent macroeconomic discipline and market openness in Europe, arguably reflecting the increasing obsession of state actors and elites with the value and benefits of maintaining financial policy credibility and monetary stability.

The Treaty's political philosophy and theoretical underpinnings were inspired by standard orthodox precepts about the content and formation of economic policy in a liberal market economy. It set up a multilevel form of governance, which scope and nature is to gear state policies to achieve macroeconomic discipline, maintain business confidence and create a conducive and attractive climate for investment. The Treaty established an EMU with a single currency managed by the ESCB. Price stability was spelled out as the primary policy objective of the ESCB, while a strong definition of institutional responsibilities in terms of monetary stability was also initiated. ECB's independence was enshrined legally, a legal status amendable only after EU member states unanimous agreement, thereby making the commitment to price stability more credible. Fiscal policy, in contrast, remained a national responsibility, though severely constrained to use it discretionally under the disciplinary stipulations of the SGP. As it is indicated below, the institutional architecture and regulatory governance of EMU

[88] The convergence criteria were: a) inflation rates not to exceed the average of the best three records in the EU by 1.5%; b) long-term interest rates not to deviate by more than 2% of the three community nations with the lowest inflation rates; c) annual government deficits lower than 3% of GDP; d) cumulative public debt less than 60% of GDP; and e) no exchange rate realignment within the two years preceding the accession.

[89] Eleven out of the 15 member states of the EU managed to meet the criteria and wished to join the Euro area. Greece succeeded in meeting the accession criteria in 2001, while Sweden, Denmark and the UK decided not to move to stage 3 and become full member of EMU. Today, the Eurozone consists of 17 EU states.

transformed the EU into a harsh disciplinarian actor and enforcer of low inflation and wage restraint. It essentially implied the subordination of EU political economies to a supranational authority, comprised by stringent rules and regulations, intending to exclude broader societal interests from policy process and to institutionalise in Europe the credible politics of finance-led austerity and financialisation.

3.4 EMU: the European neoliberal constitutionalism

From the preceding analysis, it arguably emerges the picture that, although inter-state power relations and simmering tensions within the EMS certainly played a key role in initiating EMU, the creation of EMU was, for the most part, the outcome of concerted efforts to accommodate national economic policies to the needs and requirements of global financial markets and the interests of European elites within an emerging world order shaped by the post-Bretton Woods global financial structure and the consequent neoliberal restructuring (Bieling, 2001). Considered in such a context, EMU should not only be conceptualised as a mere economic initiative, but also as a deep political strategy with concrete social nature and purpose. It seems, in other words, to construct a new form of governance mechanism with the intention to impose macroeconomic discipline and determine a new competitive position for the EU economies (see Gill, 1992). Major underlying force behind this institutional formation is the global patterns of power associated with the political economy of financial liberalisation, neoliberalism and financialisation.

Hence, in political terms the EMU project can sensibly be analysed against the background of the neoliberal discourse of ‘new constitutionalism’ (Gill, 2001). EMU provides an international governance mode designed to shield economic management from political interference and thus to make European political economies open to the discipline of financial market forces (Gill, 2001). In fact, the constitutional provisions of the Maastricht Treaty operate as a locking mechanism that subordinates major state institutions to the needs and imperatives of the emerging world economy. This in turn is seen to help European states gain a certain degree of policy sovereignty and become increasingly oriented towards favouring profitability of the most mobile fractions of capital. In this sense, EMU can be considered as an institutional formation which legally institutionalises the particular neoliberal policy structures and attitudes that the disciplinary power of global finance coercively imposes on states after the fall of the Bretton Woods regime.

Drawing upon Drahokoupil (2009), EMU can be equally conceptualised as a central component of a broader EU project to operate as 'competition state'. With its institutional setting and regulatory rules it functions as a transmission belt that adjusts member states' internal structures, policies and strategies to a neoliberal programme, increasingly shaped by the requirements and interests of transnational market forces. This adjustment entails: the shift from macro- to microeconomic interventionism, i.e. the belief on the superior efficiency of free market forces; the switch from the pursuit of general welfare to the promotion of market deregulation and flexibility, i.e. call for labour market reforms; and an overemphasis on controlling inflation rather than on boosting growth and promoting social policies.[90] Thus, based on the liberal doctrines of sound money and market efficiency, EMU is a constituent part of a world order, in which national governments and civil societies are subject to the discipline of finance. It represents, namely, an institutional apparatus of labour suppression and wage cost restraint, much as like Hayek envisioned (Moss, 2005a). The allocation of resources is left to the free-market forces under the constraint of a credible and hard euro and the burden of adjustment is placed on the working class in terms of high unemployment, poor working conditions and wage squeeze (ibid).

At official level, the arrangements of macroeconomic governance provided by the Maastricht Treaty seek to accommodate a two-fold strategic objective. The first is a defensive one, according to which EMU would present a political instrument to EU states to reap the potential gains from the creation of a relatively closed and integrated economic zone. In this sense, the incorporation of EU economies into a regional monetary union provides a degree of insulation from the disturbances of volatile and uncertain capital markets (Jones, 2001).[91] The second one concerns the promotion of

[90] See Cerny (2000) on the functions of the competition state.

[91] Cited in Vermeiren (2013b). According to Vermeiren (2013b), this is based on the idea is that, given that intra-regional trade represents a large share of the Europe's total, euro's movements against other international currencies can to some extent be neglected. In addition, with the common currency members states can benefit from easier access to global markets because of the relaxation of the current account constraint and the elimination of any risk related to currency instability.

the competitive position of the European economy as a whole within the confines set by the global financial competition structure, or by what Gowan (1999) has termed as global 'Dollar-Wall Street Regime' on the one hand; and the transnationalisation of production, on the other. In both cases, though, success presupposes the acceptance of the disciplinary imperatives of finance. In the EMU context, yet, that discipline is not merely exercised as a result of investors' exit option. It is also self-prescribed because the principles of the new European economy have mostly been developed within the European state-civil society complex. Hence, in terms of global economic governance EMU appears both to enforce and transmit financial discipline to European polities. As such, the EMU agenda could plausibly be seen not only as 'regime taker', but also as 'regime shaper' (Bieling, 2006).

As an active adopter and regional mediator of the disciplinary power of global financial hegemony, EMU framework involves a specific institutional set-up and the pursuit of a concrete set of policies. Such arrangements attempt to institutionalise a complex mode of economic and social regulation within European political economy, which can arguably be called as 'finance-led austerity and absolutism'. Their aim is to prevent financial turmoil by creating a regional single currency and enforcing a strict political commitment to over-restrictive policies to promote governments' credibility and the confidence of capital market participants. Central feature of this regime is the separation of political and economic spheres of social activity in a way that reduces the supposedly inflation-prone democratic accountability in economic policy-making. The institutionalisation of this structure involves active political agency to impose monetary restraint and sound finances through a rule based economic constitution as a means of safeguarding price stability.

The most powerful policy institution of delivering macroeconomic discipline and austerity within the EU is the ECB. This is justified by the Maastricht Treaty that postulates that the sole objective of the ECB and its interest policy is to preserve price stability. The promotion of economic growth and job creation are spelled out only as secondary goals, subordinated to that of low inflation. The Treaty also bestows on the ECB a tremendous power to meet its policy mandate. It provides to the central bank forceful safeguards for its independence in conducting its monetary policy. Moreover, under Article 109, the ECB has the right to veto any agreement on exchange rates and a free rein to interpret quantitatively the inflation target over a definite time horizon.

Its policy objectives are not assigned to it by EU governments and it is not obliged to negotiate them (Begg and Green, 1998; and Dyson, 2000). Consequently, monetary policy adheres to monetarist principles to an unparalleled extent. In this context, ECB independence implies unaccountable and undemocratic decision-making in monetary policy affairs, an area in which modern nation states had persistently withstood any democratic infringement.

The Maastricht Treaty inscribes neoliberalism as the official doctrine of the EU and views the economy as self-regulating in which any economic distortion stems from exogenous to the market forces interventions. Hence, the insulation of monetary policy from any political pressure is perceived crucial (Bonefeld, 2002). The ECB has precise reporting obligations to the European Council and EU Parliament, but neither states nor Community organs have the right to interfere with the policies of the ECB. According to its statue, the ECB is forbidden from lending directly to public policy institutions at EU level and national level and is compelled to avoid the monetisation of national fiscal deficits. On the whole, it is prohibited from colluding with profligate and irresponsible governments that can undermine its credibility and reputation as an inflation fighter and member states are bound to respect this status. EMU, therefore, provides legal-ground rules that restrict broader popular demands and aspirations to a particular regime of disciplinary governance. Indeed, the Euro zone 'is based on the idea of an institutionally embedded and legally regulated economic liberalism' (ibid; p.2). It requires strong EU action and provides a system of legal rules, institutions and procedures that dismantle the regulations of the Keynesian welfare state and dictate monetary discipline and sustained price stability (see e.g. Forder and Menon, 1998).

The authoritative relationship between the ECB and national governments is underpinned by a dominant 'sound money and finance' paradigm (Dyson, 2000). This theory is legally instituted by the Maastricht Treaty and today enlightens, shapes and legitimises economic policy practice across the Euro area. EMU institutionalises the sound money discourse as it adopts the idea that inflation is a monetary phenomenon and money is neutral to real economic variables in the long-run. This belief buttresses the argument for the single-minded focus of the ECB on retaining price and monetary stability and offers the economic rationale behind its independent status and the need for fiscal restraint and consolidation in EMU. Growth and employment performance, on the other hand, depends only on the incentive structure of the economy, that is, on product, financial and labour market conditions. Consequently, they remain exclusive responsibilities of national governments, employers and trade unions (see e.g. Leiner-Killinger *et al*., 2007). The money neutrality premise also underpins the ECB's view that effective coordination and accountability is the outcome of a clear and sound allocation of responsibilities to the individual policy-makers (ECB, 2011a). Evidently, in the current EMU constellation, there are no explicit *ex-ante* provisions for demand management policies, neither effective redistribution mechanisms to ensure that the Union operates at optimal level of output and employment. Progressive policies are subordinated to the special focus on defending price stability and financial rigour.

The sound money and finances principle establishes, therefore, the basis for an emergent 'stabilisation state' at the European level (Dyson, 2000). In the EMU regime economic stabilisation relies on the struggle and effectiveness of the ECB to gain and retain reputation to financial markets. Credibility is built through consistent and clear policy signalling to the markets. 'Expectations are', thus, 'at heart of the inflation process' (Padoa-Schioppa, 1994: p.21). As inflationary risks are supposedly related to price expectations, markets are self-correcting and efficient, and public authorities are incompetent to pursue monetary policy, any potential malfunction of the EMU system allegedly results from the lack of democratic majorities to adjust to market conditions and behave responsibly (Bonefeld, 2002). In this context, the task of the ECB is to react vigilantly and proactively to tame inflationary dynamics and remove credibility gaps in financial markets. Hence, interest rate setting grants to the ECB considerable power to make governments to pay for profligate deficit spending and trade unions for 'unwarranted' wage growth. It also authorises the ECB to assume a didactic agenda-setting role and extract concessions on market reforms. Policy coordination in EMU thus appears to secure the superimposition of the ECB views on policy-making issues and its role as a night watcher of price stability and enforcer of credibility and macro discipline (Bibow, 2005b).

As a result, global financial markets underpin the ECB's authoritative power and its restrictive monetary policy strategy. Acceptance and operation of the ideology of capital markets rationalises policy delegation to a non-majoritarian institution, like the ECB. It also allows transnational financial groups, which determine the extension of liquidity and credit, to define the terms and impact of monetary policy-making (see Dyson, 2000). Policy proposals, e.g. the adoption of a more relax monetary stance; the provision of an efficient 'lender of last resort' mechanism; and the implementation of an active exchange rate policy vital for improving aggregate demand and averting liquidity crises, such as the one currently in EMU, encounter institutional constraints that defend price stability. Fears that a focus on those key policy issues might damage its anti-inflationary credibility make the ECB extremely cautious to such suggestions. The ECB, legitimised under the Treaty's Article 109 that allows it to operate 'without prejudice to the primary objective to maintain price stability', rejects growth friendly policies. Its monetary strategy rather seeks exclusively to build up its anti-inflationary reputation and credentials in financial markets, principally through a high real interest rate policy (Bibow, 2005b).

All in all, therefore, in political terms the ECB's austere monetary policy can be viewed as containing in vitro the very political message of monetarism. On the one hand, policy effectiveness crucially rests upon the credibility of monetary authorities' commitment to safeguard monetary stability. And if monetary policy is to be assessed as credible, it has to be implemented outside any democratic control and broad social processes. Politics are thus viewed to make monetary policy non-credible and political deliberations and state interference in the economy to destabilise a Friedmanite-style neoliberal democracy. On the other hand, credibility intends to raise the real value of domestic assets relative to the foreign ones, protect the financial wealth and loans of the rich rentier class and obstruct redistribution towards labour and domestic oriented industry that typically ensues from long-term rapid growth. ECB's monetary policy, therefore, as it is set out by the Maastricht Treaty provisions, implies the contractual institutionalisation and social insulation of credible neoliberal governance principles that mostly promote the interests of financial capitalists and institutionalise deflation.

In the case of EMU, though, the notion and political scope of policy credibility transcends the focus on stable monetary conditions and dear and predictable monetary decisions. It also lies behind norms and institutional blockages that aim to bring down budget deficits and public debts. The requirement for sustainable fiscal positions is linked to credibility issues as they must be assessed by financial investors (especially by bond-dealers) as compatible with low and stable debt ratios. This would stave off any risk of default on sovereign debt, keep in check inflationary pressures and reduce the sacrifice ratio of the disinflationary adjustment. In this framework, EMU is clear about the need for strengthened fiscal discipline and spending restraint as a condition for lasting monetary stability in Europe (ECB, 2012a). Governments are placed under consistent and systematic surveillance by the SGP. The purpose is the harmonisation national fiscal processes by policing non-compliance with orthodox economic policies and the promotion of the de-politicisation of money and finance (Gill, 2001; see also Schelke, 2010; and EC, 2010b).

The SGP essentially supports the anti-inflationary responsibility of the ECB through mechanisms for reducing structural budget deficits. The objective is medium-term fiscal discipline in the form of at least balanced budgetary positions. The final intention is to secure sound public finances in the interest of price stability. At official level, fiscal policy is located between national and Union responsibility. EMU bodies have yet the power of coordinating and scrutinising national policies and the right to propose changes in government budgets. The call for fiscal consolidation by austerity is confined by the sound money economic paradigm to a negative coordinating role of fiscal policy. Strict budgetary limits appear as a threshold, rather an objective and are backed by draconian financial sanctions. The SGP provides a set of financial penalties and fines that can be imposed on any state that fails to act in compliance with its strict fiscal rules (see Morris *et al.*, 2006). As indicated in chapter 6, normalisation of this deflationary framework is achieved through various modes of enforcement.

Hence, under the current EMU design, the stability orientated monetary policy of the ECB is supplemented by a stability oriented fiscal system. The SGP is used to support the authoritative power of the ECB by ensuring and fostering its anti-inflation credibility. In the view of EMU adherents, the SGP aims at removing the destabilising effects of fiscal free-riding at the national level and averting the risk of redistributive fiscal transfers at the European level. EMU institutionalises sustained national fiscal responsibility and restraint via a strict supranational rule-based system that precludes inter-regional fiscal equalisation and forbids national anti-cyclical fiscal interventions (Buti and van de Noord, 2004). Thus, the sustention of fiscal competency by member states is, in practice, elusive since the Union retains the authority to penalise fiscally irresponsible countries. There is not any effective mechanism of coordination to form a common fiscal policy stance in EMU, neither a system of fiscal nor monetary policy coordination at an optimal mix (Panico and Suarez, 2007). EMU therefore drastically restricts the use of fiscal policy as a macroeconomic policy tool, thereby conceding the exclusive right of conducting macroeconomic policy in the entire Euro area to an exceptionally powerful ECB (see Martin and Ross, 2004; Beetsma and Giuliodori, 2010).

As a whole, therefore, the Maastricht Treaty has established a particular policy policy-mix geared and disciplined by financial markets interests. Main components of this regime are the tight monetary policy and the enforcement of fiscal discipline. This policy constellation is secured by an ECB-centric institutional design that imposes the surveillance and normalisation of macroeconomic policy options. EMU functioning relies on strict institutional arrangements, which suppress any political interference in policy-making agencies. An independent ECB, protected by a structure of strict fiscal rules and penalties, is designed to be the dominant actor within this restrictive policy regime. The aim is to preserve macroeconomic discipline via legal and administrative enforcement mechanisms. Such a rule-based, institutional setting, arguably, represents a system of unequal representation that bestows more political weight in the making of economic policy to unaccountable technocratic elites who are hardly representative of broad social interests. The least democratic level of governance in the institutional structure of EMU lies in local-national governments, where, though, EMU binding constraints act as an external obligation for the adoption of neoliberal reforms.

Thus, the EMU system is a regional regulatory regime that blocks options and dictates a specific neoliberal policy model in the quest for solid macro discipline and enhanced competitiveness in the current, highly speculative financial world order. In this context, it has constructed a new type of political leadership across European political economies. It has shifted policy discourse and social deliberations to a more technocratic track that practically anchors the subordination of democratic majorities to the politics of finance-led austerity. The close relationship between the disciplinary character of EMU on the one hand, and financial market developments and EU elites' interests on the other, sensibly indicates that the EMU policy course, rather than being a choice of economic rationality, is steered by factors of social dominance embedded in the political economy of financialisation. EMU neoliberal inclination is supported and legitimised by powerful social groups that identify the promotion of their interests with deflationary policies that maintain a high degree of market credibility and defend the general welfare and stability of capital markets. In this connection, social demands and political initiatives in the direction of employment-intensive and social equitable economic growth are presumably non-credible policies and, hence, incompatible with the dynamism of the European economy.

The EMU system, in this manner, represents an institutional arrangement that essentially resolves social conflict about the nature and formation of economic policy and reinforces the representation of financial interests in the policy decision-making. This social function of EMU plausibly forms the real political constraint that presently thwarts Europe to construct a coherent macroeconomic governance regime conducive to balanced economic prosperity and social progress. As long as investors confidence on the euro and the reconsolidation of European monetary power and competitiveness are innately related to credibility gains in financial markets, progressive policy plans which draw their inspiration from Keynesian ideas of demand-led growth would have reasonably little chance to become politically attractive, socially embedded and hence hegemonic. The fear of destroying anti-inflationary credibility and the ensuing capital flight would constantly stand as a political force of de-ligimitising Keynesian options and accordingly presenting the disciplinary neoliberal EMU order as the only promise of delivering macroeconomic stability and sustainable growth in Europe. As a result, policy initiatives and programmes of the left would continue to get marginalised at the favour of financial orthodoxy in the EU policy networks. The exclusion of the ECB from the option to decisively intervene to combat the ongoing Euro debt crisis and the recent institutional developments, e.g. the agreement on the new ‘Euro Plus’ Pact and the Fiscal Compact and the Euro Plus that strengthen fiscal and neoliberal discipline as a way restoring financial stability, arguably support this argument.

Nonetheless, what is more worth mentioning is that provided that neoliberal restructuring, as already noticed, constitutes a central underlying force behind the rise of financial dominance and expansion within contemporary political economies, the present EMU disciplinary neoliberal regime can be thought as a governance structure that, in effect, imposes a sort of disciplinary financialisation across Europe. Despite the noticeable institutional heterogeneity of member states accumulation regimes, this process is expected to involve: a) the destruction of important Keynesian institutions that had encouraged the post-war Golden Age of rapid productive accumulation in the EU; and b) a concurrent convergence towards a regime of accumulation dominated by financial valuation and regulated by a new set of norms, rules and institutions that match this type of accumulation. The deregulatory and austerity bias of EMU, hence, transforms the functioning of the economic system of member states to the benefits of financial interests. It expands the role and size of the financial sector in relation to the real sector, transfers resources from the real economy to capital markets and conduces to widening income inequality and wage stagnation. Therefore, EMU being embedded in the financial structure of authority does not merely institutionalise global finance as the central driving force of policy-making in the EU. It essentially propels a profound, structural in nature, transformation of European economies that establishes permanent patterns of financial authority and power within their political economies.

The above developments reasonably drive us to mention that the current EMU architecture encumbers Europe to make best use of the euro's capacity of enhanced policy independence, competitiveness, sustainable growth and social fairness. Indeed, the construction of a Union-wide regime of disciplinary neoliberal governance and the consequent financialisation of member states' economic systems appear to impede the establishment of a solid and cohesive system of regulation and accumulation regimes in Europe capable of addressing satisfactorily the pressing global economic and social challenges and thus of contributing to sustained economic growth and robust financial conditions. It may rather well explain the unsatisfactory growth record of the EMU, its long-running deflation and the appearance of diverse, yet complementary, regimes of accumulation under financialisation among its member states. And it is the lack of a consistent, pro-growth and social inclusive, governance system and the disciplinary effusion of financialisation dynamics in Europe that lie behind its ongoing crisis and currently threatens the EMU's integrity. In chapter 7 we provide empirical evidence suggesting the increasing financialisation of the EMU economies from the 1990s on, and how this trend has interacted with the economic and social mal-performance in EMU.

At this point an important clarification should be made. Since the initiation of EMU, a vibrant debate has been unleashed about the precise neoliberal character and content of the project. Often, on the basis of the inclusion of a social dimension in the European project, a growing scholarship, especially from a neo-Gramscian standpoint, conceptualises the EMU regime as 'embedded neoliberal' (van Apeldoorn, 2001).[92] This project is a peculiar hegemonic model that is essentially 'neoliberal at its core',

[92] Such projects of class compromise include, *inter alia*, the Maastricht Treaty's Social Protocol, the Lisbon 2000 Strategy and the European Regional Policy.

while 'seeking to accommodate the orientations of other forces' (see ibid; p. 71). With this synthesis of embedded neoliberalism, EMU is usually seen as a distinctive regime of regulation relative to the original neoliberal agenda retaining some key institutional features of the earlier post-war accumulation regime, e.g. welfare state, industrial and social protection and social redistributionist programmes, and thereby offering a sort of compensation to the economic inequalities and social distortions subsequent to the neoliberal nature of monetary integration. In view of this particular reformulation of neoliberalism, EMU is also held to be endowed with more stability and coherence and to provide a new project of governance that establishes a locus of an alternative to the Anglo-Saxon approach of 'unfettered globalisation' (see Habermas and Derrida, 2003 and Murshed, 2003). The result is the EMU hegemonic structure to secure to the transnational capitalist class more solid and lasting social and economic domination.

Although, certainly, one cannot overlook the inclusion of a 'social dimension' in the EMU project, there are reasons to doubt whether such inclusionist initiatives are strong and social embedded enough to alter the disciplinary neoliberal nature of EMU and, hence, to create a stable and more social inclusive hegemonic constellation in the EU. To start with, the reach and impact of measures of social regulation have been limited. Bieling (2001) argues that social regulations serve two main purposes. First, they are used as 'flanking policies' to guarantee the smooth and successful completion of market integration process. In this respect, one major objective is the prevention of serious social unrest and political upheavals. In addition, such measures have a strong symbolic character, as they were initiated to attract consensus on the EMU system of neoliberal economic governance. Nonetheless, most corrections related to such side-payments, essential as they are, have so far been marginal and insufficient to improve overall performance (ibid). In addition, these feeble aspects of class compromise are conditional on the fundamental 'constitutional asymmetry' exhibiting the integration project (see Scharpf, 2002). Policies of social protection are embedded in the national regulatory systems and it is the duty of member states to preserve them. Meanwhile, economic objectives, i.e. the deflationary and deregulatory policies of EMU and other relevant EU initiatives, have themselves the status of constitutional principles. As a result, neoliberal strategies appear to have supremacy and more direct impact upon national policies than social policies.

Besides, and more crucially, Bieler (2006) claims that the preoccupation of the EU and thus of EMU with social issues is not important in itself. What matters is the concrete character of the European social agenda. In this regards, Bieler (2006) argues that collectively negotiated action plans for boosting employment are only framework agreements without clear quantitative targets, time frames and resources. In addition, they must be in accordance with, i.e. subordinated to, the stability-oriented economic policy of EMU. Structural reforms geared towards greater labour market liberalisation and flexibility is the direct corollary of this process. Employment policies within each single member state thus encompass principally supply side interventions, like greater flexibility, improved vocational training and entrepreneurship. Solidaristic strategies related to the traditional welfare state functions and/or the possibility for a proactive EU-wide economic programme to support employment and social cohesion have been removed completely from the agenda. The issue of creating more jobs and delivering rapid growth through a vigorous boost of aggregate demand is entirely ignored (ibid). As a result, with regard to its actual content, the European social dimension does not seem to have been devised as a protection against market forces. It rather constitutes a structure of regulations that involves several adaptive moves to the current neoliberal restructuring (see Jespen and Pascual, 2005). Hence, despite their non-binding nature, social inclusionist policies can, reasonably, be conceptualised as initiatives embedded to the EMU's disciplinary neoliberal mode of governance.

Moreover, this supply-side character of EU social model appears, in practice, not to balance, but in fact to contribute to enhancing EMU's constitutional asymmetry between economic and social goals. Bieler (2006) argues that EMU deregulatory bias, along with its anti-inflationary policy direction, facilitates the comparison of national regulation models. This situation, in turn, promotes the logic of 'regime competition' between national patterns of governance (Bohle, 2003). National regulatory systems and institutions are the most important components of the adaptation to this highly competitive landscape. A clear indication of this process is the witnessed resurgence of new corporatist social pacts (Schulten, 2001). These new arrangements differ from those occurred in the 1960s.[93] 'Competitive corporatism' declares wage cost squeeze

[93] In fact, the new competitive corporatism starkly differs from older corporatist arrangements under the compromise of 'embedded liberalism', in that the latter were marked by labour movement restraint in return for income growth and full employment.

and labour flexibility as devices of macroeconomic adjustment and improvements in competitiveness and aims at increasing employability and inclusion in national labour markets through stronger administrative incentives to work and lower wages (Bieling, 2001). EU initiatives of social regulation seem, hence, inherently self-limiting. Instead of improving social cohesion, they structurally favour competitive neoliberal policies, and drastically contribute to the retrenchment of national institutions of social security and welfare. Marginson (2006) mentions that this competitive deregulating process in Europe has been extended and intensified by the accession of the Central and Eastern European Countries.[94]

Last but not least, the socially embedded conceptualisation of the EMU project and in particular its scope to integrate the orientations of less privileged social forces can be discursively questioned on the ground of the observed structural changes in social dynamics in most European political economies. Underhill (1997) remarks that EMU has propelled the marketisation and transnationalisation of national financial systems based on a single legislative framework. In this respect, Bieling (2001) argues that EMU may have well encouraged the rise and spread of rentier interests and hence the discourse of market-oriented restructuring within state and civil society. Besides, Bieling (2001) also remarks that most trade unions, particularly those based in export-oriented sectors, have strong interests to endorse market deregulation in the hope of reaping substantial economic gains from intensified competition. Trade unions also appear, nowadays, to be more interested in retaining their political influence, rather than actively defending labour rights and being critical to the EU. Accordingly, they tend to be more responsive to the new competitive bargaining system, despite its asymmetric nature. The emergence of the rentier culture alongside the decay of labour militancy has led a large part of the populace in the EU to endorse the new European constitution and approve its underlying neoliberal substance. In this sense, albeit their subordinated position, broad social groups form an active political force that supports and, in effect, gives legitimacy to EMU's neoliberal governance.

[94] Financial crises, as the one that currently experiences EMU, have also contributed to the implementation of such arrangements. As argued in chapter 7, such deregulatory bias is strongly related the development of huge balance-of-payment imbalances within the Eurozone and in effect has become a significant contributor to the financial crisis currently experiencing the Euro-area.

Overall therefore EMU, far from defending a social model distinguished from the Anglo-Saxon free market capitalism, it actively dismantles the ESM. Hence, EMU can be seen as a decisive step towards the consolidation of a liberal capitalist order in Europe. Embedded in the neoliberal transformation of global capitalism it operates as a powerful neoliberal state. Through its legal institutional mechanisms it renounces the series of Keynesian strategies and institutions used in the past decades to manage social conflict and economic risk, and coerces EU states to adopt and institutionalise financially credible politics, expressed in the all-encompassing need to maintain price stability, balance national budgets and promote wage restraint. Hence, the conception of EMU as an embedded neoliberal project does not appear to modify significantly its disciplinary neoliberal nature. EMU's main economic function remains the imposition of policy austerity and market flexibilisation. As a result, far from preserving social protection, it provokes the increasing financialisation of EU states and systematically advances the financial interests over those of other less privileged social classes.

Concluding, two comments deserve some recognition. First, the fact that EMU exercises multifarious regulatory pressures on individual EU member states, imposing a neoliberal policy agenda and hence causing the disciplinary financialisation of their economic systems, does not mean that EMU itself is responsible for this development. Its disciplinary design and operation relied on a pre-existing political and ideational compromise about appropriate objectives and instruments-in particular on a broad consensus around the objective of attaining price stability and promoting free market capitalism. Furthermore, the constraints facing member states in the context of EMU increase, in principle, possibilities for EMU to enhance national policy autonomy. The incorporation of national states in a regional economy incontestably provides a certain degree of insulation from external disturbances. Hypothetically, this could support the re-orientation of policy towards targeting economic prosperity, full employment and social equity. Our claim here is that structural changes in global political economy and the resultant emergence of a transnational financial hegemony have channelled EMU towards a concrete disciplinary institutional building that prioritises stability-oriented macro policies and engenders financialisation. However, such hegemony is, especially under the current circumstances of financial panic and distress, never solid but open to change. Counter-hegemonic forces always exist and can provide the basis for a radical policy change in EMU.

This assertion directly leads us to consider the conditions of and possibilities for developing a counter-hegemonic political agenda. Keynes lived through the Great Depression and came up with a solution to Great Depression. Nevertheless, he pointed out the key role of ideas in policy-making process and reform, stating that ‘practical men […] are usually the slaves of some defunct economist’ (Keynes, 1936: p. 383). Gramsci (1971), similarly, gave much thought to the question of ideas and recognized intellectuals as those who organise social forces and elaborate through organic ideas the hegemonic project of a ruling class with the purpose of securing the consent of the less privileged classes. Having thus analysed the material and ideational factors that have shaped, and still influence, EMU policy-making, in what follows we emphasise on the particular ‘sound money, sound finance’ macroeconomic policy paradigm that seems to underlie the institutional construction and function of the EMU regime.

Although, certainly, the economic policy pursued by any policy body, and the precise design opted for any institution, like EMU, cannot readily be classified within a particular policy paradigm, the purpose of the next subsection of the dissertation is to support that the EMU’s disciplinary framework, which we have termed as ‘finance-led austerity and absolutism’, can be thought of as being theoretically legitimised by what is broadly known in academia and policy-making cycles as the ‘new consensus’ in macroeconomics. In fact, as illustrated in the course of the study, mostly through the theoretical positions put forward by key EMU officials and policy bodies (see e.g. Issing, 2008; EC, 2008a; and ECB, 2011a, for recent expositions), core tenets of this policy paradigm appear to provide the rationalisation of the EMU’s institutional lay out, offer a normative understanding on what is, and what is not appropriate policy-making for EMU, define the specific ways by which EU decision-makers understand the economy and economic developments and, as it is most evident in the ongoing financial crisis, how to respond to severe economic shocks and problems.

In the next chapter, we present the ‘new consensus’ paradigm from a political economy standpoint. To do so, we briefly present the core theoretical postulations of the model and the central policy propositions and strategies that originate from these assumptions. Particular attention is attached to the arguments in favour of long-term price stability, the requirement for the implementation of credible monetary policies through the adoption of inflation targets, the call for central bank independence and several other institutional arrangements in monetary, fiscal and wage policy area that attempt to discipline policy-makers and labour and fully eliminate politically-induced inflation and output variability. In this manner, our intention is twofold: a) to accent the precise political nature, content and purpose of the model, i.e. to illustrate that, in principle, the ‘new consensus’ today informs and structures the policy practises and institutional arrangements of the broader political agenda of ‘new constitutionalism’, that, as underlined in chapter 2, is a direct outcome of the current powerful structural position of global finance; and b) to construct an analytical and methodological frame, on which we are to examine the degree of association between the ‘new consensus’ policy prescriptions and EMU policies.

We regard that such an approach is crucial in some important respects. Firstly, so far as the formation and function of EMU is to an extent embedded in the emerging global hegemonic structures of power and control that followed the globalisation of financial activities, such an association will plausibly provide a further validation of our hypothesis regarding the model’s political nature. Furthermore, it will introduce a basic theoretical framework that will guide the empirical estimation of our thesis that the EMU’s ‘new constitutionalism’, and the underlying single-minded adherence to ‘new consensus’ policies for the sake of the credibility and acceptance of the euro in capital markets, prompts and spreads aspects of financialisation in national economies and thus bears a large share of responsibility for Union’s poor economic performance. In this manner, it will ultimately lead us to give support to several heterodox scholars, particularly of the Post-Keynesian strand,[95] who criticise the anti-inflation bias of the ‘new consensus’ and of the EMU regime. But, at variance with them, it will associate policy practice, persistence and performance with global social power relations and precise political institutions that reflect this balance of power. In our opinion, such a political economy approach seems to lack from the Post-Keynesian critical analysis of the ‘new consensus’ and EMU policies. Consequently, it will arguably contribute to a deeper conceptualisation of the ‘new consensus’ and the restrictive EMU policies and

[95] See, for example, Hein (2012), Hein and Stockhammer (2010), Chick and Dow (2012), Stockhammer and Sotiropoulos (2012), Argitis and Koratzanis (2011), Fontana (2009a), Fontana (2009b), Arestis and Sawyer (2008), Arestis and Sawyer (2001), Priewe (2007a), Le Héron (2007), Asensio (2007), Herr and Kazandziska (2007), Lang (2007), Davidson (2006b), Bibow (2005b), Bibow (2012) , Moore (2007), Palley (2006b), Gnos and Rochon (2007) and Lima and Setterfield (2008).

hence of the specific political and social requirements needed in order social inclusive alternatives in Europe to become functional and viable.

Chapter 4: An Alternative Political Economy Analysis of the 'New Consensus' in Macroeconomics

4.1 Introduction

Over the last decades, an unprecedented convergence in thinking, methodology and policy conduct, particularly when it comes to monetary policy, has been observed in the field of orthodox economics. This development has become the principal cause for the emergence and ascendancy of a 'new consensus' in macroeconomics (NCM) over a set of basic principles, ideas and propositions in the analysis and understanding of modern capitalist economies.[96] Today, the NCM macroeconomic paradigm has solidly established a 'common sense' among prominent macroeconomists, national policy-makers and central bankers about key policy-making issues, like: the institutional and regulatory environment of formulating and implementing macroeconomic policy; the choice and prioritisation of economic policy targets; the evaluation and management of national economic policy; the selection criteria and use of policy instruments vital to meet the desired policy goals; and the specific mechanisms and channels through which policy decisions and actions are expected to affect the whole macroeconomic system and performance.

Conventional theorisations typically treat the emergence and dominance of the NCM as the natural result of a reasoned debate and informed policy-making separable from important aspects of political reality and dynamics of social change. Bernanke *et al*. (1999), Bean (2007) and Mishkin (2007), for example, consider the NCM model as the immediate product of the practical difficulties that many central banks faced in the 1970s to deliberately exploit the unemployment-inflation trade-off as proposed by the 'old consensus' and then to contain inflationary pressures through direct monetary targeting as prescribed by monetarism. Fontana (2009b), Argitis (2009a), Lang (2007), and Goodfriend and King (1997), on the other hand, see the NCM as a the outcome of a blend of core conventional beliefs and conceptions stressed by modern mainstream branches, such as the monetarist 'natural' rate of unemployment and

[96] In the relevant literature, the term 'new consensus' is typically used to highlight the paradigm's contradistinction with 'old consensus' of the neoclassical-Keynesian synthesis. For a detailed analysis of the old neoclassical-Keynesian consensus see Snowdon and Vane (2005).

money neutrality ideas, the sticky price-imperfect competition models of New Keynesians and the real business cycle analysis and rational expectations hypothesis of new classicals. In the light of this synthesis of core mainstream economic beliefs and insights, the model is variously referred. Woodford (2009) and Goodfriend (2004) coin the NCM paradigm as 'new neo-classical synthesis', Romer (2000) as 'new Keynesian synthesis', while Arestis and Sawyer (1998) define it as 'new monetarism'.

Following Woodford (2009), Blanchard (2008), Arestis and Sawyer (2008), Galí and Gertler (2007), Bean (2007), Rochon and Setterfield (2007), Gnos and Rochon (2007) and Taylor (2000) the fundamental assumptions, assertions and preconceptions of the NCM paradigm can be encapsulated under the following seven points:

1. In the short-run, capitalist economies tend to behave in a 'standard' Keynesian way. This is essentially due to 'coordination failures' triggered by institutional frictions that do not permit wages and prices to adjust fully and immediately to shocks that hit the economy. Market imperfections hence create nominal and real rigidities in wages and prices preventing markets from operating efficiently and output from adjusting to its optimal level. On account of these market rigidities, the short-run effect of aggregate demand on output and employment and the short-run Phillips curve's representation of an inverse relationship between inflation and unemployment, which were entirely absent in new-classical economics, reappear. Therefore, some margins for the conduct of discretionary, 'fine-tuning' policies, primarily through aggregate demand impulses, are justified.

2. In the long-run, though, a market economy motivated by self-interest and guided by price signals is considered stable with the level of its economic activity corresponding to a supply-side determined equilibrium. In most 'new consensus' models, this is typically interpreted in terms of the 'non accelerating inflation rate of unemployment', i.e. the NAIRU, that depends on the organisational structure and functioning of labour markets. Similar to the monetarist 'natural rate' conception, the NAIRU represents the 'natural' state of the economy, at which all the key macro variables (employment, real output and interest rate) are in their 'natural' levels and serves as a reference point for illustrating, under the existing conditions in labour markets, the most efficient level of

economic activity.[97] From this perspective, the NAIRU is also assumed to define the economy's 'natural barrier' in that any upward (downward) deviation from that level has no any impact on the real economy, but induces instead inflationary (deflationary) pressures.

3. The Say's Law, that is that every supply produced in a least-cost manner creates its own demand, holds. This implies that the level of effective demand and the amount of productive capacity are irrelevant for the determination of the long-run level of real economic activity, but they rather adjust to underpin the supply-determined long-run equilibrium, i.e. the NAIRU. This, in turn, sets serious constraints on macroeconomic policy illustrated in most NCM models by a long-run vertical Phillips curve; namely that any demand-oriented macro policy cannot have a permanent impact on the level and growth of real output and employment, but only transitory ones which are serially correlated and last for a while before they entirely dissipate in price developments. As a consequence, shocks to the level of demand that make unemployment to depart from the NAIRU and other macroeconomic variables from their 'natural' values, should be met by appropriate policy reactions so as, first and foremost, to ensure that inflation remains stable.

4. At least in the long-run, the classical dichotomy between the real and the monetary sides of the economy applies in that real variables cannot be influenced by monetary conditions. Monetary conditions are instead assumed to influence exclusively the pace of inflation, especially through appropriate changes in nominal and real interest rates. Stable inflation corresponds to a unique real interest rate in the economy- determined by the demand and supply conditions in the loanable fund markets, which makes all individuals indifferent towards choosing between borrowing and lending operations with a view to optimising their consumption paths over the time. One key implication is that in the 'new consensus' policy structure monetary policy becomes in theory the most important macroeconomic instrument for stabilisation objectives. Another is that

[97] With fully flexible labour markets, the NAIRU could alternatively be considered as representing the Solowian 'steady state growth rate' position of the economy, which depends on the supply of factors of production and total factor productivity.

controlling money supply expansion is irrelevant to contain inflation developments. Furthermore, monetary targeting is also a non-preferable monetary strategy because of the unstable nature of money demand that makes a change in money supply to have an unpredictable impact on macroeconomic variables.[98]

5. Private sector price expectations are endogenous and sensitive to future movements in policy. The development of expectations is essential for evaluating the effect of the implemented macroeconomic policy, provided that aggregate relations are built on the decisions of rational, forward-looking, agents, given different levels of credibility. As such, the stabilisation of the economic activity to its 'natural' level does not only rest on the current stance of macroeconomic policy, but also crucially on the expected future policy course and the anticipated impact on the economy. This conviction has, in turn, made the capacity of policy-makers to control and aptly direct private sector's expectations about the future policy stance a paramount factor for the determination of the overall policy effectiveness.

6. Monetary policy should not be entrusted to politicians but to technocrats, whether central bankers, high-profile economists or financial experts. This presumption stems from the idea that those operating monetary policy should be more conservative in the sense of responding more to inflationary pressures and less to employment losses than politicians. Politicians are deemed to use monetary policy for short-sighted gains, i.e. lower unemployment, without taking into account the long-run repercussions of their actions, i.e. higher inflation. Non-partisan policy-makers are also supposed to render monetary policy more credible to rational private market agents and be more strongly committed to keeping inflation muted.

7. Fiscal policy is no longer considered as an effective tool of macroeconomic policy. Therefore, it has to be used complementary and practically to support monetary policy in preserving price stability. Fiscal policy can contribute to smoothing fluctuations in economic activity mainly through anti-cyclical demand impulses stemming from the free working of automatic fiscal stabilisers; not through the active use of government

[98] See on that issue further below.

expenditures and taxation. As a rule, the government budget should fluctuate around a balanced fiscal position on average over the cycle and therefore authorities should aim at maintaining a balanced budget over the course of the economic cycle.

In the NCM models, most of these general beliefs and preconceptions are explicitly or implicitly formalised within a system of three equations (Carlin and Soskice, 2009; Arestis and Sawyer, 2003a; Meyer 2001a; McCallum 2001; Clarida *et al.*, 1999). The first equation corresponds to a Hicksian IS aggregate demand function that is derived from households and firms optimisation behaviour and associates the current output gap, i.e. the spread between actual output and the NAIRU, with the past and expected output gap and the real rate of interest, i.e. price-adjusted interest rate. The second equation is a Phillips-type aggregate supply curve, typically known as 'expectations augment Phillips curve', which makes the rate of inflation dependent on the current output gap and the past and expected future inflation rate. The model is completed by a third equation that outlines a monetary policy reaction function dubbed by Svensson (2003; p. 448) as a 'prescribed guide for monetary-policy conduct'.[99] This equation replaces the old LM-curve and relates the central bank's nominal interest rate to the output gap, the expected inflation rate, the deviation of the current rate of inflation from an exogenously targeted rate, i.e. the 'inflation gap', and the equilibrium real interest rate, i.e. the 'natural' rate of interest.[100]

In what follows, we present and critically assess the major policy implications of the NCM model. We claim that the general ideas and relationships summarising the model have provided theoretical guidance for a redefinition of states' macroeconomic

[99] As argued below, the central bank's reaction function is alternatively approximated by what is called as Taylor Rule.

[100] In an open economy context, the real exchange rate is added as a variable to equation 1 and expectations the about future exchange rate and world prices changes to equation 2. In this framework, the model also includes three more equations. The first one makes the domestic exchange rate a function of the real interest rate differentials, the current account balance and the expected long-run currency rates. In the second equation the current account balance of the economy depends on the real exchange rate and the national and foreign output gap. The third equation, finally, relates the nominal exchange rate to the real exchange rate. What is important to mention is that the central bank's interest rate policy does not seem to react directly to exchange rate movements. See Arestis and Sawyer (2008), and also Agénor (2002), for a detailed presentation of the NCM in an open economy context.

priorities towards non-accommodating policies against inflation and the incorporation of that commitment into a broader 'stability-oriented' macroeconomic regime. In this policy regime, the delivery of low inflation and the preservation of macroeconomic stability are accomplished through the mobilisation of a specific policy approach and the inception of appropriate institutions of enforcement and compliance. It includes: the operation of a tight, rule-based monetary policy strategy; the imposition of fiscal discipline and the implementation of enhanced monitoring and sanction mechanisms for public budget processes; the enforcement of a concrete authoritative institutional equilibrium between monetary and fiscal policy and authorities; the active promotion of large-scale market-deregulating measures; and the adoption of a set of additional disciplinary institutional and operational mechanisms designed to further expel social deliberation and interference from policy formulation and implementation with a view to safeguarding central bank's optimal performance and credibility.[101]

Drawing on these basic ideas, declarations and policy recommendations of the NCM we also suggest that the paradigm should not solely be seen as a politically and distributionally neutral evolution of modern macro theory and policy-making. On the

[101] It is important to note that in the light of the recent financial market and economic disruption some of the core policy prescriptions and principles of the original NCM have been slightly reconsidered. In this regard, consideration has been attached to: a) the recognition that financial frictions may generate business cycle fluctuations, even leading to very adverse macroeconomic outcomes; b) central bank's policy should lean against the risk of mounting financial imbalances and bubbles; c) targeting a higher inflation rate and a more flexible implementation of monetary policy especially in times of financial turmoil; d) the need for financial regulatory instruments to attach attention to monetary aggregates, credit expansion and leverages of households and firms; and e) the institutionalisation of better automatic fiscal stabilisers (Mishkin, 2011; Woodford, 2010; and Blanchard *et al.*, 2010). Nevertheless, this reassessment of the NCM model leaves intact its fundamental theoretical assumptions and policy recommendations. Mishkin (2011; p. 31), for instance, underscores that 'None of the lessons from the financial crisis in a way undermines or invalidates the [...] basic principles of the science of monetary policy developed before the crisis'. Walsh (2009; p. 224) is more emphatic on the issue arguing that 'the current financial crisis [...] has little relevance on the debate over inflation targeting [...] the reason is simply that responding to financial turmoil is completely consistent with the objectives of inflation targeting'. For a further detailed critique of the 'new NCM' and its close institutional relevance with the original NCM model, see Argitis (2013). Moreover, we concentrate on the original NCM, since, despite the slight emergency measures undertaken in the face of the ongoing Eurozone crisis, it still dominates the economic policies and institutional model of the Eurozone.

contrary, to the extent that these policy and institutional prescriptions fit well to those that financial markets, institutions and speculators consider as credible, consistent and predictable, the NCM can be sensibly interpreted as providing to a considerable extent theoretical legitimisation of the core policy practises and institutional arrangements of the broad political agenda of 'disciplinary neoliberalism' and 'new constitutionalism'. On the basis of this conceptualisation of the model, we argue therefore that the NCM model possesses a deep political nature and precise social purpose. It can plausibly be comprehended within the general framework of disciplinary financialisation discourse introduced in chapter 2 and thereby as underlying the patterns of financial hegemony and power prevalent in the post-Bretton Woods neoliberal restructuring. Proposing credible neoliberal policy-making institutions it essentially operates as the present-day theoretical counterpart to the discipline of global financial market forces and in doing so contributes to sustaining and expanding finance's dominance with modern political economies, a phenomenon that as already argued bears a large share of responsibility for the stagnation tendencies and crisis-proclivity of global capitalism since the 1980s.

In our opinion, such an alternative political economy conceptualisation of the NCM appears to lack from standard critical discussions of the paradigm which either adopting a rather economistic analytical perspective or treating it as merely embedded in the neoliberal patterns of regulation concentrate their critique almost exclusively on its institutionally inadequacy to explain the basic workings of modern capitalism and its tendency to create deficient aggregate demand, financial instability and precarious social conditions, thus disregarding the presently dominant global forms of finance-led disciplinary power and governance introduced in previous chapters of the thesis.[102] We believe that locating the NCM model to the precise new constitutional

[102] The NCM has come under fierce criticisms for several reasons. This critique mainly concentrates on: the ineffectiveness of the inflation targeting strategy to deliver a credible, low inflationary economic environment; the existence of a stable, long-run economic equilibrium (NAIRU),determined by the structure and function of labour markets, to which actual real economic activity, determined by effective demand, can be adjusted by appropriate monetary policy changes; the uniqueness of the NAIRU which is independent from actual unemployment and from the stance of monetary and fiscal policy; the exclusion of risk, uncertainty and finance as fundamental features of monetary production economies from the NCM analytical framework and policy practice in inflation targeting regimes; the neglect of the macroeconomic role and function of fiscal policy; insufficient evidence of the interest rate elasticity of investment spending; the distributional and macroeconomic influences of interest rate

approaches of disciplinary power and governance will contribute to and constructively enrich the current critical scholarship and assessments to the paradigm. More importantly, it will also accentuate channels of disciplinary extension and persistence of the unfavourable economic and social effects accompanying the application of the model's policies and hence shed insight into its institutional tenacity despite the significant socio-economic dislocations it creates. In our view, this appears of profound importance given that the institutional design of and the economic policies currently implemented in EMU have been highly influenced by the NCM model. Thus, it is central, particularly in a time of deep crisis, for explaining the stubborn continuity of its neoliberal policy project and for sketching out possibilities of change and the precise socio-political conditions that should convoy the quest of an alternative policy strategy for European capitalism.

In the next two sections, we outline the central components of this disciplinary stability-oriented regime proposed by the NCM. In the first section, we put emphasis on monetary policy and scrutinise how the NCM insights and preconceptions inform a disciplinary, neoliberal restructuring of monetary policy-making. In this connection, we analyse the inflation targeting monetary strategy and its principal operational and institutional components: the identification of price stability as the overriding target of macroeconomic management; the role and function of concrete policy procedures and rules specifying its operation; the prominent role of market expectations and financial credibility in policy conduct and efficacy; and the justification for the introduction of complementary neoliberal institutions for buttressing its credibility and operational effectiveness. Then, we concentrate on budget and wage policy domains and how they interact with the concept and practise of effective inflation targeting. We explore the rationalisation for fiscal discipline and labour market flexibility and point how both policy areas are directed so as to give support to the credibility of the central bank's strategy to meet and preserve the set price stability target. In short, we suggest that the

manipulations as the monetary policy tool. For an extensive critique of the NCM model and policy regime along this line of reasoning, see Argitis (2013), Argitis and Koratzanis (2011), Hein and Stockhammer (2010), Hein *et al*. (2009), Arestis (2009), Argitis (2008), Arestis and Sawyer (2008, 2004a, 2003a), Lima and Setterfield (2008), Kriesler and Lavoie (2007), Lang (2007), Wray (2007b), Rochon and Setterfield (2007), Gnos and Rochon (2007), Davidson (2006b), Palacio-Vera (2005), Lavoie and Seccareccia (2004).

NCM, in principle, gives theoretical foundations to the 'finance-led austerity and absolutism' policy regime, in which the central bank becomes the central policy body of enforcing and preserving financially credible policies.

4.2 The 'new consensus' and the disciplinary restructuring of monetary policy

The main mechanism through which the NCM policy model has arguably transformed monetary policy into a disciplinary, compatible with financial market interests, policy structure involves the way through which it legitimises a credible and consistent anti-inflationary orientation of its policy goals and practises and the embedment of that commitment into a broader monetary policy strategy known as inflation targeting. In this policy regime, three central aspects are conflated; all reasonably associated with the policy dictates and political content of the 'disciplinary neoliberalism' discourse: a) the institutionalisation of price stability as the primary policy objective of monetary authorities via the adoption of explicit numerical targets for inflation; b) the adherence on particular policy tools, operational rules and reaction functions for underpinning monetary policy decisions to accomplish and defend the established inflation targets; and c) the adoption of supplementary neoliberal, market-promoting, operational and institutional arrangements presumably crucial prerequisites for the effective execution and performance of inflation targeting.

4.2.1 Inflation targets: the institutionalisation of price stability

Since the early 1990s, an increasing number of economies throughout the world have shifted to an alternative monetary policy framework to contain and sustain inflation at low levels: inflation targeting. Inflation targeting has been initially introduced by New Zealand in 1990, when owing to the unsatisfactory inflation performance under the prior monetary policy regimes the central bank declared that sustaining a 'single digit' inflation rate represents its only policy mandate. Subsequently, the norms and policy practices surrounding the inflation targeting regime have been so influential that today it has become the preferred monetary policy approach for numerous central banks in industrialised and developing countries alike and one of the core policy prescriptions for reforming and improving central banking in modern capitalist economies.[103]

As a complex and multifaceted monetary strategy, the design and operation of inflation targeting is not identical to all countries that have adopted it. Although there are many versions of an inflation targeting framework, its hallmark refers to a credible commitment to price stability that involves two main components: a) the specification and public announcement by the central bank or the government, or a combination of the two, of an official, legally binding quantitative target for the inflation rate; and b) the explicit acknowledgment, often enshrined in legal and constitutional provisions,[104] that achieving and maintaining that announced target represents the overriding policy goal of monetary authorities over the medium- to long-run (Bernanke *et al.*, 1999; and Mishkin, 2007).[105] Typically, the numerical target specified by most inflation targeting central banks is around 2-4% plus a small margin of tolerance and it is established for multiple time horizons which usually span from 2-3 years (Schmidt-Hebbel, 2010).[106] For almost all central bankers that perform inflation targeting a

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[103] Mishkin and Schmidt-Hebbel (2001) report that nineteen countries that had already adopted this new monetary framework as of 2000, while more recent studies, see e.g. Roger (2009), refer to more than 26 countries as of mid-2009.

[104] For instance, the achievement of price stability is by law, constitution or treaty, the overriding policy goal of the ECB, the Bank of England, the Bank of Japan, the Reserve Bank of New Zealand and the Sveriges Riksbank (Buiter, 2007).

[105] In reality, implementing inflation-targeting requires much more than a mere announcement of long- to medium-term quantitative targets for inflation. Among other important features of inflation targeting are: the regular communication with the general public and markets about the central banks' decisions and actions; and, specific procedures that strengthen monetary authorities' accountability for achieving the pre-defined objectives. On them, see in more detail further below.

[106] The adoption of bands is often explained because of: a) the uncertainties that surround the monetary transmission mechanism and the time lags involved between monetary policy decisions and policy outcomes; b) the possibility to occur macroeconomic shocks and disturbances; and c) the uncertainty over data and the real structure of the economic system and the consequent concern that the economic model of the central bank may be misspecified (see Minella *et al.*, 2002). Targeting bands also permit some policy discretion.

stable inflation about this rate reached and sustained over such horizons is considered to correspond to long-run price stability (see also Svensson, 2011).[107]

As it is evident from its main operational feature, inflation targeting represents a monetary strategy that imposes a clear hierarchical order on monetary policy targets (Meyer, 2001b). It pays maximum attention on the goal of long-term price stability and leaves other macro variables related to real economic activity, e.g. output growth, employment, investment or income distribution, manifestly out of its direct concern. Moreover, it establishes the central bank as the single and *par excellence* policy body to carry out this task, hence severely limiting other typical central bank functions. For its adherents, three major convictions buttress such a single-minded policy approach (Freedman and Laxton, 2009; Goodfriend, 2000). Though theoretically criticised and empirically disputable (see Kirshner, 2001), all are held as irrefutable beliefs among mainstream economists and, as indicated below, have as a direct conceptual backdrop the NCM abstract, homogenous and politically neutral hypotheses on the nature and fundamental workings of a free-market capitalist economy.

The first argument for giving monetary policy high priority to price stability is that inflation imposes substantial real economic costs and consequently its control is in itself an important, and perhaps vital, requirement for improving long-run growth and employment performance. Several channels have been cited via which inflation is perceived to bring real economic costs; all identified within a 'natural rate' consensual analytical framework. First, inflation is deemed to blur the informational role of price signals. Thus, self-interested individuals and firms tend to make suboptimal economic decisions which then hinder the efficient allocation of resources and growth. Inflation is also said to be associated with greater variability in prices. This creates uncertainty in markets that in turn discourages savings and leads to more speculative investment. Inflation also retards real investment as nominal interest rates include an inflation risk premium component, the compensation demanded by investors for the risk of holding nominal assets over the long-run. It also makes it more likely that private households

[107] The choice of a positive inflation target and not of price level targets is related to the concern that deflation may have a significant contractionary impact on economic activity and also generate undue financial instability, thereby further damaging the real economy.

and firms deflect resources from productive to hedging activities with negative effects on investment and productivity. Finally, high inflation rates provoke capital outflows, thereby making the economy more vulnerable to financial crisis, and undermine social cohesion and stability because poor class people are impacted the most by inflation as they have only limited means of protection against it (Rochon and Rossi, 2006).

The second premise underpinning the pre-eminence of long-run price stability in formulating monetary policy originates from the assumption-integrated, as noted, in the 'new consensus' models, but initially articulated by M. Friedman,[108] that monetary policy works only with long and variable lags and, as such, is a policy instrument that cannot be used with great precision. As a result, it is suggested, that actively managed policies directed to counteract output fluctuations and safeguard full employment are technically difficult. Worse than that, and even more crucially, at times they may also turn out counterproductive by exaggerating, rather than dampening, cyclical volatility. This especially occurs when monetary policy is pursued by short-sighted politicians and is unclear to the markets. Monetary authorities should, consequently, be delegated with the charge of conducting monetary policy and be, in principle, reluctant to their monetary responses and clear to their policy targets. A pre-commitment of the central bank to sustain long-run price stability is, in this context, believed to abridge the range and destabilising impact of politically-motivated discretionary monetary policy and to insert the necessary clarity to policy targets, i.e. to make monetary policy more goal-directed.[109]

The third, and perhaps most prominent, argument for supporting the increased emphasis on controlling inflation springs from the classical dichotomy axiom and the 'natural rate' premise. As already argued, these principles, both embedded in the 'new consensus', rule that discretionary monetary impulses intending to bring and maintain real variables above their 'natural' values will only lead, after a period of adjustment, to higher than optimal inflation outcomes. Money is namely, according to that insight,

[108] On Friedman's ideas about the role and nature of monetary policy in capitalist economies see the book '*A Monetary History of the United States, 1867-1960'*, Princeton: Princeton University Press (co-authored with Anna J. Schwartz).

[109] Policy activism, in the broader sense of policy reacting to new information, is not ruled out by this argument. Indeed, as noted below, in the inflation targeting approach, meeting the price stability goal does require active manipulation of monetary policy instruments.

neutral, while inflation a monetary phenomenon.[110] As such, there is no an exploitable output-inflation long-run trade-off and thus rationale for central banks to permanently pursue expansionary policies with a view to stimulating output and employment. The unique and in effect 'natural' assignment, on which policy authorities should instead systematically focus, is the control of inflation. Taking into account the sizeable social and economic benefits emerging in a context of price stability, this task conceivably is also the best and only contribution they can make to long-run economic activity. [111]

With regard to the legally binding commitment of central banks to attain a pre-defined inflation target, several attributes of inflation targeting can be accentuated. At operational level, it can be regarded as a standard orthodox stabilisation strategy that gives emphasis on the benefits of price stability and relies upon a nominal anchor, i.e. the inflation rate, as a means to prevent seemingly inflationary monetary expansions. In effect, under the nominal justification of the 'natural rate' thesis, disinflation is not inconsistent with full employment and boosting jobs and growth is beyond any policy control; hence, are dropped out from macroeconomic policy agenda. Besides, through the intellectual capture of the NAIRU and rational expectations thesis, the framework institutes authoritative forms responsible for monetary policy-making. Assigning, by law, policy delivery exclusively to a central bank and charging it as guardian of price stability, it rules out both coordination with other policy bodies and political forms of broader social control and accountability as regards policy conduct. Monetary policy-making, as a whole, therefore, appears under inflation targeting to be converted into a mono-dimensional, neutral and rather technical issue. The formation of a reliable and predictable disinflationary environment and the consolidation of monetary discipline, more generally, becomes the unique and, indeed, inviolable policy priority.

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[110] To be more precise, the whole story goes as follows. As prices increase, households and businesses spend and produce more because they temporarily believe themselves to be better off due to higher nominal wages and profits, or because they deem that demand in the economy is growing. In the long-run, however, the rise in output or decline in unemployment cannot persist due to capacity constraints and increasing inflation will generate higher price expectations. Thus, over the long-term, a stimulative monetary policy will result in higher inflation with no gains to the real economy.

[111] This does not necessarily imply that employment and output considerations are completely neglected by monetary authorities. As discussed below, these considerations are, in theory, often considered to be consistent with the pursuit of the inflation target.

The institutionalisation of this stability-oriented monetary regime, reasonably, marks a pointed departure from the standard Keynesian techniques of macroeconomic management. In fact, the elevation of the price stability target, set in a medium-term frame and entrusted to the central bank, contrasts to the employment-focused policies practised in the Keynesian period and the active short-term manipulation of aggregate demand as central operational tool to boost employment. It also differs with the strong state intervention in monetary affairs and diverse policy strategies and instruments, notably fiscal policy, deployed to reach the full employment target. More essentially, however, inflation targeting signifies a clear break with the political origins and social legitimacy of Keynesian policies. Indeed, the enactment of legally binding constraints on policy alternatives, together with the technocratic nature of policy-making, conflict with the norm according to which policy formation and implementation was the result of a broad socially constructed process that basically reflected a wide societal consent and responded to the concrete needs of domestic polities. Inflation targeting appears thus to narrow both the targets and political legitimacy of monetary policy. It enforces a deflationary bias and removes monetary policy from the realm of politics, and hence of democratic debate and control.

This aspect arguably lends to inflation targeting a concrete social purpose and nature. Kirshner (2003b) notes that every macroeconomic policy, while often justified on the ground of economic legitimacy, rationality and optimality, obscures differential distributional effects. Epstein (1992), based on a 'contested-terrain' theory of central banking, deems distributive struggle as a key determinant of policy regimes and views policy choice as an expression of the political power of certain interest groups. In this context, inflation targeting can be seen as a monetary approach that advances, and in effect entrenches, the interests of financial capital at the expense of other social forces within modern political economies. Indeed, its chief emphasis on price stability serves principally rentiers, private investors and financial institutions whose interests hinge directly on the protection of the real value of financial liabilities and assets and on the stability of foreign exchange markets (see Palley, 1997). Meanwhile, the exclusion of employment creation out of the inflation targeting agenda damages domestic industry and labour whose income and political power decisively depend on domestic demand and employment conditions (Argitis and Pitelis, 2001). Thus, the enforcement of tight limits on policy conduct accompanying the function of inflation targeting rather than a mere technical choice rationalised under formalistic precepts abstracted from political reality, turns out an institutional arrangement that virtually cements the ascendancy of finance in the wider political process. It resolves the distributional conflict involved in the inflation process, precludes wide societal demands and considerations from policy debate and execution, practically redirecting policy formulation in favour of financial sector's deflationary interests.

There is indeed a long line of research that associates the adoption of inflation targets with the dominance of the politics and interests of financial capital. Chang and Grabel (2004) note that inflation targeting is an expression of the shift of social power towards finance since a low inflation objective mostly benefits the interests of mobile capital. This shift in power relations reflects the 'revenge of rentiers' (Smithin, 1996) that took place in the 1980s after states conversion to an orthodox stabilisation agenda to manage the regulation problems of Keynesianism, reshape accumulation conditions and restore capital profitability (see Saad-Fihlo, 2005b). Argitis (2003) comments that the ultimate purpose behind this conservative policy prescription is to maintain and increase the real rate of return to financial capitalists. Epstein (2003) mentions that the economic power and political influence of finance has been drastically stimulated by the closer alignment of industrial and financial firms observed in the current phase of financialisation. In this regard, Palley (2007) classifies inflation targeting in the broad set of neoliberal strategies supported by financial and business elites and oriented to undermine labour rights and impose tight wage discipline. This type of coalition is not country specific, but has held the upper hand around the world since the demise of the Bretton Woods, the liberalisation of capital account transactions and the emergence of huge magnitudes of mobile capital (McKinley, 2008).

Inflation targeting can hence be conceptualised against the political economy of disciplinary neoliberalism and the relevant reconstruction of social power at global level. In fact, its central operational features appear highly responsive to the structural power of global finance actuated by financial liberalisation and evinced by the shift of contemporary political economies towards macroeconomic discipline and the need to establish anti-inflation policy credibility with global financial markets. Its rule-based tight monetary policy impedes expansionary policy alternatives and locks in an anti-inflation policy bias which matches well with the orthodox deflationary discipline that global finance coercively imposes on nation states' policies under the threat of capital exit. A legislated commitment to long-term price stability also acts as an instrumental means for vetoing future governments that might stray from a dear money policy path and succumb to populist pressures for loosen policies. Inflation targeting thus pretexts a viable monetary policy approach that investors see as credible and consistent and to which nation states conform to win favour with financial markets and attract flows in reasonable terms. In that sense, it essentially consolidates the discipline and structural power of finance. It subordinates policy to the challenges and requirements of private investors and places intensive market discipline as a major driving force of economic development. In short, it can be thought of as an integral policy component of the new constitutional modes of governance.

Inflation targeting seems in fact to approximate much the neoliberal strategies relying on nominal anchors, deployed in the past to improve markets confidence and encourage capital inflows (Grabel, 2011). Yet, for its supporters, it represents one step forward relative to the prior anti-inflation policies as it overcomes the implementation difficulties the latter faced (see Croce and Kahn, 2000; and Jonas and Mishkin, 2003). In contrast to exchange rate targets inflation targeting is seen to leave more space for monetary policy operation, so that authorities can manage effectively domestic shocks and insulate the domestic economy from foreign disturbances, while keeping inflation under control. Moreover, it is asserted that coupled with exchange rate floats, inflation targeting handles the troubles central bankers had in the past to defend currency rate targets against financial speculation, instability and crises. As opposed to monetary targeting, the successful execution of inflation targeting does not require a stable and predictable link between money supply and inflation. The strategy instead aggregates all relevant information to forecast inflation and choose the best instrument setting to attain the desired inflation rate. Most central banks operating inflation targeting meet their policy mandate through the use of the base interest rate (see Rochon and Rossi, 2006; and Roger, 2009).

The disciplinary neoliberal nature of inflation targeting also results from other arguments often put forward to praise it as a superior anti-inflation strategy. First, it is said that by clarifying central banks duty, expressing it in a quantitative and verifiable way and requiring pre-emptive monetary responses, it eliminates more effectively the inflation bias caused by political interference with the making of monetary policy, the pursuit of multiple goals and excessive discretion. Furthermore, explicit quantitative targets for inflation help monetary authorities closely scrutinise actual and future price trends in order to apply current policy properly and evaluate past policy conduct. This mitigates uncertainty about the goals and implementation of monetary policy and pins down price expectations and inflation. Inflation targets also improve the transparency and communication of policy with the public and markets and so tame further market uncertainty about inflation prospects and rebuild confidence in the policy commitment to long-term price stability and macroeconomic discipline (Debelle *et al.*, 1998; Ortiz-Martínez, 2008; Walsh, 2009). Inflation targeting has finally the potential to improve monetary policy accountability, since it provides an explicit benchmark against which policy decisions, actions and performance can be assessed. This stiffens central banks anti-inflation discipline and prevents them to engage in monetary expansion surprises to markets (Heenan *et al*., 2006).

The association of inflation targeting with the policy discourse and dictates of disciplinary neoliberalism also arises from the views that treat it as a useful device for placating financial market sentiments on governments' commitment to policies of low inflation. In fact, Thornton (2012) deems inflation targeting as an essential anchoring device for states that seek to build a good track record of price stability and monetary policy credibility. Orphanides (2010a) also argues that the switch to inflation targeting may be particularly useful for monetary authorities that are somewhat institutionally challenged due to the impaired credibility of their stability-oriented policy framework or a lack of a strong and independent status. For this reason, Goodfriend (2000) sees the regime as a fundament for the retention of a reputational, credible low inflationary equilibrium in the economy and a successful anti-inflation policy. Céspedes and Soto (2005) emphasising on emerging market economies, proclaim that inflation targeting represents an operational method for economies with history of inflation to establish a credible monetary anchor to promote the goal of long-term price stability and contain macroeconomic instability (see also Gemayel *et al*. 2011). In this manner, the strategy contributes the monetary policy to win the support of the financial community, restore market confidence in the economy and prevent destabilising speculation (Debelle *et al.*,1998).

Another clear indication of the close relation of the inflation targeting with the governing discourse of disciplinary neoliberalism is that its perceived contribution to reinforcing policy credibility has shaped the argument that it is the most appropriate policy choice for handling the so-called ‘trilemma’ of monetary policy in a context of open financial markets and untamed capital mobility (Bernanke, 2005b). Indeed, the adoption of inflation targets has been proposed as the optimal option for a number of economies to impose a reliable macroeconomic environment conducive to monetary stability necessary to prevent financial speculation and capital flight, enhance market sentiment and attract foreign mobile capital. Vernengo (2008) contends that inflation targeting is instrumental in enhancing central bank’s policy credibility without leading to balance of payment problems. Jonas and Mishkin (2003) regard inflation targets as a helpful institutional device under a ‘free float’ currency regime to monitor and tame inflation dynamics emerging from market inflation expectations and rampant currency volatility. An inflation targeting approach tends also to reduce investors’ sensitivity to currency risk, provides incentives in managing exchange rate instability and protects effectively the economy against the destructive potential for an abrupt financial disruption, panic and liquidity crisis (Bernanke and Gertler, 2000; Fraga *et al.*, 2003). Grabel (2000) notes that the strategy represents one of the main *ex ante* contractionary monetary arrangements put in place particularly in developing economies to satisfy creditors’ demands and therefore attract credit and prevent foreign currency reserves from fleeing through capital flight.

The role of inflation targeting as a key disciplinary monetary institution ensues also from the active involvement of international financial institutions, like the IMF, BIS and OECD, in promoting it as the dominant ‘best practice’ monetary policy model. Core components of the inflation targeting strategy represent some of the key policy instructions to emerging economies for reforming central bank operations and institutional design, improving the policy making process, reaching the desirable low inflation-high credibility policy outcomes and attaining viable balance of payment positions (see IMF, 2006; and BIS, 2010b). To support and encourage this movement, international financial agencies also provide technical assistance and include inflation targeting in their rating procedures for assessing policy performance and execution process (see e.g. Epstein, 2008). Inflation targeting represents also an essential part of the conditionality structures and monitoring mechanisms of the IMF-sponsored post-crisis adjustment programmes designed to assist member states to restore foreign investors’ confidence and stabilise credit market conditions (see Gabor, 2010).

In this sense, inflation targeting can be conceptualised as important constituent of the global structural configuration embedded in the modern international financial system which Epstein and Gintis (1992) dub as the 'International Credit Regime'. The application of inflation targets as a means to maintain market's confidence and sound financial conditions reasonably classifies the strategy as part of a repayment structure. It belongs, in other words, to the broad range of domestic and international neoliberal institutional arrangements that seek to convince international creditors to lend capital abroad by making it more likely that economies will successfully service and repay their debt obligations. On the other, the active role and involvement of international financial agencies in promoting inflation targeting through their surveillance functions and lending operations operates as an enforcement mechanism that both domestic and international credit institutions deploy to provide rewards in the form of credit and impose financial sanctions on reluctant debtors that do not complain with financially friendly and consistent neoliberal policies. This close association of inflation targeting with the strategic interests and preferences of global creditors sensibly denotes further its social foundations and purpose and supports its conceptualisation as an operating method intimately linked to the currently dominant system of disciplinary and new constitutional governance. However, as underlined below, this particular political and social character of the inflation targeting framework is also accentuated by the basic operational and technical features surrounding its implementation.

4.2.2 Transmission mechanism and the implementation of inflation targeting

The NCM paradigm does not only formally institutionalise a credible commitment to price stability as the unique policy target of central banks. It also provides intellectual guidance for the concrete operational procedures and practices that must underpin the formulation and execution of inflation targeting. Despite the diverse characteristics of the existing inflation targeting regimes, these are associated with the nature and origin of inflation, the monetary transmission process, the instrument selection and the way central banks adjust policy rates to attain the established policy target, the criteria and conditions for modelling and assessing inflation dynamics, the importance of market expectations and credibility in combating inflation and preserving monetary stability.

As exposed below, these technical and operational aspects further denote the financial bias of inflation targeting and its conceptualisation as a monetary approach aligned with the political economy of disciplinary neoliberalism and new constitutionalism.

NCM macroeconomists share a common vision about the inflationary process and the precise way to guide inflation to its target. According to the NCM model, this is assumed to take place through the impact of the interest rate decided by the central bank on aggregate demand and thereby on the inflation rate. The operating monetary policy rule is that higher short-term interest rates tend to lower aggregate demand and lower aggregate demand is thereafter assumed to lower inflation. Equally important is how interest rate policy influences inflation. The transmission mechanism generally consists of both direct and indirect channels. The direct one works through the impact of interest rates on the user cost of capital, i.e. given a some degree of price stickiness, any variation in the central bank’s short-term nominal base rate alters the real interest rate and hence the cost of credit that firms and consumers borrow from private banks (Fontana, 2009b; and Canzoneri *et al.*, 2008). The indirect channel operates through the impact of short-term interest rates on forward-looking asset values, long-term real interest rates and the exchange rate, which all in turn affect current spending decisions as well as balance of payment position (González-Páramo, 2007). Provided that all parts of aggregate demand are seen interest elastic, any change in the basic policy rate of the central bank is expected to have a symmetric and predictable effect on domestic economic activity, output gap and then on inflation rate (Arestis and Sawyer, 2003a).

From this transmission mechanism three major elements can be extrapolated, with further political intents of the inflation targeting approach and, by implication, of the ‘new consensus’ paradigm. The first is that in inflation targeting, inflation appears only as a demand-pull phenomenon. In fact, as Lavoie (2006) observes, the monetarist view of inflation as the outcome of excess money supply growth is merely converted in this framework into the argument that inflation results from excess demand caused by credit supply expansion and/or portfolio asset mix recomposition after a reduction of interest rates.[112] In this context, inflation targeting effectively appears to stipulate a one-dimensional and deeply-political instruction of how to curb inflation and restore

[112] Note that, even if there is no any direct link between money stock and inflation, money remains a central determinant of inflation because it is endogenously created through banking system’s process of loan creation.

macroeconomic stability: on the one hand, it requires higher interest rates that depress consumption and investment spending, increase debt ratios, squeeze industrial profits and wages; on the other, price stability is retained through increased interest payments and higher financial returns. Inflation targeting reliance on high interest rates arguably indicates further its social function as a monetary regime oriented to set up a financial friendly investment climate vital for economies to ward off a disruptive 'run-away' punishment. However, in so doing, it also tends to transfer income to financial sector, entrap the real economy in a deflationary stagnation and hence increase significantly the scope for the expansion of financial markets.

The 'new consensus' view of the policy transmission channels also entrusts to monetary authorities full responsibility to use the short-term interest rate to cope with inflation through demand deflation. Other techniques and approaches prevalent in the era of 'financial repression', i.e. prudential credit controls or income policies, to affect the inflation process are by assumption absent in the model (see Epstein, 2003). The NCM, instead, provides to central bankers, a political constituency structurally biased towards the deflationary interests of finance, a punitive power to impose a credible to financial markets economic programme of austere anti-inflation adjustment and tight discipline (Dyson, 2000). Interest rate manipulation can be instrumentally deployed to ensure wage restraint, punish state for profligate fiscal spending and create a political momentum towards supply-side structural reforms. At the same time, it bounds the scope of monetary policy to the protection of real financial wealth and money (Wray, 2011). Inflation targeting, thus, supports and puts on a legal basis the market-oriented and contractionary policy direction imparted by the structural and disciplinary power of financial capital in an environment of unrestricted international capital mobility. It exerts deregulatory pressures on the remaining protectionist state functions and leaves the credible politics of sound finances and monetary abstinence to be fully regulated by the central bank.

A third aspect of inflation targeting inferred from its transmission mechanism is that it appears as a monetary strategy which appropriate and successful operation presupposes liberalised and high liquid money and capital markets (Bernanke, 2005a). In fact, all financial assets are implicitly envisaged in the NCM model to be perfectly substitutable with the central bank being able to control short-term interest rate much as all interest rates and the banking system to fully and instantaneously respond to all liquidity requirements of the economy. Evidently, market imperfections in the form of credit rationing and/or interest rate scheduling that reflect various levels of credit risk and uncertainty are disregarded (Arestis, 2009). Hence, power relations, distributional issues and macroeconomic effects related to monetary institutions and conditions, e.g. debt dependence, default risk, market uncertainty and fragility, are excluded from any consideration. The inflation targeting model, through a cloak of policy neutrality and procedural clarity and its ardent faith in the efficient market hypothesis, obscures thus central aspects of market discipline and sources of macroeconomic instability. In its analytical structure financial market deregulation and discipline are instead crucial for the effective transmission of policy rates and therefore for successful macroeconomic management.[113]

It is worth mentioning that given temporary nominal rigidities in the economy, inflation targeting is seen to operate in a constrained discretion framework (Bernanke, 2003), thereby permitting a certain degree of short-term real stabilisation. Thus, when after an unanticipated negative demand shock, actual output falls below the NAIRU and falling inflation rate and deflation arise, the central bank can push its policy base rate down to stimulate real economic activity, increase the output gap and prevent deflation. In the opposite case, when actual output exceeds the NAIRU and inflation accelerates, the bank can increase the nominal interest rate to chock effective demand, lower the output gap and bring inflation down. If the central bank manages to equalise the real rate of interest to the Wicksellian ‘natural’ interest rate,[114] the output gap will vanish, inflation will stabilise and hence no scope for further short-term stabilisation through adequate monetary policy reactions will be necessary. Guideline for interest rate manipulation under inflation targeting is usually provided by what is known as the ‘Taylor rule’ (Taylor, 1993).[115]

This recognition on the anti-cyclical stabilisation property of monetary policy does not yet imply that policy-makers can fine tune the economy at will and at a long horizon. Provided that stabilising inflation also implies stabilising the output gap and monetary policy does not influence real variables over the longer-term, under inflation

[113] See also below on the role and importance of financial market reforms in inflation targeting.

[114] The ‘natural’ interest rate corresponds to the Wicksellian natural rate, i.e. the rate at which the real is at equilibrium.

[115] For a brief, though inclusive, literature review on Taylor rules see Orphanides (2008).

targeting short-term stabilisation purposes have, in practice, less weight in monetary policy decisions. Consequently, the control of inflation remains the overriding policy concern. In terms of the central bank's stabilisation function, this is expressed by the equation of its short-term rate to the 'natural' rate of interest. This is considered as the ultimate, and in effect optimal, policy reaction of monetary authorities as the 'natural' interest rate represents the rate at which inflation is at its targeted level and monetary policy is neutral in that any deviation from that rate will not have a permanent impact on the level of economic activity. It is mostly for that reason that the ability of central banks to bring inflation back to its target and maintain it at that target is the ultimate criterion of policy success and effectively the only contribution supposed to make for the creation of an environment of macroeconomic stability conducive to long-run growth.

Another important operational aspect of inflation targeting is that, as long as price stability is the overriding policy goal and interest rates affect inflation with long and variable lags, it operates more effectively if guided in a forward-looking manner. As such, the implementation of inflation targeting assigns a central role to forecasts of inflation and other target variables. In fact, forecasting represents a crucial operational constituent in inflation targeting regime, so that it is actually the intermediate target of this policy framework (Agénor, 2002); and for that reason it is also called as 'forecast inflation targeting' (Svensson, 1997). Under inflation forecast targeting, the purpose is to set interest rates such that the forecasts of target variables, that correspond to the intermediate target variables conditional on interest rate changes, are the desired ones; namely, inflation forecast converges toward the announced target level and output gap converges toward zero at an appropriate pace. Whenever inflation projections deviate from the targeted value, monetary authorities should according to that framework take 'pre-emptive strikes' adjusting monetary conditions suitably. This is esteemed as the most efficient procedure of tackling the problem of imperfect control of inflation due to the lags in monetary transmission channels and thereby of making inflation to reach the target (Orphanides and Williams, 2005).

The forward-looking orientation of inflation targeting adds further important aspects of the approach which highlight more its market-oriented and finance-friendly nature. The first draws on the NCM rational expectations assumption and refers to the critical role of market expectations in determining central bank's ability to meet and sustain its target. One core reason why market expectations are deemed to impinge on monetary outcomes is that they provide valuable information about future inflation trends. Therefore, their formation and evolution receive special emphasis on inflation forecasts construction and on determining the pre-emptive responses of central banks (Orphanides, 2010a; González-Páramo, 2007). Another stems from their impact on the transmission mechanism of monetary policy and particularly on the term structure of interest rates. As asserted, monetary authorities exercise a direct influence only on short-term rates. Spending decisions and hence long-term price developments are, yet, greatly influenced by long-term rates, which in turn reflect market expectations about the course of monetary policy and inflation in the future. Consequently, the magnitude and ultimate impact of any policy move is supposed to crucially rest on its influence on expectations (Goodfriend, 2004).

However, the most prominent reason as to why market expectations matter for inflation targeting is related to their impact on current and expected future inflation. It is argued that, if for whatever reason market agents' expectations are, in a sequence of past periods of time, higher than the targeted inflation, it is possible current wage and price setting to ultimately adjust towards the higher expected market-clearing level. In the same vein, the currency may also depreciate in foreign exchange markets and thus amplify this first-round negative impact of expectations on the current price inflation. The resultant higher level of current inflation will, in turn, generate long-lasting, self-generating, effects on expected future inflation, as one's period inflation will feed, via continuous expectations-building, through onto the next period inflation. In this way, the central bank may, in due course, find itself incapable of stabilising and reducing future inflation. As a result, it will fail to deliver and protect price stability and thus it will be inconsistent with its primary policy mandate.

The importance of expectations for the effectiveness and viability of monetary policy practically institutionalises policy credibility as a paramount notion and central operational goal in the conduct of inflation targeting. In fact, in inflation targeting, the achievement and preservation of price stability crucially relies on the degree of policy credibility surrounding the design and operation of monetary policy. Impaired policy credibility implies that the announced strategy may fail to solidly anchor expectations to levels consistent with the target inflation rate and this carries with it the danger of instigating 'out of control' inflationary episodes and undue market speculation. Lack of policy credibility also implies that any forthcoming disinflation process would be longer and harder. This is because a higher than otherwise interest rate will be needed to de-escalate protracted inflationary pressures, stabilise inflation expectations and re-establish market confidence on the central bank's determination and efficacy to react with sufficient force to the various macroeconomic shocks so as to maintain its price stability definition.

On the other hand, if the central bank can credibly announced its goal to reach and maintain low and stable inflation rates, i.e. if its policy objective is well observed, understood and accepted by the markets, inflation expectations will be anchored to the desired level of inflation and this will greatly help the task of the central bank to reach its inflation target. In so doing, credibility may also support central banks to build-up a track record of low and stable inflation and win market trust about their commitment to price stability, eventually generating a virtuous cycle, whereby improved credibility anchors further expectations, that then shape an environment conducive to economic stability and further enhance credibility. Moreover, as Labonte (2012) and Bernanke (2003) comment, a high degree of credibility facilitates monetary responses to adverse demand and supply shocks as it permits a more aggressive policy loosening without the concern that the easing will cause price expectations to increase. Improved policy credibility, finally, prevents excessive policy activism inducing markets to provide the appropriate stabilising adjustment to macroeconomic developments and shocks (Bean, 2007).[116] This is supposed to lower the real cost of keeping inflation at target and to dampen the duration and extent of destabilising market fluctuations (Mishkin, 2011).

It is clear therefore that the incorporation of rational expectations in the NCM conceptual basis and the paramount role of credibility for the success and viability of inflation targeting essentially ordain central banks to operate through the expectation channel. Hence, the management of market expectations becomes the highest ranked concern. Indeed, as King (2005) notes, any central bank concerned with price stability should actually focus less on the possible effect of any individual decision on interest

[116] Suppose, for example, the advent of an adverse demand shock. If markets consider as credible the commitment of monetary authorities to stabilise inflation and output, this will lead market operators to anticipate lower interest rates, thereby causing the currency to depreciate and equity prices to increase. This market reaction will stabilise, to some extent, the level of economic activity, hence attenuating the size of policy intervention required (Bean, 2007).

rates but rather on whether its decision framework will systematically condition and monitor market expectations. In this way, the inflation targeting approach practically institutionalises markets judgements and sentiments as the most central determinants of policy management and performance. A potential failure of the central bank to convince financial markets on its rigour and determination to react to any eventuality that might derail price stability may erode investors' confidence and produce negative credibility assessments. This in turn may well set in motion a financial run, excessive macroeconomic instability and eventually bring the collapse of the inflation targeting regime. Hence, under the NCM rational expectations and money neutrality doctrines, financial and economic developments become highly reliant on investors' evaluations. In the NCM analytical construction and inflation targeting conduct, investment strike as a speculative market practise and expression of financial power becomes a certain potentiality and monetary policy implementation turns practically into hostage to the approval of financial markets.

Inflation targeting represents consequently a policy framework that exhibits a strong financial-bias and essentially brings financial markets and interests at the front stage of monetary decision-making. To the extent that the retention of price stability crucially depends on investors' assessments and actions in money markets and central bank skill to appropriately interfere and manipulate market conditions and sentiment, enhanced policy credibility implies a close institutional relationship between financial markets and central banks. It also requires investors' approbation of the central bank performance that in turn means that monetary policy will continue to be shaped by the selfish interests of a small financial elite in the future. In this regard, the idea of policy credibility as embodied in the NCM practically provides a measure of the capture of monetary policy by financial interests and imposes new restrictions upon social and economic activity. As financial market judgement and reactions become keystones for economy's inflation performance and growth potential, it becomes harder for the monetary authority to accommodate the needs of the populace and alter the character of its policy. Thus, the NCM, through the institutionalisation of the role of credibility and market expectations in policy formulation and execution, promotes the insulation of economic policy from social deliberations and control. This severely weakens its social accountability and legitimacy and also the scope for charting a more balanced and growth-oriented policy strategy (Saad-Fihlo, 2005b).

These operational features and characteristics of the inflation targeting regime wisely contribute to presenting it as both a reflection of the rising power of finance and a promoter of the interests of this social group (ibid). In fact, the consolidation of a rigorous commitment to long-run price stability allegedly serves the prevention and mitigation of financial instability and crises caused by irrational market bubbles and capital exit. In a world marked by increased capital market openness, interdependence and speculation, it provides a credible institutional solution for placating investors' sentiment and speculative instincts and establishes a 'safe haven' for financial capital and an anchor of monetary stability. On the flipside, economy's stabilisation comes at the expense of labourers and other social groups whose interests, social standing and political power are intrinsically related to employment conditions and the dynamism of the real economy. The strategy's selective fixation on fighting inflation and over-reliance on higher interest rates retards economic growth and real investment, throws people out of work and tilts income distribution away from workers. Consequently, inflation targeting's credible governance framework tends to generate and consolidate institutionally the unpleasant macroeconomic and social effects of the financialisation trend. However, these political underpinnings and negative socio-economic impact do not only emanate from the strategy's unwavering focus on low inflation. They also result from several other institutional arrangements present in the inflation targeting approach that according to the NCM theorists are deemed as necessary requirements for supporting disinflation and financial credibility.

4.2.3 Inflation targeting, credibility and additional neoliberal lock-in mechanisms

In a monetary policy approach, in which the role of expectations and policy credibility are closely intertwined and the search of gaining higher counter-inflation credibility in capital markets appears to have greater weight than stabilising output in the central bank policy choices and preferences, inflation targeting advocates propose a number of necessary institutional and policy-making prerequisites for improving the efficient implementation and operational credibility of inflation targeting. As illustrated below, the intellectual case for these arrangements springs directly from the major theoretical assumptions, assertions and postulations of the NCM policy paradigm, whereas their nature, content and purpose promote the finance-led disciplinary characteristics of the inflation targeting framework and arguably the disciplinary financialised restructuring of the inflation targeting economies.

The first important prerequisite of successful inflation targeting is the absence of fiscal dominance and the achievement of sustainable fiscal positions. The condition for fiscal prudence and discipline rests on the 'new consensus' insight that profligate public spending, by affecting the level of aggregate demand, may negatively influence the outlook for inflation and therefore turn into an exogenous disturbing factor to the interest rate setting of the central bank. A fiscal expansion is also likely to produce an excessively large stock of debt and inflate price expectations, thereby making it more difficult for the central bank to meet its inflation target (Cochrane, 2011). A potential increase in the central bank's base rate to remove fiscal dominance may also swell the debt servicing burden and add to the stock of public debt (IMF, 2001). Irresponsible fiscal policy may therefore give rise to a vicious spiral of sustained high interest rates, increasing public debt and excess market instability that will severely undermine the credibility and efficacy of the central bank's mandate to promote long-run monetary stability (Bernanke, 2005a). In accordance with investors' quest for minimal default and inflation risk, sustaining sound finances is, in this context, a fundamental policy prescription to protect price stability and maintain the operational autonomy of central banks. [117]

The second necessary condition for efficient inflation targeting operation is the modernisation and deregulation of the domestic financial and banking system, another institutional initiative related to the political economy of disciplinary neoliberalism. In particular, it is proclaimed that in an inherently stable and efficient market structure, various measures of financial repression represent vulnerabilities that restrain market liquidity, competition and allocative efficiency. Financial sector deregulatory reforms and deepening, on the other hand, are essential for improving governance, operational efficiency and transparency in capital markets which encourage prudential soundness and the stability and well-functioning of the entire financial system. This strengthens investor confidence and contributes to preventing episodes of abrupt capital outflows, rampant market volatility and inflation outbreaks that can side-track monetary policy.

[117] In the next section of the chapter, a more detailed analysis about the role of fiscal policy in the NCM policy model will be provided.

(Mishkin, 2004; Carare *et al.*, 2002). A well-developed financial environment free of interventions and distortions also guarantees a sound definition and understanding of the monetary transmission mechanism. This is seen to improve the effectiveness of the interest rate channel of monetary policy and thereby the capacity of central banks to adjust policy rates as needed to combat inflation (Batini and Laxton, 2007).

Another important precondition for the development of an effective inflation targeting policy is the adoption of a flexible exchange rate regime. Inflation targeting, according to its theorists and practitioners, and also to investors interest in expanding their speculative instrument base, is clearly incompatible with fixed exchange rates. In fact, as monetary policy, according to the 'standard' theory, becomes in a framework of fixed currency rates and high level of capital mobility endogenous, the belief is that it is unfeasible for monetary authorities to target an inflation rate over the medium-run different from that of the country to which the domestic currency is pegged (Brenner and Sokoler, 2010).The coexistence of an inflation target and a managed currency rate involves also the risk that the central bank may fail to convey to the markets its policy priorities and operating procedures in a credible and transparent manner due to the unavoidable tensions expected to emerge between the inflation and exchange rate. In that case, the benefits of inflation targeting would not be fully reaped and the conduct of monetary policy would face grave credibly problems (Debelle *et al.*, 1998). As a result, greater exchange rate flexibility combined with capital account liberalisation are viewed as cornerstones for reassuring financial markets that price stability remains the only nominal anchor of the system. In this way, the central bank enjoys sufficient operational independence and credibility to pursue effectively the agreed monetary objectives (Agénor, 2002).

Even more importantly, the role of policy credibility and market expectations, as incorporated in the 'new consensus' model, has been invoked as a basis on which supplementary operational and institutional aspects underpinning inflation targeting are justified. Their primary target, as said by their supporters, and reasonably similar to the general political strategy of 'new constitutionalism', is to establish additional lock-in mechanisms on central banks that carry out inflation targeting with the view of stiffening further their commitment to curb inflation. By tying the hands of policy-makers, these institutional arrangements are viewed to cement an outright disciplinary regime of anti-inflationary policy implementation, crucial to boost markets confidence on the future path of monetary policy and the technical abilities of the central bank to contain inflation. This is supposed to facilitate monetary authorities to promote the credibility of their pre-announced restrictive monetary strategy in capital markets and hence to enhance their capacity to stabilise the economy at its ‘natural’, low inflation equilibrium.

Inflation targeting adherents base the scope for the introduction of credibility-promoting monetary institutions on political economy arguments emanating from the precepts of new classical macroeconomics and especially from the time-inconsistency thesis of Kydland and Prescott (1977). The time-inconsistency argument declares that politically accountable policy-makers cannot be lastingly committed to anti-inflation policies because they will always have the electoral incentive to expand the economy by making use of the short-term inflation-employment trade-off of the Philips-curve. Rational private agents, being in position to know how the economy actually works, will fully anticipate government proclivity to active monetary policy and incorporate its inflationary impact into nominal wages and financial contracts. Thus, a politically-induced inflation bias occurs in the system with the economy experiencing an increase in inflation and virtually no gains in output or employment performance. Under this conceptual setting, a pre-announced policy of low inflation may not be credible, even if policy-makers have no intention of reneging on its commitment, since it may not be believed (Woodford, 2012).

A common mechanism recommended by NCM scholars to effectively protect monetary policy against politically motivated inflation surprises is the adoption of a policy operating rule. A rigorous commitment to a certain rule warrants that policy is set mechanically with no discretionary judgements and free from public interference (Mishkin, 2005). This prevents inefficiencies related to time-inconsistent preferences and reassures markets that monetary policy will remain disciplined on its announced anti-inflationary orientation (Orphanides, 2008). Adherence to a monetary rule also provides a contingent plan for the future setting of policy rates and thereby facilitates the central bank to communicate and elucidate effectively its monetary policy strategy (Woodford, 2005). Furthermore, policy rules are instrumental for financial analysts in their assessment reports that evaluate monetary policy performance and hence impose a certain degree of market discipline on monetary policy deliberations and decisions (Asso *et al*., 2007). In so doing, the use of a monetary rule also helps authorities build a solid anti-inflationary reputation with the result that investors' expectations remain tied down and inflation comes under control at a lower level of output variability (see Goodfriend, 2004).

A further administrative arrangement put forward by NCM macroeconomists for insulating central banks from the inflationary impact of electoral politics refers to the increased communication and transparency of their policy mandate and monetary strategy. The inflation report documents, the release of the minutes of the monetary committees which decide on monetary policy, the disclosure of central banks inflation forecasts and their official publications are some examples quoted in the case studies. Such channels of communication are used by central banks to elucidate the public and financial markets the explicit policy objectives and constraints of monetary policy; the precise numerical target for inflation and how it is chosen and planned to be hit; the reasons for any unexpected deviation from the announced inflation target; as well as the possible responses required to put inflation back on track (Mishkin, 2001). These communication efforts are of critical importance in the policy-making process in the inflation targeting regime. They suitably condition market expectations and investors behaviour to the announced policy target. They also make the reaction function of the central more stable and predictable and thereby permit the private sector reactions to contribute to the application of monetary policy through a change in the term structure of interest rates. As a result, enhanced communication and transparency also confine policy activism, shorten the lag length of policy changes and prevent macroeconomic instability (Goodhart, 2007; Poole, 2007; Bean, 2007).

An important outcome of improved communication and transparency is that it supports the accountability of the central bank to markets (Geraats, 2009). Akin to the broad policy goal of new constitutionalism, establishing accountability arrangements is seen to help ameliorate the time inconsistency trap, hence improving central bank's credibility and reputation as guarantor of price stability. In fact, the explicit objectives and an open process for formulating and reporting policy decisions appear to impose intense market scrutiny and discipline on monetary policy (see Lefort, 2006). Hence, insofar as the bank is forced to calculate and publish the implications of its short-term monetary decisions for the future inflation rate, increased accountability provides an incentive for it to refrain from any opportunistic behaviour (see Bernanke *et al.*, 1999; and also Mishkin, 2007). In some countries, monetary authorities are subject to more explicit forms of accountability that ensue from legal provisions. In New Zealand, for instance, the tenure of the central bank's governor is linked by law to the attainment of the inflation target. In several inflation-targeting economies, central bank officials must appear before the parliament at regular public hearings, where monetary policy is scrutinised and assessed, while in some others (New Zealand, Norway, Sweden and the UK) independent experts evaluate on a regular or occasional basis the operation of monetary policy (Svensson, 2011).

Nonetheless, for most orthodox economists, the most efficient way to insulate monetary policy from political intrusion and hence deliver improved credibility to the inflation targeting strategy refers to legislative changes in the administrative structure of the central bank. Typically, institutional reforms of this sort are in the direction of greater central bank independence (Batini and Laxton, 2007). Although the formal structure and degree of central bank independence may vary across countries and over time, the key institutional arrangements that underpin the independent status of central banks in inflation targeting regimes are, *inter alia*: a) the institutionalisation, typically through legitimate legal procedures, of the prime responsibility of the central bank for devising and enforcing monetary policy with a view to achieving the target inflation; b) clear-cut limits on government and other public sector entities' borrowing from the central bank; c) the sufficient insulation of the policy-making board of the bank from politicians, alongside the explicit exclusion of government officials from the decision-making organs of the central bank; d) the appointment of its governors for a term of office that exceeds that of politicians to safeguard policy continuity and consistency; and f) the legal protection of central bank staff from dismissal for actions taken in the course of performing their duties (see e.g. Arnone *et. al.* 2006; and Sheppard, 2008).

A central bank institutionally immune from direct political control and legally mandated to target price stability is reckoned to enhance policy credibility for several reasons. Alesina and Stella (2010), for instance, assert that it provides an irreversible institutional solution to the problem of time-inconsistency and consequently protects monetary policy-making against the impact of political business cycles. Central bank independence also boosts inflation targeting credibility since it removes governments' propensity to relax monetary policy and sustain inflation for the purpose of reducing the real value of accumulated debt (see Buiter, 2007). Moreover, granting institutional independence to central banks signals to financial markets a stronger commitment to price stability as a central bank run by inflation-averse specialists with strong linkages to the financial community is the best place to make the technical decisions consistent to that objective (Saad-Fihlo, 2005b). For those reasons, central bank independence is also usually associated with lower inflation and superior macroeconomic performance (Cukierman, 2008). This supposedly supports the central bank effort to build up its image and reputation in capital markets as a guarantor of price stability, hence further promoting its policy credibility.

Mainstream scholarship often draws a distinction between instrument and goal independence (Fischer, 1994; and Hammond, 2012). The former implies the full and exclusive responsibility of the central bank to choose the appropriate tools necessary to meet the inflation target and implement monetary policy autonomously. In contrast, goal independence refers to the unilateral ability of the bank to determine the inflation target and other policy goals. Bernanke and Mishkin (1997; p. 102) see instrument independence as a more preferable institutional arrangement because it 'minimizes opportunistic political interference, while still leaving the ultimate goals of policy to be resolved by democratic processes'. Yet, Epstein (2002) argues that this distinction is not always important in practise. Indeed, even where administrative provisions formally promote instrument independence, in most inflation targeting regimes central bank goal independence is apparently increased, as well. Additionally, Epstein (2002) underscores that ultimately this distinction is meaningless as the hallmark of inflation targeting is to determine the policy goal, i.e. the achievement of a low and stable rate of inflation.

It is clear from the preceding analysis that the above institutional arrangements framing the governing and operational setting of inflation targeting tend to strengthen the approach's inclination and responsivity to the material preferences and economic strategies of financial capital. In effect, rather than being a mere 'sensible' reaction to concrete constraints imposed by a vague theoretical framework or by the 'real world' economic structure and conditions, they shift and legally institutionalise monetary decision making and practice to a direction that finance favours and sees as essential elements for enhanced policy credibility and effectiveness. As a result, they implicitly promote further the surrender of monetary policy to financial interests (Palley, 2001). This tilted institutional relationship between inflation targeting institutions and policy attitude plausibly entrenches the constraints that inflation targeting imposes on broad aspects of social and economic activity. They legally preclude political dilemmas and proposals about the particular orientation, institutional design and the social reach of monetary policy and solidify the financial bias which all inflation targeting economies develop through the strategy's overriding emphasis on price stability, adherence to high interest rates and promotion of complementary neoliberal policy arrangements. Well-matched with the governance framework of 'new constitutionalism', inflation targeting therefore restricts policy pluralism and promotes the institutional insulation of monetary policy from public scrutiny and government control.

Accordingly, this rigid institutional and policy-making environment produced by the inflation targeting model can be seen as a complementary commitment device which effectively locks in the expansion and deepening of the symbiotic disciplinary stagnation-financialisation relationship embedded in inflation targeting, regardless of the electorate's desire and the underlying macroeconomic conditions. Even worse, it also prevents any prospective for an effective coordination of policies that is essential for the construction and successful operation of any progressive policy alternative that targets real economic variables and has a broader social range, thereby perpetuating monetary discipline, financialisation and deflation. Resembling the concrete political content and social scope of 'new constitutionalism', under central bank independence, operating rules and policy communication, monetary policy becomes immutable and virtually insulated from political process and the harsh economic and social reality of neoliberal financialisation. Power is simply transferred from the state and society to a conservative central bank that assigned by great operational autonomy is free to run restrictive policies under capital markets approval and support. A central bank-centric, rigid and disciplinary in nature, macro policy regime is consequently consolidated that validates and reinforces the dominance of financial interests in the political economies with an inflation targeting regime in place. This rigid policy framework is legitimised by the central theoretical postulations of the NCM paradigm. As indicated below, its disciplinary nature and social content are also institutionalised by the 'new consensus' hints in fiscal and wage policy areas.

4.3. The 'new consensus' and fiscal and wage policies: an overall monetary stability oriented regime

As already mentioned, inflation targeting is, in practise, associated with independent central banks and the use of the short-term interest rate as the key policy instrument to meet the inflation target. However, in principle, such a policy regime could also put in place by deploying any instrument that could potentially have an impact on aggregate demand and output gap. In this connection, a reasonable policy tool could certainly be fiscal policy. Nevertheless, in the NCM macroeconomic framework, the function and competency of fiscal policy to counteract changes in aggregate demand and thereby in inflation is hardly ever appraised. At best, fiscal policy retains only a restricted role as an instrument of stabilisation policy. On the whole, providing theoretical rationale and operational definition to a disciplinary and central bank-centric macro-policy mix, the exclusive responsibility for reducing inflation and dampening real output volatility is explicitly assigned to monetary authorities.

Proponents of the 'new consensus' model have produced three distinct sets of arguments to rationalise the case against the use of public counter-cyclical policies in inflation targeting. The first refers to the assumed advantages of using the interest rate tool compared to fiscal policy for delivering optimal policy outcomes. In particular, it is contended that interest rates as a policy instrument can be modified more frequently and easily, while their impact on economic activity is more predictable and subject to shorter time lags. Moreover, it is supposed that the costs of changing fiscal stance are large and usually larger than those of interest-rate changes (Allsopp and Vines, 2005). Hemming *et al*. (2002) also underline some 'institutional aspects of fiscal policy' that buttress the case against fiscal discretion. On that issue, it is underscored the tendency of fiscal policy to behave pro-cyclically because of cumbersome and lengthy decision making process, its proclivity to be oriented to real rather than nominal stabilisation due to electoral reasons and the difficulty for it to become institutionally depoliticised. All these properties of pro-active fiscal policy are supposed to create a deficit bias in the economy which jeopardises sound macro conditions and price stability. Monetary policy, in contrast, is deemed easier to be delegated to independent policy bodies, e.g. an independent central bank or monetary committees, and thus to place greater weight to inflationary risks and financial stability considerations (Allsopp and Vines, 2005).

The second argument against fiscal discretion and state's regulationist role put forward by 'new consensus' economists is related to the hypothesis that it is entirely ineffective in having any impact upon output and employment levels. This claim rests on two fundamental principles of orthodox economics. The first one is the 'Ricardian equivalence theorem' popularised by Barro (1974). This declares that the choice of a government to finance a given level of public spending either via taxes or via issuing bonds is practically identical, as both methods entail an equivalent tax burden. Indeed, the first method involves a tax burden today, while the second involves a tax burden sufficient for the government to repay the loan plus an additional tax burden equal to the interest payments during the time the borrowing is outstanding. Thus, to the extent that individuals discount the future, both deficit financing options would be treated as identical by rational agents and hence a move to finance deficit by borrowing will not have any impact on private sector's current spending behaviour. As a result, aggregate demand in the economy will eventually remain unaffected and government's effort to stimulate economic activity by increasing public spending virtually unproductive.

The second proposition against the effectiveness of discretionary fiscal policy is the purported 'crowding-out' effect (Buti and van den Noord, 2004). This rests on the notion of a 'natural', supply-side equilibrium and the principle that the volume of savings drives investment demand and thus output growth trajectory. It holds that any initial stimulus of aggregate demand brought about by a rise of deficit spending, albeit expansionary in the short-run, will sooner or later be contractionary as the subsequent absorption of savings and the accumulation of a larger stock of government debt will lead to higher real interest rates and thus to lower real investment and potential output in the future. Moreover, the case of 'international crowding out' is also mentioned in this context. This principally occurs via changes in the exchange rate. It is presumed that increasing domestic interest rates caused by higher government deficit spending will result in a currency appreciation and deterioration of the current account, thereby counteracting the initial expansion of aggregate demand caused by fiscal stimulus (see Arestis and Sawyer, 2003a).

A final argument against the macroeconomic role of fiscal policy is associated with the strategic interactions and constraints that inevitably come out between fiscal and monetary authorities. More precisely, the argument is that, for even one accepts that fiscal policy is a powerful instrument to regulate real economic activity, as indeed many scholars now increasingly appear to do, its stimulative effect on real economy will be, at any rate, moderate as a result of the deliberate action of the central bank to neutralise the anticipated impact of a fiscal change on output gap and inflation. This antagonistic relation between fiscal and monetary policy is apparently more striking in an inflation targeting policy regime. Given that monetary authorities are assigned to safeguard price stability and subject to this mandate to provide the necessary output stabilisation in the economy, a fiscal expansion, presumably expected to raise demand and inflationary expectations, will be incorporated in their policy reaction function, hence leading to an increase in central bank's base interest rates and a corresponding reduction in private spending. This development will dampen or fully counterbalance the stimulative impact of fiscal expansion and hence leave the entire macroeconomic system impervious. In an open economy framework with flexible exchange rates, this offsetting impact of the interest rate will be party brought about by an appreciation of the exchange rate (Creel and Sawyer, 2009).

In the NCM policy paradigm the role of fiscal policy as a stabilisation device is therefore severely downgraded, if not neglected. For it is presumed that it is either irrelevant to bring an impact on the level of aggregate demand, or relatively hard to be implemented, or anyhow it can be easily internalised by monetary authorities response function, fiscal policy does not exert a direct influence on inflation and the output gap. Consequently, in a system, in which the primary target of policy-makers is to push the macroeconomy into a long-term, non-inflation equilibrium by using adequate demand management, fiscal policy cannot compensate for monetary policy. From this point of view and in close proximity to the new constitutionalism credible policy propositions, the NCM delegates the central bank as the sole imposer and guardian of price stability and macroeconomic policy is as a whole implemented in a 'monetary, stability policy-oriented regime' (see Allsopp and Vines, 2005). An independent central bank pursues inflation targeting by appropriately manipulating interest rate to achieve its long-run price stability goal and conditional on that provides the necessary stabilisation of both the inflation and output gap responding to unanticipated economic shocks. The use of fiscal variables and any government intervention in stabilising real economic activity clearly do not matter and hence are explicitly pushed aside in this disciplinary policy regime.

The broad recognition that fiscal policy is a counter-productive instrument for demand management purposes does not yet mean that fiscal variables do not matter in a more broad sense. On the contrary, the NCM, consistent with investors risk aversion for default and also new constitutional policy arrangement of strong fiscal discipline and rectitude, provides explicit recommendations to fiscal authorities for putting great emphasis on the issues of long-term public debt sustainability and the control of the public finances (Alesina *et al*., 2001). The top preoccupation of NCM academics and practitioners with responsible fiscal management derives from the idea that, while the central bank operates in principle inflation targeting in an independent basis, the very objectives and effectiveness of its monetary policy strategy may in practice be far from independent from the behaviour fiscal authorities. These monetary implications of unrestricted fiscal policy can have particularly within an open and highly integrated financial order, a profound impact on the ability of the central bank to secure a stable macroeconomic environment conducive to sustainable growth and high employment (see e.g. Mishkin, 2007; and Libich *et al.*, 2011).

NCM macroeconomists have quoted several channels by which discretionary fiscal policy impedes monetary authorities to run inflation targeting in a credible and efficient manner. Fiscal policy is for instance considered to expand aggregate demand and reduce the output gap of the economy, thus engineering inflationary pressures and price expectations. Moreover, fiscal profligacy increases budget deficits and the stock of public debt that in turn may create a strong temptation for governments to resort to an inflationary monetisation of public spending via the printing press. Irresponsible fiscal policy and a rapid build up of unsustainable fiscal imbalances may also generate excessive market instability and uncertainty that impedes optimal interest rate settings and effective policy communication. Even worse, there is also the danger that a lack of confidence on public finances to prompt a full-blown financial and economic crisis that may engender the collapse of the monetary regime. Finally, fiscal policy-induced spillovers may also emerge through the impact of indirect taxes on the price level and thereby on inflation. In this respect, it is argued that one-off increase in indirect taxes with the aim to restore fiscal balance may produce a wage-price spiral and therefore lead to permanently higher inflation and expectations (Hilbers, 2005).

The fact that fiscal authorities are viewed in position to exert an influence over the policy targets and operational environment of monetary policy constitutes public policy an important source of asymmetric shocks for inflation targeting central banks that complicates the conduct of anti-inflation monetary strategy. In this perspective, a strong commitment to fiscal consolidation and sound fiscal positions is deemed as the appropriate institutional arrangement to ensure a better and more efficient functioning of inflation targeting. Maintaining fiscal discipline formulates a consistent framework of coordination between monetary and fiscal authorities crucial to avoid the spillover effects engendered by undisciplined fiscal policies that may overburden and, in effect, jeopardise the operation of monetary policy. Moreover, constraints on fiscal discretion constitute fiscal reactions more predictable and essentially dependent on the monetary arrangements in place. In this way, a sound fiscal management also greatly facilitates the central bank to communicate and implement its monetary policy decisions to meet its inflation target more effectively. In a nutshell, building a governance framework of national fiscal discipline becomes a crucial institutional mechanism that preserves and supplements the political independence and operational credibility of monetary policy from disturbances that originate from the domain of politics and society pressures.

In the NCM framework, the requirement for austere neoliberal fiscal discipline also arises from the expansionary effects that allegedly accompany tight fiscal policy. The NCM literature states several ways through which a fiscal consolidation process may have expansive effects on economic growth. Large and sustained public spending reduction may, for instance, lead economic agents to anticipate a substantial reduction in tax rates in the near future. As a result, a rise in personal income and consumption spending is expected to take place, which, in turn, will bolster real investment activity and thus economic growth. Fiscal restraint can also boost investors' confidence since it eliminates concerns over a prospective inflationary debt monetisation. Additionally, by reducing government borrowing needs, fiscal discipline also lowers the credit risk premia in sovereign debt. Therefore, it leads to lower real interest rates and prevents the unfavourable crowding-out of private investment. Finally, expansionary effects associated with fiscal contraction are also supposed to emerge via the so-called labour market channel. In this context, particular attention is given to cuts in social spending and labour cost that presumably stimulate private sector's competitiveness, economic growth and job creation (see Alfonso, 2006; and Guidice *et al.*, 2003).

According to the NCM the most credible approach of establishing a restrictive 'central bank-centric' policy-mix and thereby building capacity for faster market-led growth necessitates the adoption of concrete institutional and operating arrangements safeguarding sound finances. Typically, the proposed arrangements take the shape of numerical budget ceilings, procedural rules or independent fiscal councils (see Kumar *et al*., 2009). At one with the political economy of new constitutionalism, the standard argument in the literature for the imposition of such institutional reforms is that they help eliminate the intrinsic inclination of politicians to run large budget deficits. This deficit bias is seen to result from several factors. Cutting taxes in a downturn may, for example, be politically popular, whereas increasing taxes in a boom may not (Wren-Lewis, 2000). Alesina and Perotti (1995) also underscore some institutional factors that explain the case of a politically motivated budget deficit bias. Policy-makers may not be fully informed about the economy's intertemporal fiscal constraint and thus be prone to deficit spending. They may also wish not to bear the political costs of fiscal adjustment, thereby shifting the burden of debt finance to the more distant future. In addition, politicians may desire to restrict the fiscal autonomy of future governments because of electoral purposes. Government expenditures and commitments may also be irreversible and therefore generate a government spending ratchet effect. Finally, social tensions and political confrontations may also discourage fiscal authorities to undertake the necessary consolidation measures and thereby generate a deficit bias.[118] In this context, a rule based approach to fiscal policy is seen as the most appropriate disciplinary device for curbing fiscal profligacy and creating a credible environment of sustained macroeconomic stability and sound governance (Fatás and Mihov, 2003).

In terms of the framework outlined above, strict fiscal discipline represents a fundamental policy rule that public authorities in all inflation targeting regimes should ideally abide by. However, it should be noticed that given the uncertainty surrounding the magnitude of and time lags in the monetary transmission mechanism, the NCM assigns some role to fiscal policy in pursuing short-run macro stabilisation objectives. In particular, it is supported that the budget position may oscillate over the course of the business cycle in a stabilising manner, with the public deficit increasing during the contractionary phase of the cycle and surplus rising during the expansionary phase of the cycle. This is supposed to passively smooth cyclical fluctuations in aggregate demand, thereby acting as an automatic stabiliser (Arestis and Sawyer, 2003a). The

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[118] Cited in Arestis and Sawyer (2003a).

key fiscal variable allowed to vary is the tax share and macro stabilisation is provided by the smoothing effect of taxes on disposable income: the tax rate is set so that as shocks occur and GDP fluctuates over the cycle, the actual tax levy varies and so does the budget deficit. This form of automatic stabilisation is seen to involve by its nature shorter lags and for that reason is deemed as supportive to the stability-oriented policy strategy of the central banks (see Allsopp and Vines, 2005).

This emphasis on the short-term stabilisation properties of fiscal policy does not yet be imply either a shift away from the principle of sustained fiscal discipline or an implicit recognition of the economic role of the state. For most inflation targeting supporters the scope for consolidation is clearly placed over that for stabilisation. It is maintained that any change in the government fiscal position should, at any rate, have a minimal impact on the medium-term goal of a balanced budget for reasons related to credibility issues of the monetary regime in financial markets (Arestis and Sawyer, 2003a; Taylor, 2000). In addition, restricting fiscal discretion is presupposed to make automatic stabilisers to operate more efficiently as it limits the scope for discretionary fiscal adjustments that supposedly contribute the overall fiscal policy to behaving pro-cyclically (see Fatás and Mihov, 2003). As a result, consistent with the disciplinary neoliberal nature of the paradigm, the norm that fiscal policy should be constrained and pursued in a rule based context, remains intact.

The NCM consequently incorporates a wide range of views on the institutional role and macroeconomic effects of fiscal policy. The clue of these arguments is that in the framework of a stability-oriented monetary policy strategy, i.e. inflation targeting, the application of fiscal policy for real stabilisation purposes should be abandoned as monetary authorities are able to accommodate a range of fiscal arrangements without substantial effects on inflation and output. In this narrow sense, it is seen both sensible and desirable for state authorities to shift their attention away from active stabilisation policies and focus on public finances sustainability. From a broader perspective, yet, this does not signify a complete neglect of the macroeconomic role of fiscal policy. Its potential to impinge upon economic activity is instead well assumed, principally via its spillover effect on interest rates, either directly by shaping the entire macro policy-mix or indirectly through financial market linkages. A stability-oriented redesign of fiscal policy and institutions is thus of great importance in that it does not overburden monetary policy and helps the central bank to safeguard its policy goals. Overall, thus, complementing central bank independence, a prudent fiscal framework supports the credibility of monetary policy and consolidates a ‘central bank-centric’ macro policy-mix supposedly crucial for creating a credible climate of rigid anti-inflation discipline in the economy, politics and whole society. In accordance with the political message and policy practice of ‘new constitutionalism’, insulating monetary policy conduct from undue public interference and influence is supposed to have a positive impact on financial market expectations and investment behaviour, thus seemingly enabling the economy to realise its growth potential.

Concluding the presentation of the NCM model, it should be underlined that in a monetary-oriented policy structure, in which the central bank is committed to price stability and public authorities focus on medium-term fiscal consolidation, supply-side reforms represent the most important factor for tackling capacity constraints and reducing the economy’s long-run inflation barrier. Key components of these reforms are deregulation and liberalisation measures, chiefly in labour markets (in conjunction with reforms in product and financial markets). Support for labour market reforms is consistent with the NAIRU conceptual context, in which aggregate demand has no a permanent impact on output and the rate of capacity utilisation and supply-side factors determine exclusively the ‘natural’ equilibrium of the economy (Blanchard, 2003; and Mankiw, 2002). A clear prediction of this view is that unemployment is not a problem of oversaving and thus of inadequate demand, but a structural phenomenon related to labour market frictions that prevent a market clearing real wage at full employment. Consequently, the challenge is to let the labour market function more efficiently by means of promoting greater labour market deregulation and flexibility (Layard *et al*., 2005). If successfully implemented, these reforms will remove imperfections, thereby leading to a lower equilibrium rate of unemployment and higher potential output (see Leiner-Killinger *et al.*, 2007).

Equally important to mention is the supposed negative contribution of demand oriented economic and institutional policies, such as centralised bargaining systems, employment benefits, social assistance and transfers *etc*. Not only are these initiatives seen irrelevant as far as the level of unemployment is concerned, at least in the long-run within the NAIRU framework. More significantly, they are also seen responsible for creating ‘institutional scleroses’. This is perceived to make the ‘natural’ rate to rise towards the actual rate, therefore locking in poor economic performance and creating hysteresis (Nickell, *et al.*, 2005). Moreover, low labour market flexibility is normally associated with higher real wage rigidities that make the disinflationary process more costly in terms of output and employment forgone. As such, in the presence of labour market rigidities and for a given optimal monetary policy rule, an adverse economic shock will imply greater inflationary pressures and sharper output decline, the slower wages adjust (Blanchard and Galí, 2007). Against this background, a trend towards more flexible labour markets and real wages is expected to improve macroeconomic stability and thus to be presumably supportive of the credibility of the central bank to attain its mandated policy objective.

Hence, the new consensus approach to the role of wages and income policies appears to complement the disciplinary neoliberal reconstruction of the economy that the model propels via its hints in the fiscal policy area. In fact, while rigid limits over fiscal discretion protect and, indeed, reinforce the institutional insulation of the central bank restrictive monetary policy from the destabilising impact of public intervention, labour regulations consolidate economy's anti-inflationary adjustment. Masked under the veil of the natural rate theory and the alleged allocative efficiency of free markets, labour market liberalisation and structural reforms intensify working class discipline, destruct the protective labour market institutions related to Keynesianism and thereby contribute to wage freeze and labour rights contraction. These institutional initiatives ostensibly eliminate the risk of the economy tipping into inflation, but have a concrete pro-capital and neoliberal inclination: they improve profitability, justify government neglect of unemployment and arguably set the scene for a credible state-led offensive against organised labour. Similar to the core policy plan of the disciplinary neoliberal agenda, their objective is to stabilise market sentiment and reassure foreign investors about governments' commitment to prudent policies and central bank's determination and operational capacity to maintain price stability.

Overall, the fundamental assumptions, principles and policy recommendations of the new consensus paradigm seem to validate the construction of a comprehensive, disciplinary macroeconomic policy framework. In this governance system, the most powerful and effective policy-making institution is the central bank, the major policy goal is the achievement and preservation of a macroeconomic environment conducive to long-term price and monetary stability, whilst the principal means of attaining that policy target is the formulation and credible implementation of a conservative policy pact of strict monetary discipline, tight fiscal austerity and wage restraint. Against this background, the political ascendancy and legitimisation of this disciplinary neoliberal regime, far from conceptualised as the mere product of the alleged theoretical strength and popularity of its underlying model, i.e. the ‘new consensus’, it can plausibly also be understood as embodying deep social underpinnings and thus exhibiting a concrete political content and social scope. It can, in particular, be comprehended as embedded to the profound institutional reorganisation of global political economy in the current era of financialisation marked by the emerging structural power of global finance and manifested by the relentless quest of governments to set up the adequate institutional and policy arrangements so as to gain the highest degree of credibility in international markets.

As assessed in the next two chapters, these general ideas, preconceptions and assertions of the NCM paradigm underlie all the treaties, policy recommendations and institutional initiatives that have been put into practice in Europe over recent years, at least since the Maastricht Treaty was implemented. In reality, the NCM paradigm can be viewed as so deeply rooted in EU policy-makers mind so that has become a central element of what Keynes would have called the ‘conventional wisdom’ in Europe. The institutional architecture and restrictive macroeconomic policy regime of EMU is thus attempted to be presented and evaluated with regards to the NCM disciplinary policy approach and assignment. In the next chapter, we shall start on developing the above argument by setting out in brief the direction taken by common monetary policy in the context of the EMU institutional structure and reveal the way it is guided by the NCM ideas of the NAIRU, money neutrality, inflation targeting, financial policy credibility, communication, transparency and central bank independence. Provided that the EMU programme and policy course is, as noted in chapter 3, deeply embedded in the post-Bretton reorganisation of global capitalism and the successive structural dominance of global finance in international political economy, we believe that a close association between EMU policies and the NCM policy model will provide further support to our alternative, political interpretation of the NCM as the theoretical economic model of the currently dominant ‘new constitutionalism’ governance system. In so doing, it will also enable us to build the analytical context required to test another core hypothesis of our dissertation: that the NCM-inspired EMU economic strategies and in particular the trend of disciplinary expansion and prolongation of the financialisation process that have generated in Europe lies behind the unfavourable macroeconomic and social record of EMU and that this particular finance-led disciplinary phenomenon has been one of the fundamental contributing factors of the outbreak and cruelty of the ongoing Euro crisis.

Chapter 5: ECB and Finance-led Austerity in EMU

5.1 Introduction

The 1992 Treaty on European Union, i.e. the Maastricht Treaty, has brought about a fundamental structural break in the monetary affairs and, especially in the conduct of monetary policy, across Europe. Initially, prior the launch of EMU project, monetary and exchange rate policies in Europe were decentralised and subject to the domestic economic priorities and control of national central banks and governments. After the ratification of the Treaty, yet, this degree of policy autonomy began to be abridged. In the transition stage to EMU, in the EU countries intending to become members of EMU and adopting the euro, monetary policy objectives and means commenced to be exposed to the Maastricht convergence criteria and the constraints put in place by the ERM of EMS. In January 1999, with the introduction of the euro as the common European currency, national central banks and governments entirely abdicated from their authority to pursue autonomous monetary and exchange rate policies as tools of macroeconomic management and intervention for manipulating domestic economic conditions.

Nowadays, monetary policy-making at European level has been transferred to a common monetary institution, the ESCB. The ESCB consists of the ECB, located in Frankfurt, Germany, and all national central banks of the EU countries (inside and outside EMU). Within ESCB, the ECB, together with the national central banks of the EU countries that have adopted the euro, form the Eurosystem. The Eurosystem is, today, the institution having the actual responsibility to perform all the central bank operations for the common currency and Euro area.[119] Within the Eurosystem, the ECB is the supreme monetary institution entrusted with deciding and conducting monetary policy in EMU, and national central banks have no right to variegate from the policy lines set by the ECB. As Article 107(3) of the Maastricht Treaty clearly

[119] According to Article 105(2) of the Treaty, the main tasks of the Eurosystem are: a) to formulate and exercise monetary policy in the EU; b) to conduct foreign exchange operations; c) to hold and manage member states' foreign exchange reserves; and d) to ensure the smooth functioning of the payment system within the Union.

stipulates, all monetary activities of the Eurosystem should be 'governed by the decision-making bodies of the ECB'.

The main decision-making bodies of the ECB are the Governing Council and the Executive Board. The former comprises the members of the Executive Board, plus the governors of the Euro area national central banks. The Council is charged with formulating the common monetary policy, establishing the guidelines required for its implementation, and making decisions concerning intermediate monetary objectives, key policy rates and the supply of reserves in the Eurosystem. The Executive Board of the ECB, on the other hand, includes six members: the President, the Vice-President and four other, all 'appointed among persons of recognised standing and professional experiences in monetary or banking matters' (see Art. 112 of the TEU). The Board is responsible for implementing monetary policy according to the decisions made by the Governing Council and, in doing so, provides the necessary instructions to the Euro area's national central banks, assigned, in turn, with the actual execution of the ECB's policies. Both decision making bodies are chaired by the President of the ECB, or in his/her absence, by the Vice-President.[120]

The way through which the ECB's policy bodies chart and implement Euro area's monetary policy, the objectives guiding their decisions and the specific outline adopted for the institutional structure of the ECB are associated with the theoretical, ideological, institutional and political environment surrounding the negotiations and the agreement of the Maastricht Treaty. This environment, as already noted in chapter 3, was to some important extent modulated by the neoliberal transformation of global political economy following the breakdown of the Bretton Woods institutions and the consequent reconstitution of the political and economic power of global finance; and was marked by a general thrust towards an anti-inflationary, credible to international markets, re-orientation of monetary policy course and the establishment of effective locking-in institutional mechanisms to appropriately guarantee and consolidate the credibility of this new policy programme. The ultimate aim of this financially credible institutional strategy was the revitalisation of the European corporate competitiveness and the strengthening of Europe's structural monetary power within the new world order.

[120] For a detailed presentation of the institutional structure of the Eurosystem see ECB (2011b).

As we shall intend to indicate below, the concrete anti-inflationary monetary policy framework opted for EMU, and currently implemented by the ECB itself, can be thought of as containing virtually all the essential elements of the ‘new consensus’ policy model and embracing the fundamental monetary tactics and procedures of the inflation targeting monetary approach. Whereas certainly, there are some distinctive elements of the ECB’s policy, in particular its ‘two-pillar’ monetary strategy and the attention it pays on the monetary aggregates in formulating its policy, in our opinion, these aspects do not essentially modify the fundamental features of the ECB’s policy framework which can be considered as embedded to the ‘new consensus’ paradigm and consistent with the inflation targeting approach. These features can, in general, be summarised in the pre-eminence of price stability as policy objective, the adoption of a ‘rule-like’-based monetary strategy as a means of promoting policy credibility, the independence of the ECB as an institutional apparatus seen vital to reduce politically-induced inflation and credibility losses, the way by which the ECB communicates its policy strategy and the manner it views its monetary policy to interact with relating policy domains. We believe that adherence to this NCM-inspired and finance-led, new constitutional monetary policy regime has set in motion a process of disciplinary financialised reconstruction across EMU which does not only have prevented Europe from capitalising the potential benefits arising from the introduction of the common currency but actually lies closely behind the current moment of its deep economic and institutional crisis. Unfortunately, empirical evidence presented in chapter 7 which analyses the development of some major economic and social variables across Europe seems to validate this claim.

5.2 The price stability objective

The 1992 Maastricht Treaty establishing the European Community has stipulated a hierarchical ordering in policy objectives of the Eurosystem, and by implication of the ECB, when formulating and conducting its monetary policy. According to Article 105 (1) of the Treaty, the ECB’s prime policy goal shall be to guarantee price stability. In addition, Article 105(1) specifies, that, ‘without prejudice to the objective of price stability’, the ECB, ‘shall support the general economic policies of the Community with a view to contributing to the objectives of the Community', as defined by Article 2 of the Treaty, e.g. sustainable and non-inflationary economic growth, employment generation and a high degree of economic convergence in Europe. Stated as such, the wording of the Treaty seems clear. By defining price stability as the overriding goal of the ECB, the Treaty stipulates that only when price stability is attained, the ECB can turn its attention to the broader economic objectives of the EU. In doing so, it also implicitly spells out that, by focusing on the maintenance of price stability, the ECB ensures that will make the most important contribution to the achievement of those objectives (ECB, 2011c).

According to the ECB (2008a), this arguably neoliberal and new constitutional logic underlying the wording of the Treaty rests on two fundamental premises that are also embedded in the NCM theoretical paradigm. The first is that the economic gains of price stability are large and hence maintaining price stability on a sustained basis is in itself a core precondition for economic growth. Price stability is held to contribute to growth through various channels. First, it preserves the real value of nominal assets denominated in euros and reduces inflation risk premia required by investors to hold assets. In this manner, it leads to lower long-term interest rates that boost investment and income growth. Second, within a 'natural rate' framework, price stability is seen to make the relative price mechanism more transparent, allowing agents to make well-informed decisions. In so doing, it enables the efficient allocation of resources in the economy and increases the productive potential. Further arguments mentioned on the benefits of price stability for growth are that price stability prevents the resources from being diverted from productive activities to hedging against price risk, wards off the major redistribution effects caused by changes in inflation, thereby contributing to social cohesion and stability, and finally eliminates inflation-induced distortions, that reinforce the hypothetical distortionary effect of taxation and social security on the economy.

The second belief underpinning the price stability mandate granted to the ECB is that in the long-run monetary policy is neutral and that over the long-run inflation is a monetary phenomenon (see ECB, 2008a).[121] As noted earlier, this belief stipulates, that once the economy has been adjusted to its equilibrium position, a policy-induced

[121] An assumption inherited by the Bundesbank (see Huffschmid, 2005), but as shown in the previous chapter of our thesis also fundamental in the orthodox economic theory and the NCM, in particular.

change in the amount of money will have an impact only on the general price level,[122] with no discernible effects on real economic variables. Monetary policy-makers, as a result, cannot promote economic growth and employment by permanently pursuing an expansionary monetary policy, even if this were adjudged a feasible option. The only policy variable that they are, instead, capable of manipulating is the inflation rate and hence maintaining price stability represents the sole task that should be assigned to them. From this principle it also follows that, by pursuing an anti-inflationary stance and given the supposed sizeable benefits associated with price stability, monetary policy-makers do not only make the best, but, ultimately, the only contribution to real GDP growth and employment.[123]

At the same time, though, as it is evident in its wording, the Treaty, apart from assigning price stability as the most important task of the ECB, recognises that in the actual execution of the monetary policy operations geared towards safeguarding price stability, the ECB should, in addition, keep an eye on the wide economic objectives of the EU. This consideration, according to the ECB (1999a), hinges on the conviction, also deeply-rooted in the NCM, that in a market economy where prices and wages do not rapidly adjust to changes in economic conditions, unforeseen shocks may have an impact on real economic activity in the short-term. Therefore, the ECB, via adequate alterations in its policy, is recognised typically capable of affecting real output and employment and offsetting excessive fluctuations generated by exogenous variations

[122] A policy-induced surge in the quantity of money may be either exogenous as a result of the decision of the central bank to expand the money supply, or endogenous through a change in the central bank's policy rates that in turn influences money stock. As argued below, the ECB's monetary policy, consistent with the NCM view on monetary policy-making, hinges on an endogenous money supply.

[123] To support the argument, 'unambiguous' empirical studies indicating an inverse relationship between GDP growth and inflation, with prolonged inflation causing a contraction of real economic activity, are also suggested to this end (see the article entitled 'Price Stability and growth', as appended in the May 2008 Issue of the Monthly Bulleting; ECB, 2008b). This evidence, according to the ECB, 'reinforces the case for assigning central banks clear responsibility for keeping prices stable' (ECB 2008a; p. 34) and consolidates the belief that a stability-oriented monetary policy does not only reduce substantially the cost of inflation, but also contributes to expanding the economy's long-run productive capacity (ibid).

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in aggregate demand and/or supply-side shocks. However, it is called up that such actions should always be undertaken without prejudicing price stability. A lack of this recognition is likely to lead to higher inflation risk premia, pushing long-term interest rates up and investment spending down with negative repercussions on long-run growth and living standards.

The Treaty, while establishes price stability as the prime objective of the ECB, it does not state in quantitative terms the inflation rate corresponding to price stability. As Issing (2008) argues, just before the start of EMU, it was deemed that such a lack of definition could create serious credibility and confidence problems for the ECB as a new monetary institution. A numerical target was seen necessary to provide a clear benchmark against which the markets can judge its implemented policy. So, in 1998 the Governing Council of the ECB filled the Treaty's omission defining the objective of its price stability-oriented policy as maintaining the annual rise in the Harmonised Index of Consumer Prices (HICP) for the Eurozone below 2 percent. In addition, this was supplemented with the specification that the set target was to be maintained 'over the medium term' (ECB, 1998). In 2003, after five years of actual implementation and following a comprehensive evaluation of its monetary strategy, the ECB announced that, within the abovementioned quantitative definition of price stability, it seeks to keep price inflation in the Eurozone 'below, but close to, 2%' over the medium term (see ECB, 2003a). With this change in definition, the ECB altered the until-then upper bound to a much more like target value, thus making its objective more similar to that adopted by other inflation targeting banks.[124]

The adoption of the quantitative definition of price stability reflects a number of specific features for the Euro area and of the ECB's monetary policy itself. First of all, the chosen definition underlines the Euro area-wide of its mandate. It makes clear

[124] The announcement of the 'less than 2%' target has met with fierce criticism. The main critique was that with an inflation target of this kind, the ECB would implement its policy in a rather asymmetric way, exhibiting a bias towards the risk of overshooting its target (see Buiter, 1999). With the review of its policy strategy and the adoption of a more symmetric quantitative inflation goal the ECB mitigated these worries. For instance, Galí *et al*. (2004) pinpoints, that the new quantitative inflation target has, in practice, implied the adoption of a new target range between 1% and 3%, such as that of other inflation targeting operators. On the other hand, many commentators attest that it is rather doubtful whether the 'close to 2%' announcement has provoked any change in the conduct of its monetary policy as a whole. See below more on the asymmetric implementation of the ECB's policy.

that the ECB pursues its monetary policy for the Eurozone as a whole and hence price stability is assessed on the basis of inflationary pressures in the entire EMU economy. Second, the definition elucidates that inflation rates above 2% are inconsistent with price stability and, therefore, inflation above that rate is too high for EMU to realise welfare gains from price stability. Third, by referring to a raise of 'below, *but close to* 2%', the definition also stresses that very low inflation, and particularly deflation, are not compatible with price stability, too. For the ECB, this specification underlines the broadly-shared concern that, given the zero lower bound on nominal interest rates, in a deflationary phase, monetary authorities may be incapable of effectively expanding aggregate demand by using the interest rate tool.[125]It also emphasises the commitment of the ECB: on the one hand, to have in mind the chance that the HICP index slightly overstates the actual inflation rate due to the existence of a positive bias in measuring inflation;[126] and, on the other hand, to ensure a sufficient safety margin to deal with persistent inflation disparities within the monetary union, in particular to avert the risk of individual EU member states being structurally locked to very low inflation or, even worse, to a deflation environment (Buti and Sapir, 1998; Issing 2008; and ECB, 2008a).[127]

Moreover, the definition of price stability mandate illustrates the medium-term character of the ECB's monetary strategy. The adoption of a medium-term inflation target rests on the recognition, stressed above, that monetary policy cannot influence

[125] On the use of interest rate as main policy instrument, see below.

[126] This bias arises mainly from the failure of the HICP index to account several technical and qualitative characteristics of products, the arrival of new products in the market, as well as the effect of changing spending patterns because of sales and discounted prices (Buti and Sapir, 1998). Empirical studies show that consumer price indices tend typically to overstate true inflation by 1.1-1.5% (ibid). However, the ECB estimates that the measurement bias of the HICP is considerably lower than that observed in national price indices in view of the adoption, on the part of the Eurostat, of sophisticated statistical methods (ECB, 1999a).

[127] For those reasons the ECB rejected from the outset the adoption of a zero inflation rate as the target of its monetary policy. Specifically the argument put forward against the adoption of a zero inflation rate target is that to the extent that interest rates cannot be negative, a positive inflation rate will allow real interest rates to fall below zero, which may be particularly helpful in the event of a deep and protracted economic contraction (the so-called Summers effect, see Summers, 1991). In addition, a zero inflation target might increase the risk of deflation after the advent of a negative economic shock (Issing, 2008; Buti and Sapir, 1998).

current prices, but it exerts its full effects on inflation only with long and variable time lags. To the extent that this also constitutes the impact of monetary policy reactions to involve a certain degree of uncertainty, the ECB deems as impossible to achieve its pre-announced inflation goal at all times or to reduce inflation to its targeted range relatively quickly. Therefore, monetary policy should be pursued in a forward-looking way and oriented towards medium-term horizons (ECB, 2008a; ECB, 2011c). This, in effect, means that, even if the inflation target is currently reached, a monetary easing should not occur, provided that this policy response may influence the evolution of inflation over a period of time.[128] This monetary policy approach is highly valued by the ECB in that it helps prevent excessive monetary activism and the creation of undue volatility in capital markets and the real economy. However, by adopting this approach, the ECB also recognises that some short-run volatility in price inflation, provoked by non-monetary disturbances, which cannot be controlled via conventional monetary means, is inevitable (ECB, 1999a; ECB, 2008a; and Scheller, 2006).[129]

The pursuit of a forward-looking monetary policy to attain its inflation target entails some major implications on the monetary approach of the ECB that render it to resemble much of that adopted by other major central banks and the policy practices of disciplinary neoliberalism and new constitutionalism. One major implication is the great emphasis that the ECB places on all factors that could possibly impact the future course of inflation and therefore its effectiveness to create and maintain medium-term price stability. The most prominent factor, often noted by the ECB, refers to its ability to control agents' inflationary expectations, since, in its view, expectations may have, via currently set nominal contracts reflecting the expected price level, a major impact on the level of actual inflation, and, in so doing, via expectation-building and 'second-round' effects, on the duration of price fluctuations in the economy (ECB, 2008a; and ECB, 2011c). Besides, in view of the supposed positive contribution of price stability to the achievement of the 'secondary' economic objectives and of the requirement that vigorous monetary policy actions are needed to prevent expectations' deviations, once appeared, from persisting and spreading, the control of inflation expectations is also

[128] And accordingly, today's price stability is considered as the result of monetary policy decisions and actions taken in the past.

[129] The impact of indirect tax changes or price volatility in global commodity markets on Euro area's inflation is an example of such non-monetary shocks (ECB, 1999a).

deemed crucial in influencing, apart from its capacity to reach the inflation target, the extent to which the ECB is able to deliver non-inflationary growth and employment (Issing, 2008).

A second key implication of the medium-term orientation of the ECB's policy is associated with the paramount role it attributes, like all inflation targeting central banks, to the credibility of its policy mandate to economic agents (Pisani-Ferry *et al.*, 2008; Draghi, 2011). Credibility is held essential to make price expectations staying durably anchored at levels corresponding to 'below, but close to 2 %' inflation target. In this manner, it affects agents' actual pricing behaviour in a way consistent with the inflation target and thereby greatly facilitates the ECB's prime charge to deliver price stability. Credibility also generates sizeable welfare gains. A credible monetary policy lessens the uncertainty over the evolution of inflation in financial markets and hence it lowers the risk premia embedded in bond yields (ECB, 2011c). A policy seen credible by the general public and the markets alike, also permits the reduction of the costs associated with the disinflation process (the sacrifice ratio) and with keeping inflation low. A high degree of credibility is finally supposed to offer to the ECB the required flexibility to stabilise economic activity to adverse unanticipated shocks, for it allows a relatively aggressive monetary easing without the danger such an action to engineer higher inflationary expectations (Issing, 2008).

A further feature implied by the forward-looking behaviour of its policy, cited in the official documents of the ECB, concerns the concrete conditions surrounding its monetary practise, by which, the ECB views that the credibility of its policy mandate can be best established and enhanced. One such condition is the public announcement of its numerical target. In line with other inflation targeting central banks' view, this is held to secure its commitment in pursuing its prime objective and hence to remove uncertainty regarding its future behaviour. Another refers to its reputation as inflation fighter and, as a result, to how it currently runs its monetary policy.[130] On that issue, the ECB regards that its monetary responses should, first and foremost, be consistent over time with the announced anti-inflationary course and, at the same time, forceful enough and timely accurate, when deviations of expectations from its price stability

[130] This, according to the ECB, is particularly important since, as a relatively new monetary institution, it has not developed a long track record of low inflation and reputation (ECB, 1999a; and Issing, 2008).

definition are significant (Issing, 2008).[131] Nevertheless, given uncertainty conditions, announcing policy intensions and adhering to such reactions is not, for the ECB, sufficient to anchor expectations. As a result, the ECB also recognises the requirement to set up and maintain channels of communication with the private sector, whereby to report the possible risks to price stability and to explain how it intends to tackle them (ECB, 2008a; ECB, 2001a).[132] If it does so, agents are expected to be *ex-ante* confident that the bank will offset potential shocks impinging on the state of economy and on price dynamics and therefore their inflationary expectations will be held contained.[133]

Finally, for the ECB, and in line with the NCM disciplinary view on monetary policy-making, the successful implementation of its policy and thus the credibility of its price stability objective, does not solely depend on its own monetary practises, but also on the policy arrangements set in other policy areas. In this respect, the ECB sees the achievement of sound budgetary positions crucial, provided that profligate fiscal policies can fuel expectations or create political pressures upon the ECB to monetise public sector debt or cut interest rates, thereby severely endangering its credibility.[134] Besides, structural reforms in labour, goods and capital markets are also highly rated. Greater flexibility in labour and goods markets is, on the one hand, supposed, within a natural rate-type framework, to reduce the inflation barrier of the economy, thereby helping inflation and price expectations remain anchored at low levels. Deregulated capital markets, on the other hand, warrant their well-functioning and high liquidity,

[131] Typically, small deviations in agents' price expectations from the stated target are not a matter of real concern for the ECB, because they may be the result of incomplete or imperfect information about current macroeconomic conditions (González-Páramo, 2007).

[132] We shall return below in more detail on the issue of policy communication and how it is supposed to interact with ECB's credibility.

[133] Nevertheless, this, according to the ECB, is not the only pre-requisite for enhancing the credibility of its monetary policy strategy. As explained below, another key requirement refers to its independence from political pressures, while implementing its policy. The requirements mentioned here, are related more to the implementation of its strategy, *per se*; and not on the institutional environment, in which is framed.

[134] It is predominately for that reason that the ECB vociferously supports the fiscal arrangements of the Stability Pact. For a detailed analysis on EMU fiscal framework see the following chapter.

which, in turn, contribute to an efficient implementation of monetary policy through the deployment of market-based instruments (Issing, 2004; ECB, 2008a).

Nonetheless, in order to safeguard an efficient monetary policy-making, the ECB, above all, considers of great importance the existence of an adequate systematic framework through which to analyse and assess all the information of the nature and magnitude of macroeconomic developments in the Euro area and the consequent risks on future price stability. An analytical framework of this kind is also treated essential to provide the ECB an appropriate guiding principle for underpinning the set of all its monetary procedures and practises, noted above, designed to allow it to behave in a predictable, systemic and credible manner to manage price expectations and improve the performance of its monetary policy strategy. As such, the ECB has from the onset developed and committed itself to a concrete, quite pioneering, analytical framework of assessing the risks of price stability, on the analysis of which we turn below.

5.3 The two-pillars of the ECB's strategy and policy implementation

The ECB's approach to organising and evaluating all incoming data that is necessary for assessing any potential threat to price stability in a forward-looking manner relies on two analytical perspectives, which are broadly known as the 'two-pillars'. This two pillar structure, announced in October 1998, along with the quantitative definition of price stability, as part of its overall monetary strategy, represents the organising principle which guides the Eurosystem's monetary policy deliberations, decisions and actions, as well as its external communication with market participants and the EU citizens (see ECB, 2008a; ECB, 2011c; and Gerlach, 2004).

The 'first pillar' is an economic analysis that attempts to assess the outlook for price developments and the threats to price stability over short- to medium-term time horizons. For that reason, it checks a broad range of indicators perceived to influence the interaction between demand and supply in the goods, services and factor markets over those horizons, that *inter alia* include: output developments in EMU; aggregate demand and its components; foreign exchange fluctuations, fiscal policy indicators; trends in wages and unit labour costs; balance of payments developments in the Euro area; several financial market indicators, such as asset prices and financial yields;[135] various cost indices; and business and consumers surveys.[136] An important element of the economic analysis also comprises the production of projections for movements in major macroeconomic indicators in EMU, including inflation and real GDP growth.[137] The ECB believes that all those indicators and projections create a detailed picture of the prevailing macroeconomic conditions and of the precise nature and size of the shocks hitting the economy vital for undertaking the appropriate policy action (ECB, 2000a). The first pillar also called as 'inflation targeting in disguise' Bibow (2005b), but within a different context, has often been exploited by the ECB to underline the need for member states to inaugurate structural reforms perceived, as already argued, as crucial prerequisites for sustained monetary stability in the Eurozone.

The 'second pillar' is a monetary analysis that consists of a thorough analysis of the liquidity situation in the Eurozone in order to assess the magnitude of monetary impulses in the economy and their implications for inflation over medium and longer horizons. It is conducted by the ECB using a wide range of complementary tools and indicators including a detailed examination of the evolution of credit and money aggregates based on data on the development of their determinants and counterparts. In December 1998, the ECB signalled the prominent role of its monetary analysis in

[135] According to the ECB, financial indicators affect price developments due to the wealth and income effects generated by their movements. In addition, they are an important source of information about financial markets expectations. For more details on that issue, see the article entitled 'The information content of interest rates and their derivatives for monetary policy', in the May 2000 issue of ECB Monthly Bulletin (ECB, 2000b).

[136] For a further detailed analysis on the economic analysis, see the articles entitled 'The role of short-term economic indicators in the analysis of price developments in the euro area', in the April 1999 issue of the ECB Monthly Bulletin (ECB, 1999b) and 'Price and cost indicators for the euro area: An overview' in August 2000 issue of the ECB Monthly Bulletin (ECB, 2000c).

[137] The ECB macroeconomic projections are produced and elaborated under its staff responsibility based on various sophisticated analytical and empirical methods (see ECB, 2008a). These projections use and combine large data volumes and as in other central banks play an important role in the ECB's monetary decisions. However, as Issing (2008) argues, unlike the other inflation targeting banks, the ECB uses the term projections, instead of forecasts, in order to clarify that these are simply inflation scenarios subject to a wide range of uncertainties.

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the framework of its monetary strategy by setting a reference value for M3 growth of 4.5%, deriving from the set inflation target and particular assumptions for EU trend real GDP growth and changes in M3 income velocity.[138] For the ECB, this rate of M3 growth is compatible with medium-term price stability in EMU and, by implication, a prolonged monetary expansion above this benchmark indicates upward risks to inflation (ECB, 2008a).

The rationale for the insertion of the monetary pillar in its stability-oriented policy draws, according to the ECB (2000a), on the belief that inflation is ultimately a monetary phenomenon and hence giving to money a prominent role in its strategy can serve as a feasible, firm and credible nominal anchor for a monetary policy geared to preserving medium-term price stability. It also indicates its assumed responsibility for the impact of liquidity injections on inflation, as it has a more direct control over the monetary base than inflation itself. By assigning to money a prominent role, the ECB, further, recognises in EMU the existence of a stable relationship between prices and monetary aggregates and of a stable money demand function. Argitis (2009b) deems these, monetarist-inspired, beliefs of the ECB, and the concept of a reference value, in particular, as the result of the influence the Bundesbank exerted on the design of the ECB and of the concrete political climate and deliberations forewent the Maastricht Treaty. In this context, Gerlach (2004) specifies that they have been primarily dictated by the necessity the ECB to display continuity in its policy philosophy, mechanisms and structure with the successful monetarist strategy of the Bundesbank. Nevertheless, the ECB has pointed from the outset, that it does not pursue a strict money-growth targeting in that it does not mechanistically alter its policy in response to short-term deviations of M3 from its reference value. [139] For the ECB, the M3 growth rate rather serves as an analytical and presentational indication for future inflationary risks paired with those signals coming from the economic analysis (ECB, 2008a; ECB, 2011c).

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[138] In particular, the M3 growth reference value is derived from the well-known identity $\Delta M=\Delta P-\Delta Y-\Delta V$. Its calculation is based on the assumption of a trend growth of real GDP of 2-2.25%, a trend decline in the velocity of circulation of -0.5 to 1.0% and an average inflation rate below 2 %, i.e. the ECB's definition of price stability.

[139] This, according to the ECB, is one of the main differences between setting a reference value and announcing an intermediate monetary target (ECB, 1999a).

The ECB places great importance on the two-pillar framework as, in its view, this approach improves the robustness of the Governing Council's assessments of the economic conditions and the inflationary risks. In fact, the two-pillars, that are used in complementary way, provide a large amount of information concerning the changes in economic and monetary variables, which, especially in a world of ongoing change and high data variability, reduces model and data uncertainty and thus the ensuing risks of estimation mistakes due to the overreliance on a single indicator or model. For further improving the efficiency of its assessments, the ECB, in addition, carries out a regular cross-checking between the two pillars, whereby they are compared and, if necessary, weighted against each other. This procedure enables the ECB to identify better the origin, the magnitude and the nature of macroeconomic shocks that pose a threat to price stability, as well as their relative importance and different time dimensions. By providing a robust framework for assessing the risks to price stability, the two-pillars are also seen to help the ECB not lose its anti-inflationary policy direction, to enhance the transparency of its policy mandate and to make more effective its communication with financial markets and the public. Against this background, the ECB's two pillar approach is considered as a logically founded and methodologically sound monetary policy framework that eventually contributes much to the credibility and effectiveness of its implemented monetary strategy (Issing, 2008; ECB, 2008a).

Based on the monetary and economic analysis concerning the trend inflation and inflationary expectations, the Governing Council of the ECB makes ultimately its monetary decisions. Although the Treaty provides maximum flexibility for the choice and use of its monetary instruments, the ECB, as the most inflation targeting central banks, sees the short-term interest rate as the best policy tool for controlling inflation dynamics in EMU (Arestis and Sawyer, 2001; Scheller, 2006). Compatible also with the NCM paradigm, inflation stabilisation supposedly takes place via the symmetrical impact of interest rate variations on aggregate demand and then on the price level. A modification in the ECB's interest rate is, specifically, assumed to affect demand and thus inflation in the long-run in a two-fold manner: directly, via its impact on the interbank money-market interest rates,[140] affecting then the rates at which consumers

[140] For steering the level of the short-term money market rate towards the base interest rate level set by the Governing Council, the ECB uses a wide set of instruments, including open market interventions, standing facilities and minimum reserve system. These instruments influence the amount of liquidity

and firms borrow; and indirectly, via the induced changes in financial asset rates and the euro exchange rate. On account of this monetary transmission mechanism, when inflation prospects in the Eurozone, reported by the monetary and economic analysis, are rising, say due to an unexpected common demand shock, the ECB pushes interest rates up aiming at maintaining, through demand deflation, price expectations and inflation near or below the 2% announced target.

At this point two important clarifications should be made. First, for the ECB, there is no option other than the deployment of interest rates to affect the expansion of money supply, while pursuing its final policy goal of price stability. Other relevant economic policies and/or monetary practises, which have or could be implemented to curb inflation, such as fiscal policy, exchange rate targets or interest rate ceilings, lie out of the range of policy options of the ECB (Arestis and Sawyer, 2001).[141] Second, the ECB's monetary policy, as already noted, has an EMU-wide perspective. Hence, it does not respond to country- and regional-specific economic developments (see ECB, 2008a). Such a 'one-size-fits-all' monetary approach is justified on the ground that, considering a high degree of labour flexibility and fiscal discipline across EMU states and regions, the ECB's base rate will be transformed into a set of similar real interest rates and therefore will have a symmetrical impact on them. Furthermore, there is the view that even in the case, in which national and regional economic disparities exist, e.g. as a result of banks' interest rates heterogeneity, these asymmetries are expected to be corrected by appropriate adjustments in real exchange rates through real wages

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available to the Euro area's banking sector that, in turn, affects the level of short-term interest rates in the money market. In this context, the Eurosystem acts as a supplier of liquidity and, through its operational framework, helps the banks reach their liquidity needs in a smooth and well-organised manner. See Issing (2008) and Bean (1998) for a further description of that issue.

[141] As already noted, the ECB's view on the use of proactive fiscal policy is that it would overburden the monetary policy conduct. Regarding the use of exchange rate targets, on the other hand, the conviction is that such a monetary arrangement would make monetary policy responsive to external rather than internal considerations. Finally, the use of interest rate ceilings is effectively ruled out by the Treaty's Article 105 that stipulates, that the Eurosystem should 'act in ways compatible with the principle of an open-market economy with free competition, favouring an efficient allocation of resources [...].

and output prices, namely via the 'competitiveness channel' (Priewe, 2007b).[142] The deployment of a common single interest rate is also defended on account of avoiding potential conflicts of interest within the ECB's policy-decision bodies that could endanger its credibility credentials (Bean, 1998; and Ullrich, 2006).

The two-pillar policy strategy, since its induction, has generated an extensive debate on whether the ECB, in effect, performs inflation targeting. On the one hand, there is a bulk of literature on EMU arguing that, by adopting a quantitative inflation target, making it public and using interest rates trying to minimise inflation variability from its announced range, the ECB can be viewed as a conventional inflation targeter. For instance, Alesina *et al*. (2001; p. 2) observe that 'inflation targeting is very close to what the ECB has been doing [...] and to what it should be doing'. Allsopp (2002) also underscores that it may be sensible to view the ECB's reaction function in terms of an inflation-targeting strategy quite comparable with that followed by the Fed and the Bank of England. Begg *et al.* (2002) equally analyse ECB's policy responses and point out that the ECB virtually adheres to a typical Taylor-type rule, such that of the US monetary authorities. For Sardoni and Wray (2006), the identical foundations of the ECB's and Fed's strategies account for making monetary policy an irrelevant variable in explaining differences in the macroeconomic performance between the US and EMU. Surico (2003) also reports similarities between the ECB's monetary policy approach and that of the Bundesbank. Nevertheless, Surico (2003) claims, that despite more conservative than the Fed, the ECB model can be viewed as a standard inflation targeting. Pisani-Ferry *et al.* (2008) and Bofinger (2000b) argue that the crucial policy issue is not whether the monetary procedures of the ECB can be understood in terms of a standard and predicable inflation targeting reaction function, but to what extent the ECB implements this strategy. Both authors recommend the full compliance of the Eurosystem with the inflation targeting model.

On the other hand, many observers, relied upon the two-pillar representation, have interpreted the ECB's strategy dissimilar, in some respects, to inflation targeting.

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[142] For instance, with highly flexible and competitive markets, a fall in real wages or in output prices will enhance export competitiveness, hence restoring equilibrium. Boosting labour productivity could also be an alternative way of influencing the real exchange rate and thus of correcting macroeconomic imbalances. Nevertheless, productivity is considered as a rather long-run phenomenon. Therefore, it is not directly relevant for dealing with intra-EMU disparities.

Bernanke *et al*. (1999), Svensson (2000), Rudebusch and Svensson (2002), regard the two-pillar strategy merely as a mixture of the Bundesbank's monetary targeting-type approach and the contemporary inflation targeting strategy, combining a key aspect of monetary targeting, the use of monetary aggregates, with an implicit form of inflation targeting, the economic analysis. For Arestis and Sawyer (2003b), this combinatorial policy contrasts with pure inflation targeting, i.e. the regime chosen by many central banks to operate, while for Hein and Truger (2004) and Horn (2008) it has drawn the criticism that it suffers from inconsistencies and leads to confusions as opposed to the standard inflation targeting approach. Spahn (2007), in turn, deems this deficiency as stemming from the absence of a solid theoretical basis to vindicate the complementary use of monetary and inflation targets. In view of its blurred theoretical and analytical foundations, De Grauwe (2006a) and Arestis and Sawyer (2007) conclude that the two-pillar framework may eventually have well undermined the credibility of the ECB to implement the single monetary policy successfully.

The ECB itself, as well as several ECB officials, appear yet more clear-cut on whether the bank pursues inflation targeting. In their opinion, the strategy embraced by the ECB differs and actually is superior from inflation targeting (see Issing, 2008; ECB, 2000a). This claim is buttressed on the basis of existing uncertainty conditions, that render any reliance on inflation forecasts-a fundament, as already mentioned, for conducting monetary policy in inflation targeting regimes-not fully informative;[143] and, at the same time, the appearance of shocks calling for different monetary policy responses, which are unforeseen by a Taylor-type rule, possible.[144] Moreover, there is the view that the inflation (forecast) targeting framework does not make use of all the necessary information originating from monetary aggregates to detect medium-term inflation threats (Issing, 2006a). As a result, the adoption of inflation targeting would exclude from the ECB's policy-making process one of its central assumptions, i.e. the

[143] As argued in the previous part of our dissertation, inflation forecasts constitute a core element of the inflation targeting strategy, for they provide valuable information about future risks to price stability, thereby facilitating the communication with the public and markets and the effective implementation of monetary policy.

[144] These shocks may occur from a number of other factors that are not directly taken into account by the Taylor rule, such as monetary and credit aggregates, the exchange rate and wage costs. See Issing (2008) on the detailed argumentation against the use of inflation targeting and of Taylor-type reaction functions.

independent relation between the money supply growth and inflation in EMU; and, in this way, it would also unduly curtail the perspective of its monetary policy.[145] Taking stock these considerations, the ECB views that inflation targeting does not represent a coherent policy framework and thus from the very beginning it has been rejected as an alternative monetary policy strategy option.

In a similar vein, Bibow (2005a, 2005b) forcefully argues that ECB is not an inflation targeter, even if this is implicitly implied by its economic analysis. However, he grounds this thesis within a different conceptual framework. Bibow remarks that, while inflation targeting is marked by symmetry in central banks' monetary reactions, the ECB's has not shown a symmetrical attitude in its responses. A pronounced bias both in its assessments of future inflation and in the use of its policy rates is instead evident, which was more remarkable in the 1999-2002 economic downturn (see also, Hein and Niechoj, 2005; Bibow, 2002) and came over again to the surface in the early stages of the 2007-2009 global financial and economic turmoil (Bibow, 2009; Hein and Truger, 2010). For Bibow (2005a, 2007a), the asymmetry pertaining the ECB's policy is also partially attributed to the biased interpretation of the inflationary signals that come from the M3 monetary pillar that has, at least at some junctures, provided to the ECB an apt excuse to abstain a monetary easing.[146]

The asymmetric interpretation of the ECB's policy mandate has been, further, empirically confirmed by Hein and Truger (2006) who, estimating the bank monetary responses in the period 1999-2005, observe a prominent anti-growth bias. According to their findings, the ECB appears to append greater weight to expected inflation and inflation gaps (together with wage cost growth) relative to real GDP growth, when it implements its monetary policy. Allsopp and Artis (2003), likewise, deem the ECB's reactions more cautious compared with those of a 'well-functioning inflation targeting regime' in view of its tendency to attribute greater importance on inflation projections and on the stabilisation of price expectations than on the signals coming from the real

[145] For a detailed exposition of those arguments, see also ECB's article entitled: 'Issues related to monetary policy rules', in October 2001 Monthly Bulletin (ECB, 2001b).

[146] For example, at periods of relative high growth rates such as in 2005, the ECB stressed the excess of M3 growth over its reference value in an effort to justify delayed interest reductions. On the other hand, in periods of low demand and economic contraction, the bank downplays the slowdown of M3 (Bibow, 2005b).

side of the economy. Bibow (2002) and Hein and Truger (2004), in this context, compare the monetary responses between the Fed and the ECB. They observe that the ECB is more hesitant and asymmetric in its responses relative to the Fed, concluding that such a differentiation is responsible for the income and employment growth discrepancies existing between the European and US economy.

The view that the ECB monetary approach divagates from standard inflation targeting has been recently reinforced on the occasion of the emergency actions taken by the ECB and other EU institutions to tackle the public debt crisis in the EMU.[147] Cœuré (2012) and González-Páramo (2011) note that the financial disruption violated the core conventional premise of pre-crisis optimal policy-making, that price stability is a sufficient condition of financial stability. Consequently, there must be a revival in the ECB's interest in the interaction between financial sector developments and the macroeconomy. In addition, Remsperger (2012) and Milbradt (2012) underscore that the large scale purchase of government bonds essentially represent a compromise of the institutional independence of the ECB from elected politicians. In a similar vein, Orphanides (2010b) recognises that, by intervening in the private securities markets, the ECB may jeopardise the composition of its balance sheets and make political asset allocations, hence putting at risk its constitutional autonomy. Finally, Eijffinger and Hoogduin (2012) underline the fundamental disagreements within the ECB itself and the strained relations between national governments and the bank caused by the taken unconventional measures for crisis resolution and stress the ensuing danger they pose for the homogeneity of decision-making in the ECB. The intervention measures of the ECB are thus expected to cause severe reputational and credibility damage to the bank and create incentives for profligate public spending in the future that could sweep further away market confidence and the already fragile macroeconomic stability of the entire Union.

[147] The most important emergency institutional and policy initiatives launched to improve liquidity and to restore financial stability in the Euro area are: the foundation of the European Stability Mechanism (EMS) and European Financial Stability Facility (EFSF), as well as the 'non-standard' measures introduced by the ECB, like the two Covered Bond Purchase Programmes (CBPP's), the Securities Market Programme (SMP) and the Outright Monetary Transactions (OMT). In chapter 5, it is provided a brief presentation and critical assessment of these programmes.

Even though the ECB's monetary strategy can, in fact, be seen slightly diverse from that implemented by other major central banks, this, at least in our point of view, does not certainly entail that does not perform an inflation targeting strategy. First, as far as the argument about the perceived peculiar, and even contradicting, synthesis of the new Keynesian-inspired economic pillar and the monetarist-influenced monetary pillar in its strategy is concerned, used to discern ECB from other inflation targeters, it could be noted that such an argument, basically relying on a dichotomy between both schools of thoughts, is ill-based. As indicated in the previous chapter, core principles of both strands appear inherently integrated in the 'new consensus' model. In fact, the NCM paradigm represents a normative discourse, to which the new Keynesian view of inflation determined in factor markets and the monetarist tenet defining inflation as a monetary phenomenon converge. In consequence, at theoretical level, the basis of the ECB's two-pillar approach could be seen as quite consistent with the NCM policy model and thus not alien from the theoretical basis of the inflation targeting regime. In our view, beliefs and notions that rest on a theoretical dichotomy of this sort instead of underpinning views of whether the ECB pursues inflation targeting or not, should, arguably, rather underline arguments on whether the very theoretical underpinnings of the NCM itself, and of the inflation targeting policy strategy in particular, are peculiar and inconsistent.

Moreover, the thesis that the ECB conducts inflation targeting could be further supported by studies on the Bundesbank monetary policy-held by many scholars as a pointer of the ECB's approach, that give reasons for considering it as being closer to the practise of inflation targeting than to the original Friedman's monetary targeting. The Bundesbank strategy resembled, indeed, much inflation targeting as it declared a target for the rate of inflation, communicated its objectives clearly to the public and, whereas it took monetary targets seriously, target 'misses' were often justified with an appeal to a reliable record on inflation (Bernanke and Mihov, 1997; and Laubach and Posen, 1997). Central bankers (see Freedman, 1996; King, 1996) have also pinpointed the common elements of inflation and monetary targeting, especially when it comes to the application of policy instruments and the response of monetary authorities to news and macroeconomic disturbances. Consequently, the adoption of either policy strategy does not appear to make any pointed difference in the everyday implementation of monetary policy. In view of these observations, any clear-cut distinction of the ECB's approach from inflation targeting can, reasonably, be considered as unconvincing.

Besides, even if it is accepted that the monetary pillar comprises a singular and distinctive monetarist attribute of the ECB's policy, which makes it dissimilar to that pursued by other inflation targeting central banks, it should be noted that in the review of its policy strategy, carried out in 2003, the ECB (2003a) lowered the significance of monetary aggregates by relegating the monetary analysis to the second pillar of its strategy and by announcing that it will no longer provide annual reference values for M3 growth.[148] In addition, the ECB also declared the significant role of real economic factors in explaining inflation dynamics in the Euro area. By some analysts, this was regarded as a downgrading of the monetary pillar (see De Grauwe, 2003a), while for some others it was seen as an important step towards the adoption of a more pure-like inflation targeting strategy (see Hein and Truger, 2004).

Moreover, as far as the asymmetry pertaining the ECB reactions is concerned, this supposedly distinctive aspect of its monetary policy strategy does not either seem to convincingly justify its classification as a non-inflation targeter, provided that such an asymmetry appears as an intrinsic feature of the inflation targeting strategy, *per se*. Indeed, Argitis (2008) claims that inflation targeting cannot at any rate be seen as an 'employment-friendly monetary policy' approach, as some authors advocate (Alesina *et al*. 2001), since its principal policy intention is the maintenance of the longer-term commitment to price stability and its practical implementation has been accompanied by higher real interest rates and a general drop in aggregate demand, real output and employment across the economies that have adopted it (see also Epstein and Yeldan, 2008; Saad-Fihlo, 2005b; and Crotty, 2000c). Seen from this perspective, the fact that, at times, the ECB recorded a higher degree of conservatism in its monetary responses *vis-a-vis* other central banks cannot be interpreted in itself as a sufficient indication of not practising inflation targeting. Perhaps, it could be better regarded as the outcome of its insistent endeavour to set up and demonstrate the anti-inflationary credibility of its policy strategy to global financial markets and the general public; a task supposed of greater importance for the ECB compared with other inflation targeting central

[148] Note that, according to the October 1998 declaration of the ECB's monetary policy strategy, the monetary analysis represented the first pillar.

banks, because, as a newly established monetary institution, it cannot depend on past records of policy conduct.

Turning finally to the emergency initiatives launched by the ECB as part of its response to the EMU sovereign crisis, it should be argued that these initiatives neither form an efficient crisis management in the EMU nor represent a diverging operational attribute from other inflation targeting banks. The ECB is clear on both the scope and nature of its interventions. It is stressed, for instance, that secondary-market purchases of public debt instruments will by no means be used to evade the Treaty's no bail-out clause. Particularly, several operational modalities have been established to guarantee that its actions are compatible with the monetary financing prohibition principle, price stability, sound finances and ECB independence (ECB, 2012b). Furthermore, the ECB clarifies that financial stability measures are exceptional and of a temporary duration. Hence, they will be phased out, whenever market conditions recover (ECB, 2010a). Such a narrow-minded approach to financial market considerations approximates the non-standard measures undertaken by other inflation targeting central banks to halt runs and restore market functioning. Mishkin (2011) also mentions that any inclusion of financial factors in the central banks reaction function is not incoherent with or extrinsic to the pre-crisis consensus on optimal monetary policy (see also Svensson, 2009). Hence, it is evident that these rescue measures do not mark an essential break with the ECB's original monetary strategy and mindset, and certainly are far from the establishment of a Union-wide system of policy coordination and stable payment transfers that could effectively overcome the current institutional and policy failure of EMU. Unfortunately, the prolongation and diffusion of the current Euro crisis seems to justify our allegation.

Given these considerations and taking into account the aforementioned central elements of its monetary strategy, i.e. the announcement of a medium-term numerical target for inflation, the adherence to a certain monetary policy strategy as a keystone for improving the credibility and the successful operation of its monetary policy, the use of the short-term interest rate as the main policy device to manipulate demand and thereby to offset macroeconomic disturbances, inflation and expectations variations, it could be reasonable to argue that the ECB does in fact behave as an inflation targeting institution. As a result, it can be understood as an important operator of the currently dominant, new constitutional approach to neoliberal monetary policy-making and as an active adaptor and practitioner of the main theoretical postulations and disciplinary policy proposals of the NCM. This conclusion sensibly provides further support to our conceptualisation of the NCM model as a core theoretical counterpart of the emerging legal and administrative institutions of economic governance related to the political economy of disciplinary neoliberalism and financial dominance, provided that the international rationale for and the concrete macroeconomic policy agenda of EMU are embedded in the challenges and patterns of political and social power associated with the finance-led reconstruction of global capitalism. This social and political nature of the NCM paradigm and by implication of the EMU regime are also highlighted by the great importance that the ECB assigns to its institutional independence and also by the particular way she communicates its monetary policy strategy, both rationalised by the NCM's views and recommendations on effective and credible policy formulation and implementation.

5.4 Central bank independence, accountability and transparency

The ECB recognises that creating and maintaining price stability does not only require a sole constitutional commitment to price stability and the adoption of a certain policy strategy to meet this objective. For the ECB, the establishment of sustained monetary stability is also closely linked to the institutional environment framing the conduct of its monetary policy (see ECB, 2011c). Like in the most inflation targeting economies, the ECB supposes that the most appropriate institutional mechanism, particularly in modern paper-money regimes, to guarantee price stability is the delegation to it of important powers in the conduct of monetary policy, mainly in the form of granting to it a large degree of independence. According to the ECB, central bank independence along with a clear statutory policy mandate and a reliable anti-inflationary strategy are all seen mutually dependent and thus its independence represents a key additional pre-condition for long-lasting price stability in EMU.

In its official documents, the ECB justifies such a conviction on the basis of two interrelated, though conceptually different, reasons (see ECB, 2008a). The first is related to political economy considerations stemming from the new-classical rational expectations thesis and the hypothetical time inconsistency problem that, as argued, are both incorporated in the NCM model. The ECB presumes that ‘in the absence of central bank independence, monetary policy cannot be credibly geared to price stability’ (ECB, 2008a; p.22) because of the inherent tendency of politicians to exploit at any time the short-run inflation-output trade-off at the cost of higher long-run price inflation and the ability of rational agents to recognise this and anticipate the higher long-run inflation from the onset, thereby negating the perceived short-term trade-off and producing a permanently higher inflation rate. Hence, for the ECB the only means of overcoming this politically-induced loss of credibility and keeping lastingly price stability is by assigning it a high degree of independence (Belke *et al.*, 2003). Indeed, its independence is supposed crucial to effectively insulate it from political cycles and interferences, protect it against sectional and interest groups demands and direct the centre of attention of its monetary policy exclusively on price stability. In so doing, it also helps the ECB improve financial market and public confidence in its strategy and credibly anchors their expectations and actual inflation at the announced low levels (see Dyson, 2000; Issing, 2006b; and Issing, 2008).

The second reason stressed by the ECB to buttress the view that central bank independence is a prerequisite for achieving and maintaining price stability originates from historical experience of past decades. The ECB (2008a), to an important extent, indentifies the destructive inflationary episodes of the 1970s and the failure of central bankers in most European countries at the time to deal with them as the result of their lack of independence that enabled public authorities to subordinate monetary policy to their short-sighted political goals. As evidence of that Issing (2008) reports the ‘stop-and-go’ policies that lacked purpose and direction and the expansionary policies of the period aiming to accommodate the financial needs of governments. Issing (2008) comments that the detrimental experience with such irresponsible and non-credible policies induced European politicians to realise the benefits of price stability, and, in particular, the value of granting independence to inflation-averse central bankers to attain that objective. To provide further support to this argument, the example of Germany is also frequently put forward, where the independent statutory base of the Bundesbank is considered to have operated during this period as an effective and credible barrier against the emergence of inflation and hence as a successful model for delivering considerable monetary stability in Europe (ibid).

The theoretical argument for central bank independence, backed also by the past records of various monetary frameworks, has been substantiated into a complete and detailed legal framework by the Treaty. To safeguard the necessary independent status of the ECB, the Treaty has provided a multi-faceted form of independence (see ECB, 2008a). First, it has granted *institutional* independence to the ECB that ensures that the ECB executes its tasks without the interferences of national or EU political authorities. This is explicitly stipulated in Article 108 of the Treaty, which clarifies that, 'when exercising the powers and carrying out the tasks and duties [...] neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body. The Community institutions and bodies and the governments of the Member states undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks'. The ECB's institutional independence is, in addition, also enhanced by the Treaty's provision that confers on the ECB a consultative role in any draft legislation process, at both the national and EU level, that is related to its areas of competence.

A major corollary of its institutional independence is the *goal* and *instrument* independence granted to the ECB (Moutot *et al*., 2008; Begg, 2006; Bibow, 2005a). The former contour implies that the ECB retains full and exclusive responsibility in interpreting the price stability goal mandated by the Treaty in terms of a specific price index and the quantitative definition of price stability. In the framework of EMU, goal independence is justified on the ground of maintaining the ECB's goal setting outside the political process, hence protecting the bank's policy mandate from being subject to precisely those pressures aimed to be excluded by granting it independent (Issing, 2006a). Instrument independence, on the other side, provides the ECB with the ability to freely adjust its policy instrument, i.e. the short-term interest rate, in the pursuit of price stability; an operational aspect that as noted in chapter 4 is a common ground for all central banks operating inflation targeting.

The Treaty provisions also guarantee the *functional* independence of the ECB, by stipulating that it has at its disposal all the required means and authority to meet its mandated goal. For instance, the ECB has exclusive competence to chart and conduct monetary policy, as well as the monopoly power to issue euro banknotes and coins in the Eurozone. Control over monetary policy is also guaranteed by the provision that the amount of coins minted and distributed by EU member states has to be approved by the ECB, and by its freedom, as mentioned above, to select the policy instruments necessary to accomplish its price stability objective. A major element of its functional independence is also the definitive prohibition of direct monetary funding of national fiscal deficits ruled by Treaty's Article. 101. This provision is deemed crucial in that it protects the ECB against likely political pressures for direct monetary financing of national deficits, thus ensuring the ECB to maintain a lasting control over the money supply and so, within a 'natural-rate' framework, over the price level in the medium-term (ECB, 2008a).

To substantiate institutional and functional independence, the Treaty has also entrusted independence to the persons involved in the ECB decision-making bodies and the bank's financial independence. *Personal* independence offers to the members of the Governing Council the required security of tenure and protects against possible conflict of interest situations. For that reason, the ECB's Statute defines long fixed-term contracts and prohibits the dismissal by reason of past policy mal-performance.[149] A key consideration here is to guarantee that central bankers have a long target horizon. This is seen to permit them to be more effectively insulated from politicians, who allegedly have much shorter-term objectives because of their electoral ambitions. Regarding *financial* independence, the Treaty rules that the ECB disposes a sufficient amount of financial resources and enjoys autonomy over their use, which according to the architects of the Treaty is critical for facilitating the ECB to carry out its duties successfully, thereby contributing to its credibility. The financial independence of the ECB is assured by its right to maintain its own budget, separate from that of the other European institutions and agencies, and by the obligation of all EMU national central banks to pay up their respective shares in the ECB's capital (ECB, 2008a; Scheller, 2006).

[149] For example, national central bankers have a minimum term of office of five years, while members of the Executive Board serve a non-renewable eight-year term. For a detailed analysis on the alleged advantages of delegating monetary policy to independent officials with long terms of office see Eggertson and Le Borgne (2005).

With reference to this strong form of independence, it has been argued that the ECB represents today the world's most independent central bank (see Berger *et al.*, 2000). In fact, the goal and instrument independence granted to the ECB differs with the UK monetary model, in which central bankers are instrument independent, but not goal independent (see Mishkin and Eakins, 2008). It also differs with the US system, in which the Fed, apart from stabilising price inflation, is also bound to pay attention to the level of employment (see Sardoni and Wary, 2006). Furthermore, the personal independence of the ECB's Council members contrasts with the arrangements in other inflation targeting countries, where governors are accountable and can be dismissed from their office because of past policy conduct. Eijffinger and de Haan (1996) point out that the degree of the ECB's independence even surpasses that of the Bundesbank, since, while the latter's independent status was protected by a simple law which could be changed at any time, the former's status is embedded in an international Treaty, which can be amended only with the consent of all EU-27 member states. This rigid legal basis granted to the ECB can arguably be interpreted as reflecting the political intention, at the time the Treaty was written, the ECB to become a credible enforcer and guardian of price stability required for the consolidation of a supportive political climate and culture of price stability across European societies; particularly in those EU countries with high recorded past inflation and long social-democratic tradition.

Despite the far-reaching independence given to the ECB by the Treaty and the Statute, the ECB considers that it must justify and substantiate its policy decisions and actions *vis-à-vis* responsible democratically elected bodies and the general public, and to do that it has to explain them in a transparent way. The ECB acknowledges that a transparent communication to that end is a duty to retain its legitimacy in line with the democratic fundamentals of the European societies (ECB, 2011c). To fulfil that duty, the ECB has concrete reporting obligations laid down in Article 15 of its Statute. The ECB is required to formally report on its monetary policy and operations to the European Parliament, the Council, the Commission and the European Council. It has also to publish quarterly reports on the activities of the Eurosystem, monthly bulletins and a consolidated weekly financial statement. Further arrangements used by the ECB to improve its accountability are: press conferences held at the end of the first policy meeting of the Governing Council of each month; regular appearances of its president and its members before the European Parliament and its pertinent committees; as well as frequent speeches and interviews of the president and other individual members of the ECB, during which monetary policy decisions are explained and scrutinised by the public and markets. Finally, the ECB considers as essential elements of its policy transparency and accountability the public announcement of its quantitative target for inflation in the Eurozone and of its monetary strategy used to meet this target (Noyer, 1999; Issing, 2008; ECB, 2008a).

Nevertheless, similar to all inflation targeting central banks, accountability and transparent communication are considered by the ECB as important determinants of its credibility. According to the ECB, the disclosure of monetary policy information enhances credibility since it lowers private sector uncertainty over its assigned policy objective and how is to perform its task. Furthermore, it imposes self-discipline on monetary authorities and assures financial markets and the public for the consistency of its monetary actions and explanations over the time. Bringing ECB's actions under growing public scrutiny and improving policy credibility, policy transparency is also regarded as playing an important part in the effort of the ECB to make expectations in financial and labour markets to remain firmly anchored at a level consistent with price stability which is critical for the performance of its monetary policy. On top of that, the ECB deems that greater transparency also assists market participants to recognise how monetary policy reacts to macroeconomic developments and shocks and thereby to anticipate policy shifts. In this way, it permits the transmission of discrete monetary policy changes to financial variables with shorter time lags, reduces uncertainty and instability and thereby ensures the rapid and timely accurate economic adjustments to shocks and the effectiveness of its policy to deliver stability to a satisfactory degree (ECB, 2008a; and Geraats, 2008).

For the ECB, however, as Issing (2008) argues, the task of being accountable and transparent is not an end in itself. Whilst it represents one factor offering political legitimisation and helping the fulfilment of its policy mandate, it cannot substitute, in itself, its primary objective. In this context, where accountability and transparency are deemed to damage its credibility and thus its ability to achieve its inflation target, the ECB is very hesitant. Accountability and transparency are, for example, undermined by the hesitation of the ECB to publish its inflation-forecasting models and the results produced that are part the first pillar of its monetary strategy.[150] Due to the limited data reliability and uncertainty about the actual structure of the Euro area economy, the ECB attempts to protect its credibility by deciding not to provide forecasts which could prove inaccurate (Dyson 2000; Issing, 2008; and Artis, 2002). Accountability and transparency are also weakened by the desire of the ECB to present itself as a unitary policy body in order to increase its anti-inflation credentials. Thus, the ECB keeps the minutes and voting records of its Governing Council meetings locked under the fear of putting at risk the independence of its members and provoking uncertainty in markets (Scheller, 2006).[151]

In addition, and perhaps more importantly, being accountable to politicians does not imply the obligation of the ECB to adopt the recommendations of political bodies, e.g. the Eurogroup or the European Parliament, nor the capacity of those EU political institutions to exercise control over the ECB operations and impose respect for their monitoring functions by modifying its status (Dyson, 2000). It neither also implies an explicit form of *ex-ante* policy coordination between the ECB and national governments, wherein they hold shared responsibility for their own tasks because of the interdependence of the policy tools they use. All such arrangements, in line with the postulations of the NCM policy model, are thought to create serious credibility problems by blurring and undermining the tasks of different policy-makers to achieve their statutory goals, thus endangering the ECB's constitutional commitment to price stability (Issing, 2002). In brief, for the ECB, accountability and transparency are both subordinated to the fulfilment of its price stability mandate and more generally to the imperative to generate credible policy commitments.

In light of the ECB's restricted conception of accountability and transparency, derived from its pursuit for higher policy credibility to markets, it has been mentioned that the EMU institutional framework fails, in effect, to place the ECB's independent

[150] As already argued above, its refusal to publish inflation forecasts does not mean that, in actual fact, the ECB does not publish its forecasts. Simply, inflation and other relevant forecasts take only the form of staff projections.

[151] This is provided by Article 10(4) of the ESCB Statute, which states that, 'The proceedings of the meetings shall be confidential. The Governing Council may decide to make the outcome of its deliberations public'. The main concern of not releasing them is that reporting how individual Council members vote will expose the members to pressures from national governments and the media.

institutional status in a broader context of democratic legitimacy (see Dyson, 2000). This has, in practice, estranged monetary policy from any pattern of active political representation and control, consequently deepening the already existing 'democratic deficit' in the EU consequent on its weak political structure and deficient political integration (Artis, 2002). In political economy terms, the unbendable specialisation of the ECB to obtain maximum financial credibility and accountability at the expense of broader political control and social process could reasonably be considered as an additional indication of how the current EMU monetary institutional framework bars an Union-wide open debate of charting and adopting an alternative macroeconomic strategy in EMU; and hence of how legitimises the imposition and consolidation of a mono-dimensional and new constitutional neoliberal policy approach to monetary affairs. As shown in chapter 7, this does not only explain the unsatisfactory growth record of EMU since its inception, but has severely contributed to the prolongation of the current crisis and the diffusion of deflationary stagnationist tendencies in Europe.

This consideration can also be backed from the way by which this institutional imbalance-ensuing from the increasing insulation of monetary policy from political structures, has assigned a huge authoritative power to the ECB enabling it to become the most powerful agent of delivering macroeconomic stability across the Euroland. In fact, unfettered from any effective political control and guided by its desire to win higher financial policy credibility, the ECB is free, not only to define price stability as the common and upmost public good in the Euro area, but also to impose it on the basis of the NCM-inspired principle of its exclusive responsibility to do so *vis-á-vis* the European citizens. In this context, Bibow (2005a, 2007a) argues that the EMU institutional architecture ultimately assigns to the ECB 'unbounded discretion', that enables it to run its monetary strategy according to its own liking and intervene in relating policy areas. The ECB has actually the authority to reject policy proposals with important economic implications, e.g. on interest and exchange rates, if these are seen to contrast with its price stability mandate and independence.[152] Moreover, it has

[152] Bibow (2005a) focuses on the incident of 2005 to stress that issue. While the European Parliament rejected the interest rate policy of the ECB, the bank responded that such a rejection was a simple parliamentary issue that would not bind its monetary decisions. As far as the euro exchange rate policy is concerned, the ECB, under Article 109, has a veto power in its dialogue with the Eurogroup. The ECB looks with great caution suggestions for managing the euro exchange rate against third currencies,

the capacity to directly penalise national governments for inflationary-prone loosen fiscal policies and labour for reckless wage demands by raising interest rates, as well as the power to extract the consent of major macroeconomic actors for its instructions and dictates by declaring to keep interest rates lower in the future (Dyson, 2000). The strict conditionality attached to its recently launched OMT programme is also another example that demonstrates the powerful status of the ECB in the EMU macro regime.

As a whole, the monetary institutional setting can be seen as giving essence to the ECB-centric nature of EMU. In addition, insofar as such a structure is seen closely associated with the aspiration the ECB to attain the highest possible degree of policy credibility, particularly, though not exclusively, in financial markets, it could also be conceptualised as providing, to some important extent, the realisation of the 'finance-led absolutism and austerity' notion, introduced in the previous section of our study. As shown above this authoritative structure in monetary affairs is structured, informed and legitimised by the NCM policy model and this fact could plausibly be regarded as providing a factual demonstration of the particular social purpose of the paradigm. As assessed next, this concrete function of the model is maintained in the fiscal policy area, as well; where the dominant NCM principle of 'sound finances' that prioritises austere fiscal consolidation and discipline as a central precondition for cultivating a credible macroeconomic environment conductive to price stability, underlies the basic requirements and procedures of the fiscal institutional framework adopted in EMU.

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since this action might discharge its responsibility for maintaining internal monetary stability. After all, its position is that the external stability of the euro matters only if it has implications for inflation in the Euro area and for the public confidence in the new currency (see, Issing, 1999; ECB 1999a).

Chapter 6: Fiscal Policy in EMU: Finance-led Discipline and Systemic Instability

6.1 Introduction

The introduction of the euro has not only established a new framework for monetary policy, but it has also fundamentally changed the whole fiscal environment in Europe. As noted above, EMU represents a unique framework of monetary integration, in that it confronts an independent monetary institution, the ECB, with numerous national fiscal units rather a central authority charged to determine and implement fiscal policy at the Union-level, as is the case with most national currency systems. Membership in EMU has also implied the loss of the exchange rate, in addition to monetary policy, as an effective policy tool of national macroeconomic management and, accordingly, the election of fiscal policy as one of the few, if not the only, policy instrument on hand of member states to respond to economic developments. All these considerations have made the establishment of a common institutional fiscal framework in the context of EMU critical to determine the particular channels of policy interaction between the ECB and national governments and the conditions surrounding the use of fiscal policy by individual member states. Yet, perhaps more significantly, they also underline the importance of the concrete nature and the specific operational characteristics of the fiscal framework as central determinants of the economic performance and stability of the Euro area.

From the very beginning of the EMU project, the need to set up an appropriate institutional fiscal framework to deal with such concerns in EMU has been revolved around the intent to build a fiscal environment conducive to discipline and stability. This was recognised in the blueprint for the monetary union in Europe, i.e. the Delors Report (1989).[153] As already mentioned, largely reflecting the new policy conditions and challenges imposed by the new emerging structures of global political economy, the Report required institutional provisions enforcing and maintaining fiscal discipline in the monetary union, arguing that irresponsible, profligate, fiscal policies might put, especially within an increasingly liberalised and erratic global financial environment, the stability of the new currency at stake. In addition, the Delors Report called for the

[153] See the Committee for the Study of Economic and Monetary Union (1989).

need for narrow coordination of the national fiscal policies in the EU to be guaranteed the macroeconomic well-functioning of EMU, and for the introduction of an EU-wide fiscal transfer system to redistribute public resources and funds from member states in cyclical upturn to members states in cyclical downturn.

The founding Treaty of EMU-the Maastricht Treaty, however, did not embody all the fiscal recommendations of the Report in their full extent. Fiscal policy in EMU remains formally a competence of each EU member state, but has to conform to certain binding rules and co-operative arrangements. The Treaty's Article 4(3) makes 'sound public finances' one of the guiding principles of the EU economic policy to be followed by all. The central procedures with respect to the pursuit and coordination of fiscal policies in the EU include: the Mutual Surveillance Procedure (Article 103); the 'no-bail-out' clause (Article 104b); the Excessive Deficit Procedure (EDP, Article 104c); and the Stability and Growth Pact (Council Regulations 1466/97, 1476/97, Council Resolution 97/C236/01-02). Article 103 stipulates that 'member states shall regard their economic policies as a matter of common concern, and shall co-ordinate them within the Council' and in the context of the 'Broad Economic Guidelines'. The 'no-bail-out' clause protects the Community's organs and national governments from becoming liable for the commitments or the debt of another EU member state against their will. The EDP establishes a comprehensive process of monitoring member states public finances with an eye to safeguarding that they remain sound and on sustainable track. It incorporates the mandate (Article 3 of the Protocol) that EU members are in charge of implementing appropriate institutions and procedures in the fiscal field that would enable them to meet their obligations deriving from the Maastricht Treaty. Yet, the EDP does not clarify in detail what this obligation actually means. The SGP seeks to correct this deficiency, by refining and concretising the original provisions of the EDP (see von Hagen, 2003).

In what follows, we scrutinise the economic rationale for each of these issues. We argue that the official, economistic, view put forward for rationalising the design and operation of the current disciplinary, anti-inflationary, institutional framework for fiscal policies in EMU reflects, to an important extent, the core theoretical precepts of the 'new consensus' in macroeconomics. This, as it shall be shown below, is primarily depicted, *inter alia*, in: a) the arguments about the destabilising role of discretionary budgetary policies; b) the reliance on automatic stabilisers to dampen business cycles;

c) the strong preoccupation on the issues of the long-run sustainability of public finances and supply-side structural reforms to promote sound and credible macro environment; and d) on the existence of a game of strategic interaction between the ECB and national fiscal authorities required to be arranged in favour of the former to safeguard its anti-inflationary policy credentials. In political terms, as far as such deflationary, credibility-seeking, policy prescriptions can be regarded as being in line with the anti-inflationary financial markets' interests, this observation could arguably render additional support to our argument concerning the interrelation between the emerging global financial structure of power, the actual orientation of policy-making in EMU and, more importantly, the function of the NCM as a policy paradigm that frames and legitimises it.[154] In the next section, we emphasise in some more detail on the prevailing view, as expressed by both the official EU policy bodies and the relevant mainstream literature on EMU, on the rationale for a common commitment to protect fiscal discipline in EMU. In section 3, a brief assessment of the supposed importance of institutional provisions for maintaining fiscal discipline is presented and a discussion of the central provisions of the current disciplinary fiscal framework in EMU, as initially defined by the EDP and afterwards by the rules of the SGP, is then also provided. Section 4, finally, critically analyses the destabilising effect of the new constitutional architecture of the EMU fiscal strategy on European economy and associates its unfavourable consequences with the current crisis.

6.2 The rationale for fiscal discipline in EMU

In the official documents of the EU it is highlighted that budgetary discipline and the achievement of sound public finances represent a crucial requirement for maintaining a stable macroeconomic environment and stimulating economic performance across the Union. In addition, a well-designed set of permanent fiscal rules and institutions is vital to shape a favourable fiscal policy environment, particularly in a monetary union with decentralised fiscal policy-making and a common central bank, the ECB, which primary objective is to maintain price stability (see e.g. ECB, 2008a, EC, 2000; EC,

[154] And consequently, as additional evidence supporting our hypothesis concerning the particular social purpose of the NCM paradigm.

2001). The validation for the importance of sustaining budgetary discipline and the requirement for establishing an institutional, rule-based, fiscal framework to this end seem to draw on the standard ‘consensus’ assumptions about the role of fiscal policy within a monetary-, stability-oriented macroeconomic system and the supposed influence that it exerts on determining the environment, in which a credible monetary policy is conducted. The analysis below contains a short presentation of the principal channels through which fiscal policy is held to impinge on macroeconomic stability in EMU. The presentation consists of two parts. The first describes the perceived way by which fiscal policy influences macroeconomic stability from a national point of view, which can, arguably, go beyond the issue of EMU. The second part illustrates why the impact of fiscal policy on macroeconomic environment is viewed of particular importance in the context of EMU.

6.2.1 The national perspective

Seen from a purely national perspective, fiscal policy is deemed to have an impact on macroeconomic stability both in the short- and the long-term. In the short-run, and in line with the ‘new consensus’ assumption of an upward sloping Phillips curve, fiscal policy is generally supposed to influence macroeconomic and price stability through its effect on the disposable personal income via taxes and social welfare spending, and through its effect on price inflation and price expectations. In the long-run, budgetary policies directed so as to ensure public finances sustainability are assumed to support macroeconomic stability and, given the hypothetical irrelevance of aggregate demand to real economic activity, also to generate a non-inflationary economic environment conducive to enhanced market confidence, investment and higher trend growth.

As regards the short-term impact of fiscal policy on macro stability, there are three particular channels, underlined by the European Commission and ECB, by which fiscal policy can affect it (EC, 2000; ECB, 2004a). First, fiscal policy is seen to impinge on macroeconomic stability via discretionary anti-cyclical policy actions, i.e. deliberate adjustments of public spending or government taxation to affect the level of aggregate demand and thereby reduce cyclical fluctuations in economic activity. Yet, whereas such fine-tuning measures may have a positive impact on growth and prices in the short-run, it is recognised that there is a considerable time lag before these anti-cyclical budgetary actions exert an influence on the real economy, eventually making these measures to operate pro-cyclically (see ECB, 2008c). As a result, active demand management, instead of contributing to business cycle moderation, it may ultimately become a major source of macroeconomic instability and considerable price volatility. Besides, it is also reported the intrinsic proclivity of proactive fiscal policy to behave asymmetrically over the cycle, since an expansionary fiscal stance during a recession is more easily adopted than a fiscal freeze in phases of strong economic growth.[155] Consequently, a 'deficit bias' is supposed to emerge with budget deficits and public debt, on average, higher after the course of the cycle and fiscal sustainability severely undermined (ECB, 2004a). All in all, the argument is that even though the gains from the use of budgetary policy for short-term stabilisation objectives are quite modest, fine-tuning, in principle, ends up having serious negative economic repercussions in the long-run. From this standpoint, introducing restrictions on the discretionary use of fiscal policy represents an effective approach to preventing such consequences from occurring (see also Issing, 2008; Allsopp and Vines, 2005; ECB, 2003b; Fatás and Mihov, 2003; EC, 2001; Buti *et al*., 1998).

For the European Commission and the ECB, the tendency of fine-tuning fiscal policies to behave asymmetrically and generate higher debt levels is also empirically confirmed on the basis of the 'fiscal crisis' erupted in Europe in the mid-1970s. The Commission (EC, 2000) interprets the deterioration of public finances of the era as the result of rampant fiscal profligacy and runaway budget deficits. Large and persistent deficits, subsequently, provoked rapidly increasing public debts and swelling interest burdens. In addition to the deterioration of public finances positions, fiscal policies operated also pro-cyclically. Since 1977, budget deficits did not contract in periods of higher real economic growth. This made public debt, especially in the highly indebted

[155] This argument is based on the observation that special interest groups that support profligate fiscal strategies are usually better organised than taxpayers. Furthermore, future taxpayers do not participate in the electoral and political process and thus it is easier for policy-makers to pass the burden of higher current public spending onto future taxpayers. Moreover, democratically elected fiscal authorities and governments tend to overlook the longer-term influences of fiscal profligacy on the rate of inflation and economic growth (Artis and Winkler, 1998). Finally, further reasons for the occurrence a budget deficit bias are *inter alia*: a) political instability due to weak coalition governments; b) opportunistic political budget cycles (Alesina *et al.*, 1997; and Drazen, 2000); and c) weak and decentralised fiscal procedures (Persson and Tabellini, 2000).

countries with increased debt service payments and financial obligations, to continue to rise and the necessary budgetary adjustment to occur during severe recessions. As a result, proactive fiscal policies, instead of smoothing business cycles, conduced to amplifying output swings, thereby intensifying the overall macroeconomic instability across EU countries of the period (see also ECB, 2004a; ECB, 2003b; ECB, 1999c).

Apart from the aforementioned evidence, the effectiveness of counter-cyclical demand management deploying activist fiscal policy is further disputed in the light of the presumed 'non-Keynesian' expansionary impact of consolidation efforts. On the demand-side, this impact is supposed to take place: first, through the reduction of sovereign credit risk premiums due to stronger investors' confidence in government liquidity and creditworthiness; and second, through the stimulative impact of private consumption spending because of 'Ricardian effects' (ECB, 2010b).[156] On the supply-side, expansionary results emerge when budget retrenchment leads to competitiveness improvements through its wage moderating effect, the reduction in unit labour costs and the stimulation of profits. Consistent with a natural-rate analytical concept, cuts in social security spending are also expected to produce a stimulating impact on growth, mainly by creating work incentives.[157] The reliance on non-Keynesian expansionary effects of budgetary consolidation is, finally, buttressed on account of the plurality of factors that determine the demand effects of fiscal policies on macroeconomic activity and prices and the relative complexity of predicting them (ECB, 2004a). [158]

Another important channel through which budgetary policy is viewed to affect real output and inflation in the short-run is the operation of automatic stabilisers. In a cyclical downswing, automatic fiscal stabilisation occurs when soaring public deficits, due to lower tax revenues and higher social benefit expenditures, increase the level of aggregate demand in the economy. Automatic stabilisers can therefore well substitute proactive fiscal responses in offsetting cyclical demand fluctuations and ensure lower

[156] In this context, the expansionary effects emerge as fiscal consolidation may lead economic agents to expect lower tax burdens in the future and hence an increase in their lifetime disposable income.

[157] On the stimulative effects of fiscal consolidation see also further below, where the supposedly beneficial impact of supply-side structural reforms is mentioned.

[158] Such factors include *inter alia,* the precise demand measures undertaken, the level of competition, the degree of capacity utilisation and agents' expectations about the sustainability of public finances (ECB, 2004a).

price volatility (see EC, 2008b). As opposed to the discretionary application of fiscal policy for stabilisation purposes, automatic fiscal stabilisers have considerable merits in that they are not subject to implementation lags, since, by their nature, no deliberate decision making process is required, that could undermine the smoothing of business cycle fluctuations. Automatic stabilisers are also more foreseeable, thereby permitting private agents to better build their expectations, and work in a more symmetrical way. Finally, the free operation automatic stabilisers prevents distortions associated with frequent tax changes and contributes to the predictability and clarity of the tax system, thereby lifting economy’s growth potential (ECB, 2004a; see also ECB, 2002). These advantages that automatic stabilities appear to have relative to discretionary fine-tuning offer, for the European Commission and the ECB, and in accordance with the NCM view on the role of fiscal policy, an additional argument against the use of fiscal policy for anti-cyclical goals and, hence, an argument for restricting and consolidating fiscal processes.

Such a thesis is also supported in view of empirical studies covering European countries that indicate that on average automatic fiscal stabilisers are markedly strong. Van den Noord (2000) finds that automatic stabilisers reduce output fluctuations in the Euro area around 25 % to 35 %. Earlier estimates of the European Commission (EC, 1998) show higher stabilisation effects, with the cyclical sensitivity of the budget balance for Europe as a whole lying between 0.5 and 0.6 % (increase in the deficit in response to a deterioration of the output gap of 1 %). To the same conclusion come Buti *et al*. (1997) too, who find that a 1 % change in GDP feeds through to about a 0.5 % in the government budget position in most European countries. In a more up to date study of Mabbett and Schelkle (2007) the estimated income stabilisation values for the EU economies range from 32 to 52 %. This degree of stabilisation is considered to be larger than that delivered by the federal system in the US. Allsopp and Artis (2003) pin down that this can be primarily explained in terms of the higher tax burdens, the greater size of the public sector and the larger volumes of social benefit transfers in Europe compared with the US. Creel and Saraceno (2009), however, observe that the stabilisation effects of automatic stabilisers have been considerably limited in Europe. They attributed this development to the ongoing trend of shrinking public sector and to the diminishing progressivity of tax systems observed in EU countries.

A final channel by which fiscal policy is identified to impact macroeconomic developments and stability in the short-run is via some government measures, such as changes in indirect tax rates and in administered prices, often following the conduct of unsustainable fiscal policies. Whilst all these measures do not impinge directly on the level of aggregate demand, are held to influence economic performance via 'second-round' effects. Indirect taxes changes, for instance, although may not immediately and in full transferred to consumer prices,[159] are seen to have an adverse impact on price inflation, if they fuel private sector expectations and get embedded in wage and price contracts. Equally important is also recognised the influence of other fiscal measures. Price liberalisation in former state-owned sectors, for example, is expected to promote free market competition and thereby lead to lower prices (ECB, 2004a). In addition, higher public sector wages, that may indirectly affect the inflation performance of the economy due to the pressures they exert on private wage settlements; and increases in direct taxes or in welfare contributions that may increase labour costs and inflation are several other examples that, according to the ECB (2004a) and the Commission (EC, 2000), clearly highlight how governmental fiscal measures may determine relatively rapid, or even immediate, price developments and macroeconomic stability.

As far as the long-run impact of national fiscal policies on the macroeconomic environment and stability is concerned, two principal channels are identified. The first channel is related to the effect of fiscal policies on public finances sustainability. On that issue, the sustainability of public finances is, first and foremost, viewed to make a positive contribution to long-run macroeconomic stability, by mitigating economic agents' concerns about a possible increase in tax rates in the near future and/or about the danger that the government will become unable to fulfil all of its loan obligations. A stable macroeconomic system with fewer uncertainties about debt dynamics and insolvency risks is, in turn, considered as a fundamental precursor for faster long-run economic growth since it builds up market confidence and permits market participants to make well-informed investment and consumption decisions (EC, 2001).

On the other hand, market fears over the sustainability of the implemented fiscal policy are held to negatively affect macro stability by creating upward pressures

[159] This especially holds within a weak economic environment characterised by low levels of aggregate demand, in which in indirect taxes rises may not influence the general price level by the full magnitude (see ECB, 2004a).

on the economy's interest rates. The impact of public spending on interest rates may be either direct or indirect. The direct effect springs from the idea of the equilibrating function of the rate of interest and is related to the rise in interest rates emerging from the higher demand for loanable funds in capital markets (see ECB, 2006; Allsopp and Artis, 2003).[160] The indirect, on the other hand, is associated with market anticipations about the current and future levels of government deficit and debt. To the extent that financial market operators are sceptical about deficits and debts, since in their mind may negatively influence their returns (through their effect on inflation, tax rates and default risk), higher public spending can push sovereign, inflation and currency risk premiums up, that will, in turn, increase government debt refinancing costs, thereby adversely affecting the dynamic evolution of the public deficit and debt (ECB, 2006). In some circumstances, undue financial instability and panic may also ensue. In fact, imprudent fiscal policies and the ensuing accumulation of public debt may give rise to a sudden and abrupt withdrawal of market confidence in government solvency, with obvious catastrophic implications for macroeconomic stability and living standards (von Hagen, 2003; Issing, 2008, ECB, 2004a).

Moreover, unsustainable deficit and debt developments are seen to undermine the stabilisation role of fiscal policy (Buti *et al*., 1998). Persistent public deficits and debts sharply circumscribe governments' room of manoeuvre to initiate anti-cyclical fiscal programmes to offset a potential contraction in private demand (Buti and Sapir, 1998). Besides, to the extent that private agents tend to internalise their expectations about future economic developments in their current spending decisions, increasing fears that public finances sustainability could get lost, may force consumers to offset the anticipated higher future taxes by increasing their saving rates (ECB, 2004a; and EC, 2010b). In consequence, an expansionary fiscal stance, instead of leading to a rise in aggregate demand, it may engender a lower than expected aggregate demand level, and, in some circumstances, it might even be entirely offset by a rise in private saving. On the contrary, increased market trust in the soundness of public finances is expected to translate into a greater economic confidence, stimulating, in this manner, economic activity through higher private consumption and investment spending (ibid). This, as stated, is particularly important once a single currency is in place, because in that case

[160] That is, given a certain amount of savings, determined by the economy's long-run equilibrium, the interest rate is the key variable that aptly adjusts in order to bring investment and savings into balance.

the accommodation of idiosyncratic shocks depends to a larger degree on budgetary policy (EC, 2001).

As to the second channel by which budgetary policies may influence the long-run prospects of the economy, fiscal actions, aimed at consolidating public finances and putting debt on a sustainable footing, are supposed to boost the economy's growth potential. This, in agreement with a natural-rate-type framework, is perceived to take place through various, supply-side, ways. An important way of achieving higher non-inflationary growth is via the improvement of the quality of public finances. Provided that taxation and the tax system as a whole directly impinge on agents' economic choices and decisions, lower tax burdens, because of a lower debt stock and interest payments, are considered to raise the after-tax returns to work, saving and investment, thereby inducing agents to raise the supply of those activities (ECB, 2004a). Second, by reducing debt ratios and interest expenses on national debt, strong fiscal discipline is also supposed to allow the restructuring of public expenditure, by allocating a larger portion of government funds for political and economic priorities, like infrastructural projects, public education and training (Hemerijck, *et al.*, 2002). Public investment in human and physical capital is then deemed critical to boosting productivity of factors of production and hence long-run growth (EC, 2000).

Apart from boosting the trend growth of the economy, public finances reforms play also a major role in dampening short-run macroeconomic volatility. This, in the Commission's and ECB's view, and in line with the policy prescriptions of the NCM model, especially applies to the case of deregulative, neoliberal, reforms that promote greater competition in and ensure the well-functioning of product and labour markets, eliminating several distortions created by ineffective state intervention and regulation. As a result, these competition-friendly reforms are highly valued, for they contribute to alleviating existing nominal and real frictions in the economy and thereby facilitate the smooth absorption of macroeconomic disturbances (EC, 2001). Enabling markets to rapidly adjust to changing economic conditions, structural reforms also decrease significantly inflation volatility and inflation persistence and, in this manner, create a more stable environment for monetary policy-making (ECB, 2004a). The requirement for greater wage and price flexibility is considered of utmost importance for the EMU member states, where labour is rather immobile and, given the absence of the nominal exchange rate as an internal tool of adjustment to shocks, the burden of restoring the initial equilibrium is expected to fall upon real wages (Allsopp and Artis, 2003; and De Grauwe, 2006b).[161]

In the view of official EU policy bodies, also, long-term growth and budgetary sustainability are not two independent and contrasting policy concepts, but both are intimately interrelated and mutually reinforcing. In fact, preserving the sustainability of public finances is, on the one hand, supposed to generate a predictable and sound macroeconomic landscape, in which macroeconomic uncertainties and vulnerabilities are reduced and financial operators' confidence is strong. This is believed to result in lower interest rates and improved financing conditions in the economy which, in turn, enables market participants to make better long-run plans and decisions and boosts the growth potential of the economy. Simultaneously, faster economic growth expands the tax revenues of the public sector and this bolsters further markets confidence in the sustainability of public finances (ECB, 2004a).

In order budgetary discipline and debt sustainability to foster macroeconomic stability and ensure a satisfactory growth performance important is finally the design of the fiscal reform. On that issue, fiscal measures aimed at improving public finances and the entire macroeconomic environment in the long-run should, in the Commission and ECB view, be underpinned by two features. First, they should be bold enough and large in extent to let the non-Keynesian confidence effects dominate and therefore an expansionary fiscal contraction take place. Second, the composition of consolidation should be directed towards expenditure restraint, rather than tax-increases, because in this way it is more likely the reduction of budget deficits and the debt stock. In effect, on condition that taxes are held inherently distortionary, expenditure-based measures may produce a stronger confidence effect and shape positive economic and financing conditions, which, in turn, also favourably impact short-term demand by signalling a reduction in expected taxes. Besides, the composition of expenditure-based measures

[161] In other words, in the EMU system, given that the nominal exchange rate is lost as an effective policy tool and that productivity is a rather long-run phenomenon, the real exchange rate is required to adjust through appropriate changes in relative real wages and/or prices in the event of a real macroeconomic disturbance. For example, if a negative economic shock depresses domestic demand and investment, a fall in wages and/or output prices will cause the real effective exchange rate to depreciate, thereby improving, via the 'competitiveness channel', the external position of its economy and restoring the initial equilibrium. For a critical study on the 'competitiveness channel' and its implication on EMU, see Bibow (2007b).

also matters in that it is supposed to have an impact on the persistence of the fiscal consolidation. More persistent fiscal adjustments are recognised those which intend to lower deficits by reducing social security and public wage expenditures. On the other hand, fiscal retrenchment based on tax increases and capital spending cuts is typically perceived to have no substantial positive and lasting effects on economic activity and on the fiscal position of the economy (see Buti and Sapir, 1998; EC, 2000; and ECB 2004a).[162]

6.2.2 The EMU perspective

While the abovementioned emphasis on the desirability of fiscal consolidation might, arguably, go beyond the question of EMU, it has been argued that fiscal discipline has particular significance in EMU. The argument is that, in a monetary union, currently comprising 17 fiscal authorities, with no a centralised system of coordination among them, the prospect for fiscal free-riding is greater,[163] and that such possible changes in national fiscal policies may have important systemic repercussions on the entire Euro area system. Fiscal discipline is, in this context, regarded as an optimal substitute for coordinating fiscal policy in EMU or, in other words, as a common arrangement to control national fiscal developments and sew up principles of responsible fiscal behaviour in EMU conducive to macroeconomic stability (Fatás and Mihov, 2003).

In the literature on EMU, two types of fiscal policy-induced spillover effects are identified, which vindicate the case for using fiscal discipline as a proxy for fiscal policy coordination. The first type of spillover is macroeconomic in nature and occurs among countries with close economic and trade relations. The main channel through which it appears is when a certain budgetary policy action in a country or a group of countries affects EMU partner countries via import demand and via the likely effect on the common interest rate and exchange rate that such an action may cause. A fiscal

[162] This is mainly because reducing wages and social security benefits is typically considered as more politically painful than cutting capital-spending. Therefore, only governments with a strong political commitment to permanent fiscal consolidation will put such measures in place. Moreover, provided that such fiscal retrenchment measures are conducive to faster economic growth in the future, they also contribute to the long-term sustainability of public finances.

[163] On that issue see below in the subsection discussing the fiscal rules in EMU.

stimulus in one or more EMU economies will, according to the argument, tend to lift those countries' imports up, but excessive public spending will result in higher EMU-wide interest rates, higher demand for the euro in foreign exchange markets and thus a rise in the euro exchange rate. The cross-border effects on demand and output growth in other EU member states will be inverse. Disciplined EMU countries will gain from the expanded volume of exports sold to the member state or the group of EU members that pursue an expansionary fiscal policy. Nevertheless, the increase in interest rates and the resulting overvaluation of the euro exchange rate will 'crowd-out' investment and deteriorate the trade balance with non-Union countries (Buti and Sapir, 1998; see also Gros and Hobza, 2001; Weyerstrass *et al.*, 2006).

Although, in sum it is difficult to identify the sign of the overall impact as both negative and positive spillover exist, it is argued that these externalities may influence the composition of growth among EMU countries. The depression of investment and competitiveness in world markets, caused by the interest rate rise and the appreciation of the euro, will retard capital accumulation, which, in turn, will adversely affect the medium-term growth prospects of EMU. The significance of these 'secondary effects' becomes evident, if the perspective of a single individual EMU member state is taken into account. In that case, it is clear, that a collective fiscal stance of its EMU partners will bring about significant changes in its interest and exchange rates, that will greatly influence the composition of its GDP growth and investment performance. Hence, as a whole, these side-effects create an important macroeconomic asymmetry in the Euro area: profligate public spending that raises the Union-wide interest rate and the value of the single currency causes negative spillovers on EU partners, a desynchronisation of EMU business cycles and therefore larger macroeconomic instability. The opposite is thought to hold for sound and disciplined fiscal policies (Buti and Sapir 1998; see also EC, 2001).

The existence of direct macroeconomic spillovers as a motive for rationalising fiscal discipline in the EMU has, however, been subject to numerous criticisms. One argument is that with integrated global capital markets, the effect on the common real interest rate, and therefore the 'crowding-out' of partners investment, may be slight to the extent that individual borrowers are small relative to European and world capital markets (von Hagen and Wyplosz, 2008). Still, it is argued that, while the induced rise in the exchange rate will 'crowd-out' partners' net exports in the short-term, in the long-run the accumulated debt will tend to undervalue the real exchange rate, thereby offsetting the initial contraction of demand (Artis and Winkler, 1998). After all, most of the externalities of this kind are not exclusively associated with the introduction of the euro, but spring from the high level of integration of product and capital markets (Eichengreen and von Hagen, 1996). In this framework, the existing interactions with the rest of the world complicate further the picture, essentially rendering the argument for intra-EMU policy coordination less powerful, given the lack of fiscal coordination with the rest of the world.

However, this does not imply that EU governments' policy options are entirely irrelevant to the determination of real short- and long-term interest rates in EMU. On the contrary, fiscal policies of EMU members may have considerable, though indirect, influence through their impact on the principal task of the ECB's policy to achieve and maintain price stability. This is the second type of spillovers cited in the literature and refers to the adverse impact of governments' imprudent fiscal behaviour on the implementation, effectiveness and credibility of the ECB's monetary policy strategy and therefore on macroeconomic stability in EMU. As it is declared in the Presidency conclusions of the Dublin summit (Ecofin, 1996): 'Sound government finances are crucial to preserving stable economic conditions in the member states and in the Community. They lessen the burden on monetary policy and contribute to low and stable inflationary expectations such that interest rates can be expected to be low'.

There are two main channels through which undisciplined fiscal policies may negatively affect on the anti-inflationary credibility of the ECB. The first refers to the likelihood of an ECB bail out to governments which follow unsustainable budgetary plans (Matheron *et al*., 2012; Fitoussi and Saraceno, 2008; De Grauwe, 2003b). The risk precisely is the following: if the government of an EMU country does not respect the implications of its intertemporal budget constraint[164] and gets into fiscal troubles, the probability to default on its debts raises. Increasing worries in financial markets about the creditworthiness of the troubled country may, in turn, provoke a general run away from securities denominated in euros and a financial crisis may come out. To

[164] This refers to the requirement that, in the long-run, the discounted expected expenses of the public sector must not exceed the discounted sum of the expected public revenues from taxes, issuing bonds or printing money.

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avert a collapse of the financial and banking sector in the Eurozone, the ECB may feel compelled, under also possible political pressures, to provide an indirect bail-out to the country in distress.[165] An indirect bail-out can occur: either *ex-post*, with the ECB intervening in the secondary markets conducting extended purchases of government debt; or *ex-ante*, with the ECB cutting its base rate to lower interest payments on debt. Either way, the overall outcome of the action will be a higher area-wide inflation and a grave damage to the institutional independence of the ECB and hence to its counter-inflationary credibility (see Wyplosz, 2006; and Buiter and Grafe, 2003).

Against this background, it is argued that fiscal discipline in EMU is necessary for discouraging public authorities from running up excessive levels of debt that, in the longer-term, might ultimately make the area-wide price level to become dependent on the value of government debt, i.e. on the dictates of budgetary solvency, and not on the monetary policy and conditions, as implied by the 'new consensus' paradigm.[166] A commitment on budgetary discipline provides, therefore, a coordinative framework vital for safeguarding both the medium-term commitment of the ECB to price stability and, in effect, the essence and scope of the 'no-bail-out' clause (ECB, 2003b; Issing, 2008). Seen from pure fiscal policy-making terms, fiscal discipline represents a means necessary to force EMU-17 fiscal authorities to dispel any temptation that the ECB would inflate their debt stock away and conform to their long-run budget constraint by systematically adjusting the path of taxes and mainly public spending to meet this obligation.[167] In addition, so far as the current inflation rate, irrespective of the ECB's policy, is to some degree dependent on investors' expectations about whether primary

[165] Note that an indirect bail-out is the only option available to the ECB, given the Treaty's 'no-bail-out' clause, which, as already mentioned, prohibits the ECB to directly purchase national sovereign debt. Moreover, an indirect bail-out may not only result from political pressures, but also from institutional reasons, given the Treaty's Article 105 requires the ECB ensure a well-functioning payment system.

[166] As already noted, according to the NCM paradigm, inflation in the long-run is a purely monetary phenomenon, i.e. it is determined by monetary conditions and controlled by appropriate monetary responses.

[167] The emphasis is primarily attached to the level of public spending due to the alleged distortionary effect of taxes on economic activity.

balance surpluses increase faster than the stock of debt,[168] this shift in fiscal incentives consequent on budgetary discipline is also claimed to ensure that the ECB would be left undisturbed also in its everyday monetary practise in achieving and sustaining its inflation target.

Another way in which budgetary policies are seen to impinge upon the ECB's monetary policy, and therefore on its incentives and credibility, is associated with the issue of the appropriate policy-mix in the short-run macroeconomic management in EMU, i.e. the choice of the 'optimal' policy-mix for nominal stabilisation. Problems of interaction between fiscal and monetary policy are seen as an important source of macro instability and the episodes of Reaganomics and after the German reunification are often cited to demonstrate this. In the EMU system, the increased preoccupation with an unbalanced policy mix is, as in standard inflation targeting regimes, linked to the idea that the ECB confronted with undisciplined fiscal policies, in the aggregate, may be compelled to keep its base rate higher than otherwise to neutralise the ensuing inflationary pressures (ECB, 2011c). More broadly, the argument is that if national governments and wage setters alike are not disciplined, the ECB will be forced either to come under fiscal dominance or to stick to a high interest rate policy to defend its leadership. In both cases, the outcome would be detrimental for EMU macroeconomic performance and stability. In the first case, higher inflation will destroy the ECB's policy commitment and credibility, hence engineering expectations on future inflation and likely provoking an upward wage-price spiral and excessive currency instability (Issing, 2008; and Buti and van den Noord, 2004). In the second case, a policy-mix of a lax fiscal policy and tight monetary policy will lead to lower investment spending, persistent currency overvaluation and consequently slower economic growth (see also Eichengreen and Wyplosz, 1998; Brunila, 2002; Allsopp and Vines, 2005; Dixit and Lambertini, 2001; Fatás and Mihov, 2003; Issing, 2008).

Seen from a short-term perspective, therefore, budgetary discipline represents a coordination framework, which aims at resolving any possible leadership conflict

[168] The Canzoneri and Diba (1996) model illustrates how current inflation may be influenced by market beliefs. According to the model, in a regime of 'fiscal dominance' with profligate fiscal authorities failing to satisfy the intertemporal budget constraint, investors would anticipate an explosive debt path and make the price level to change so that the present value of the expected future fiscal surplus equals to or is larger than the present stock of government debt in order the public sector to remain solvent.

between public authorities and the ECB in favour of the latter and hence preventing a bad combination of too loose fiscal and too tight monetary policies from happening in Europe as a whole. Moreover, given that within a monetary-oriented regime, the ECB takes into account all the parameters, including fiscal policies, that, in its view, impact inflation dynamics in EMU, strict fiscal discipline is supposed to deliver a more stable environment for monetary policy-making and, doing so, to feed through less volatile interest rates.[169] At best, a collective move towards fiscal consolidation is expected to influence the EMU-wide aggregates and therefore to shape the proper conditions that would permit the ECB to undertake an offsetting monetary response without risking inflation (Buti *et al.*, 1998). As Allsopp and Vines (1996; p. 99) underscore, 'Only if all [countries] act together will the monetary offset to fiscal tightening be likely to eventuate. Thus, participating governments will not only want to commit themselves, they will want to impose commitment on others as well'.[170] Yet, this crucially hinges on the type of the ECB's monetary reaction function. The observed deflationary bias of its actual monetary policy strategy is a fundamental flaw of the EMU's policy-mix, which as we shall show below, produces persistent deflationary effects for the Euro area as a whole.

All in all, a fundamental motivation for imposing strict budgetary discipline at EMU level appears to draw on the NCM idea that monetary policy is not conducted in vacuum. Rather, there exist important links between fiscal and monetary authorities and, in this context, monetary policy vitally depends on the support from sound fiscal policies, if is to deliver low inflation with lower real economic costs. Fiscal discipline is specifically required to constrain the supposedly destabilising budgetary processes, secure a pre-commitment to a monetary dominance regime and endorse, in effect, the ECB-centric structure of the EMU macroeconomic system which is necessary for the policy credibility and performance of the ECB. Seen from this perspective, it could

[169] As mentioned in chapter 5, the impact of fiscal policies on inflation is assessed in the context of the first pillar of the ECB's monetary policy strategy, i.e. in its economic analysis. Moreover, fiscal effects are also taken into account in the Eurosystem staff macroeconomic projections.

[170] Quoted in Buti *et al.* (1998). It should be underlined that country-specific economic shocks cannot be offset by monetary policy, since ECB's focus on EMU-wide developments. In this case, stabilisation is assumed to be provided either via the use of automatic fiscal stabilisers or via appropriate real wage adjustments.

therefore be claimed that the inclusion of a common disciplinary fiscal framework for all EMU countries represents an indispensable supplement of the ECB's 'functional independence'. Without fiscal discipline, the ECB, under the destabilising impact of volatile fiscal policy, would be unable to provide inflation and currency stability, even if its political independence and price stability mandate are institutionally secured. It is predominantly for that reason the ECB for its own part repeatedly demands for an upholding trust in the soundness of fiscal finances (see ECB, 2008a; 2004a; 2003b). This, in our point of view, seems to shore up our argument, that the ECB can be seen and analysed as a standard inflation targeter central bank and hence as a policy body, which policy orientation is, in effect, closely related to the interests of the emerged global financial structure of power.

6.3 Fiscal rules: the Excessive Deficit Procedure and the Stability and Growth Pact

Although long-term fiscal sustainability and the free operation of automatic budgetary stabilisers are essential for macroeconomic stability and economic growth, it is also recognised that the precise process used to achieve these goals is of equal importance. This stems from the belief that the requirement for ensuring budgetary sustainability, i.e. all debt obligations be serviced by sufficient future primary fiscal surpluses, may not be enough to stabilise market expectations about the future development of public finances, since authorities may decide to service current high debts with large primary surpluses in the distant future. This is supposed to create uncertainty as to whether the government will eventually meet its payment commitments (ECB, 2004a).

Based on this insight and similar to the 'new consensus' tenets, it is held, that setting fiscal policy according to a rule or a set of rules is the best manner to deal with this credibility problem. In fact, fiscal rules are viewed to reassure market participants that fiscal policy will remain disciplined and this creates a conducive environment for agents to take a longer-view of the economy. Fiscal policy set in a predetermined rule also helps authorities set out explicitly their fiscal objectives, averting opportunistic, short-sighted behaviour which could pose major risks to public finances and financial stability. Besides, it offers guidance to governments on how to deal with unexpected changes and shocks in the economic environment and on how to keep current policies committed to the long-term sustainability policy target. As a result, the rules are seen to establish a predictable and transparent framework for government fiscal behaviour. And if public authorities unwaveringly adhere to a fiscal rule, then it is assumed that trust and confidence in sound policies in the future will be built and a macroeconomic climate of lasting price stability and growth will be fostered. Fiscal institutions, hence, ensure the long-term orientation of fiscal policies and the success of the consolidation process. In short, through the enforcement of fiscal rules, sustainability issues become a top policy priority and are best addressed (see ECB, 2004a; ECB, 2003b; Fatás and Mihov, 2003; and Buti and Sapir, 1998).

Still, the benefits of introducing institutional rules for securing fiscal prudence and stability are supposed even greater in the case of EMU. This is, as it is argued, because the tendency towards irresponsible fiscal policies and debt accumulation is to persist, or even to intensify, in EMU. There are several reasons put forward to explain why this might emerge. One reason is the increase in old-age dependency ratios in the EU, because of the ageing of the population, that is expected in increase substantially the fiscal costs in the forthcoming years (EC, 2010b). Another, stressed by several authors is that, given the absence of a comprehensive European tax strategy, the euro, by enhancing the function and the effects of the Single Market, may have unpleasant implications for fiscal revenues, due to increased factor mobility and tax competition (see Buti and Sapir, 1998). A third factor, already noted, is that with the delegation of monetary policy to a common monetary authority and the absence of the exchange rate instrument, the scope of fiscal policy as a macroeconomic device for stabilisation purposes is inevitably increased (Allsopp and Vines, 2005). This, in turn, is deemed to increase individual member states' incentives to run expansionary policies in response to economic or political pressures. Finally, the risk of a deficit bias in EMU is also high because participating countries would be more inclined to bail out a partner country with a fragile financial position due to the disastrous repercussions that could have on the entire financial system of the Union a potential default of the troubled country (ECB, 2006).

A final consideration, and possibly the most important, however, is that such incentives for profligate fiscal behaviour may be exaggerated, because in EMU they could not be fully countered via the market sanctioning mechanism. In fact, in EMU all debt issued by member states is denominated in euros; hence there is no exchange rate risk related to holding sovereign debt in the national currency. This, in practice, removes the discipline imposed by market investors in the form rising risk premia due to higher currency variability. Moreover, with the single currency in place, the default risk premia in interest rates demanded by bondholders because of growing fears about the creditworthiness of indebted countries will be substantially lower for a long period of time (Issing, 2008). The same also holds for inflation risk premia, because the high degree of independence of the ECB and its stability-oriented monetary policy strategy lessens investors concerns about future inflation (ECB, 2006). Still, the inflation cost, that allegedly accompanies a fiscal stimulus, will be diffused in the entire Union and, *ceteris paribus*, will be lower for the country pursuing the unsound fiscal policy than it would be if it issued its own national currency. Hence, market forces are not strong enough to guarantee sound public finances for member states over the long-term and therefore to present an alternative to a rule-based fiscal framework.[171] Fiscal rules, essentially reflecting the notion of disciplinary neoliberalism and the goal of the new constitutionalist governance regime, are hence required to complement and strengthen the weak disciplinary impact of market forces on the national fiscal processes (ECB, 2004b).

The requirement for a comprehensive rule-based, disciplinary fiscal regime in EMU is reflected in the EDP. The EDP obliges all member states to 'avoid excessive government deficits', as stated by the Treaty's Article 104c, and establishes an official procedure for the regular evaluation and control of the implemented fiscal policies in EMU. It assigns to the Commission the responsibility for checking the development of the fiscal situation and the volume of public debt of member states, examining their compliance with two reference values for the government deficit to GDP ratio and the gross public debt to GDP ratio. The two reference values specified in the annex to the Maastricht Treaty are 3% and 60%, respectively. The deficit criterion is satisfied when it is below the 3% of GDP critical threshold or it has fallen significantly and continuously and approaches close to the reference level. Similarly, the government

[171] Obviously, this does not, however, mean that financial market forces are for any individual country within EMU completely dilute. The point here is just that risk premia may remain smaller as long as credit risk remains within a certain range. The possibility, as noted above, for a sudden and abrupt readjustment of the credit risk and hence for a financial crisis spreading over the entire Union, always exists when new information is forthcoming, or when the market expectations about the sustainability of a country's public finances changes.

debt ratio is satisfied when it does not exceed the 60% ceiling, unless it is sufficiently declining and it is coming close to the reference value at a satisfactory speed.

According to the EDP, when a member state, after having been assessed by the Commission, is found that does not comply with the budget deficit and debt limits, or unless the deficit overshoot is considered as exceptional and temporary,[172] then the Council makes a decision whether an excessive deficit exists. If it adjudges that this is the case, it formulates confidential recommendations to the deficit country to return to sound fiscal positions within a given period. If the excessive deficit country does not undertake the required corrective fiscal measures within the given deadline, then the Council may make its recommendations public. It may also call the member state in trouble to adopt additional adjustment measures and finally impose several sanctions. In the latter case, the Council may *inter alia* ask the European Investment Bank (EBI) to revise its lending policy towards the country concerned, oblige the member state to make a non-interest-bearing deposit with the European Community and ultimately impose a financial penalty of an appropriate size. The Council can abrogate the excessive deficit procedure for a country upon a proposal of the Commission. As a rule, all decisions in this procedure are made by qualified majority.

As it is evident, under the EDP, the deficit and public debt reference values act only as triggers for a correction mechanism after an overall assessment carried out by the European Commission. They do not specify what an excessive deficit actually is, nor does their violation by itself result in the application of any sanction. Furthermore, the Treaty does not define exact time limits for each step of the procedure, nor details the content of the sanctions. This leaves a certain degree of discretion to the European Council for the application of the EDP. In this context, just before the launch of the 3rd stage of EMU, there has been widespread concern, especially in Germany, that the EDP would fall short to impose EU-wide fiscal discipline in a credible manner. The fear, more precisely, was that by charging the Council to decide whether to place a country under the excessive deficit procedure, the EDP, essentially, made a group of ‘sinners’ judge the fiscal sins of their fellows. This would, in turn, make the chance for political compromises among European national governments more possible and,

[172] However, the Treaty does not provide any further indications to guide this interpretation.

accordingly, a credible judgment and imposition of sanctions less likely (von Hagen, 2003).

Building on a proposal made by the German finance minister, Theo Waigel, the SGP first launched in November 1995, agreed at the 1996 Dublin Summit, and finalised in 1997 Amsterdam Summit, is considered to represent the concrete answer to these fears. The SGP particularly intends to enforce fiscal discipline inside EMU and enhance the credibility of the whole fiscal framework by essentially establishing a rule-based mechanism of restricting government deficits, in place of one based on an informed judgement. To achieve that, it consists of three legally binding components, i.e. one European Council Resolution on the Stability and Growth Pact and two Council Regulations, which strengthen, clarify and promote the automatisation of the provisions of the original EDP.

The European Council Resolution offers firm political guidance to all parties involved in the EDP, i.e. the member states, the Council and the Commission, calling them ‘to implement the Treaty and the Stability and Growth Pact in a strict and timely manner’. A central provision of the Resolution is the requirement member states to conform to the medium-term objective of reaching fiscal positions ‘close to balance or in surplus’. With this provision the SGP makes the Treaty’s initial commitment of a maximum deficit ratio even more stringent. Achieving and maintaining, however, this medium-term objective is, at official level, pretended to fulfil a two-fold goal that is seen critical for the consistency and credibility of the fiscal framework in EMU: first, leave enough room for the automatic stabilisers to operate freely during economic downswings without violating the 3% ceiling (EC, 2001; and Artis and Buti, 2000); and second, to redirect the focus of national budgetary policies away from the 3% threshold and towards the authentic meaning of fiscal discipline; namely, that under ‘normal’ circumstances a country budgetary position should be in balance, or even in surplus. This applies particularly to member states in which the level of public debt is considerably high (Issing, 2008).

Note that, unlike the Treaty’s provision, the control variable in the framework of the SGP is the government deficit, while the issue of public debt is not addressed. The introduction of a ceiling for government debt was considered redundant provided that as long as a country’s deficit ratio is less than 3 % and under the assumption of a medium-term nominal growth of GDP close to 5 %,[173] the debt-to-GDP ratio of the country concerned will automatically be put on a declining path.[174] As a result, with the requirement member states to preserve the budget deficit 'close to balance or in surplus', the steady state level for the debt ratio is expected in the future to approach zero and therefore no special requirement for the public debt is required. From this perspective, the Pact, by giving exclusive emphasis on medium-term budget positions, simultaneously addresses the issue of longer-term sustainability (see De Grauwe, 2003b).[175]

The first Council Regulation, on the other hand, aims at 'strengthening the surveillance of budgetary positions and the surveillance and coordination of economic policies' (Council Regulation (EC) No. 1466/97). This regulation is based on Article 103 of the Treaty and, in effect, represents the 'preventive arm' of the SGP. It requires member states participating in EMU to draft and submit stability programmes, while those that have not adopted the euro to present convergence programmes. Both types of programmes should be updated every year and contain the national medium-term budgetary targets, the basic economic assumptions, as well as forecasts for the future evolution of deficit and debt. The implementation of these programmes is closely scrutinised by the Council, which, on the basis of data and information provided by participating countries and the assessments of the Commission and the Committee set up by Article 109c, can issue early warnings to any EU member state in the event of a detected divergence from the fiscal objectives set out in its stability and convergence programme in order to prevent an excessive budget deficit from emerging. Under the preventive arm, the Council can also address directly policy recommendations to

[173] This is based on the following identity: d=by, where d is the deficit ratio to GDP, b indicates the debt ratio to GDP and y the nominal growth rate of GDP. The underlying projection, apart from a 5 % rate of nominal GDP growth is also based on the assumption of 2 % inflation rate that actually represents the upper inflation target of the ECB (see De Grauwe, 2003b).

[174] Projections undertaken by De Grauwe (2003b) show that a strict implementation of the Pact leads to a situation, in which the ratio of government debt-to-GDP across all EU members (with the exception of Belgium, Greece and Italy) falls below 20 % within a period of 20 years.

[175] Apparently, the approach underlying the SGP does not pay any attention to the endogenous nature of the debt-to-GDP ratio. As argued below, the strategy of the SGP does not only lack economic sense, but is also futile, as it totally overlooks the most important variable for the success of a consolidation programme, namely growth.

member states to take all the necessary fiscal actions to correct the situation and make these recommendations public.

The Council Regulation on speeding up and clarifying the implementation of the excessive deficit procedure (see Council Regulation (EC) No. 1467/ 97), finally, represents, along with the Resolution, the ‘deterrent' arm’ of the SGP. The Regulation aims at rendering more precise the Article’s 104c definition of an excessive deficit, that allows for fiscal deficit excesses of the 3% threshold, if there are ‘exceptional’ or ‘temporary’ circumstances and thereby at limiting the flexibility and the degree of discretion of the original Treaty provisions. Furthermore, it stipulates the nature of sanctions and the procedures and timing of their imposition in order to deter excessive deficits.

According to the Regulation, if a participating member state runs an excessive public deficit and there are no exceptional circumstances, the Council issues a policy recommendation to the troubled member state and sets a deadline of four months at the most in order to take all the appropriate consolidation measures. If after the expiry of the deadline the Council judges that no adequate action has been implemented by the member state in question, then it makes its recommendation public. Moreover, the complete correction of the excessive deficit should take place no later than one year after its identification, unless ‘exceptional’ economic circumstances exist. As a rule, if a participating country fails to fully comply with the Council’s recommendations and decisions, the Council shall decide on the imposition of sanctions within ten months. Finally, the Council shall use an expedited procedure, if it detects a deliberately planned excessive deficit.

If a member state that decides not to take corrective actions, the Council can impose several sanctions on the state concerned, including one that takes the form of a non-interest-bearing-deposit. In the first year, the non-interest-bearing-deposit is composed of two components: a fixed one that equals to 0.2% of GDP; and a variable one equal to 10% of the difference between the actual deficit-to-GDP ratio and the 3% threshold of the EDP, with an upper limit of 0.5% of GDP for the annual amount of deposit. The variable component intends to force member states to avoid an excessive deficit and the variable component to contain any excess over the 3% limit. In each following year, only the variable component is imposed. If the deficit is not corrected within two years, then the deposit is fortified and becomes a fine. Yet, if the deficit is corrected or the country concerned has succeeded in lowering its deficit significantly, all outstanding sanctions can be abrogated. In that case, fines already imposed are distributed among fiscally disciplined participating members in proportion to their share in the total GNP of the eligible countries.

The exceptional circumstances which may avoid such a procedure refer to an abnormal event outside of the control of the deficit country or a severe downturn in economic activity, in which real output has dropped by more than 2%. Furthermore, the breach of the 3% reference value is considered as temporary, if the Commission predicts that the government deficit will fall below the 3% ceiling, when the abnormal event or the harsh recession end. If the decline in real output is less than 2%, then the Council, when deciding on the existence of an excessive deficit in a member state, can consider other parameters, including the abruptness of the economic recession and the cumulative drop in GDP in relation to past trends.

At the start of EMU, the rules of the SGP have been further developed by the Ecofin Council of May 1998, when the decision on the number of countries taking part in the Euro area was taken. In this declaration, member states committed: on the one hand, to step up fiscal adjustment to achieve medium-term positions of close to balance or in surplus, if the economy performed better than expected; and on the other hand, for states with relatively heavier debt burdens, to bring the debt-to-GDP ratios quickly down. For that reason, they must produce primary surpluses large enough to lower their total debt stock. The declaration spotlighted two major areas of concern at the time agreed. First, in accordance with the aim of the Pact, it notes the requirement that any growth dividend not to be wasted by a fiscal relaxation, but instead to be used to strengthen the balance of public finances and intensify their consolidation efforts. Second, the urgent need for the most heavily indebted EU countries to redouble their fiscal efforts to remain on course and reduce quickly their debt burden to sustainable levels. This means that, when outlining their medium-term fiscal strategy, these countries should not only pay attention to whether they fulfil the deficit ceiling of the Treaty, but also to whether the government debt ratio is reduced at a sufficient pace (Buti *et.al.*, 1998).[176]

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[176] In spring 2005, the EU finance ministers reached an agreement on somewhat softening the original SGP provisions. Officially, it was recognised that this aimed at responding to the inflexible application of the Pact and thereby making it more enforceable (see e.g. European Council, 2005). However, the

In recent months and in the light of the severe Euro debt crisis, the economic and fiscal governance in the Euro area has been fundamentally strengthened through the Treaty on Stability, Coordination and Governance (TSCG), broadly known as the Fiscal Compact. The Fiscal Compact acts complementary to the SPG and requires all countries participating in EMU to reinforce fiscal coordination and comply with the specified target of balanced or surplus government balance with structural deficit not exceeding 5% of GDP. This budget rule is to be introduced in the constitutions of the contracting members[177] with the European Court of Justice (ECOJ) being in charge of monitoring the transportation of the rule into the national legal systems. Moreover, an automatic correction mechanism is to be triggered in case of deviation from this fiscal rule. This procedure, including sanctions imposed by the European Commission, shall also be set in motion when a country violates the 3% of GDP upper limit for its public deficit, unless a qualified majority of the Euro area member states votes against it. In addition, a new specification of the debt criterion has been enshrined in the provisions requiring member states to reduce public debt exceeding the 60% of GDP benchmark by 5% per year, irrespective of the macroeconomic conditions. Finally, it has been agreed that compliance with the rules should be monitored by independent institutions (see European Council, 2011b).

6.4 Institutional deficiencies of the EMU fiscal framework and systemic instability

It is clear from this brief outline that the rationale for the design and the operational features of the EMU fiscal regime draws its origin from the NCM 'sound finance' premise that gives value to strengthened budget discipline and advocates the adoption of rigid institutional constraints on national fiscal processes to prevent the presumably destabilising influence of government interventionism in the economy. Its application, therefore, essentially consolidates the 'finance-led absolutism and austerity' and ECB-

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reformed SGP was essentially the result of the intense French and German pressures to avoid financial penalties after having repeatedly violated the 3 % ceiling.

[177] The Treaty has been adopted by all EU member states but UK and the Czech Republic. It is binding on all countries that have adopted the euro, while other EU members will be bound after joining the Eurozone or earlier if they want to do so.

centric nature of EMU that, as argued, is closely embedded in the political economy of ‘new constitutionalism’ and ‘disciplinary neoliberalism’. Strong fiscal institutions supposedly ensure lasting budget prudency and endow the ECB with maximum policy discretion and institutional independence to impose conditions of monetary stability in Europe. This supposedly constitutes an indispensable requirement for fostering EU’s competitiveness and structural monetary power in the world economy. However, the particular fiscal setting in EMU and its subsumption in the ambition of enhancing the credibility of the euro has contributed to the disregard of important institutional deficiencies of fiscal management in Europe. It has also led to a fundamentally fault interpretation of the crisis as a sovereign debt crisis provoked by fiscally irresponsible governments, especially of the EU periphery.

Eichengreen and von Hagen (1996), for example, note that the introduction of supranational rules for fiscal consolidation is only sensible in a monetary union with a common central bank and a centralised system of fiscal authorities, as that of the US. Under this setting, budgetary rules could be instrumental in preventing potential moral hazard problems and an inflationary monetary financing that could arise if some states have engaged in a fiscal neglect. Yet, in the EMU system, the lack of relevant fiscal federalism in effect enables sovereign EU states to ensure fiscal prudency via national procedures in the budgetary area without the discipline of EU-wide fiscal institutions. Bibow (2007b) also asserts that the established rule-based fiscal regime in EMU offers neither the possibility of close cooperation among national fiscal policies to assure an appropriate aggregate fiscal stance, nor the opportunity of coordination with other policy domains so as to shape an efficient macro mix in the Euro area at any time. The EMU is rather principally designed with the aim of disciplining EU states that violate the strict stipulations of the SGP and monitoring stability programme implementation, thereafter. This institutional architecture is perceived as highly dysfunctional in that it keeps policy responsibilities clearly separate and thereby prevents the construction of a comprehensive single framework of optimal macro policy management and crisis prevention.

Many commentators also stress the little theoretical and empirical justification of restricting the active use of fiscal policy for short- and long-run stabilisation goals. Sawyer (2009), for instance, considers the arguments that give theoretical support for downgrading the role of fiscal policy implausible because all take for granted that the economy is at full employment equilibrium.[178] Nevertheless, if full employment has already been attained, there is no sensible need to run expansive fiscal policy to reach full employment. Hein and Truger (2008) also note that the ‘crowding-out’ effect may materialise only as a result of the deliberate response of the ECB to rise its policy rate in the face of a fiscal stimulus. Hence, the argument against the macro stabilisation function of fiscal policy is practically trapped in the very ideas on and operational procedures of ‘best practice’ monetary policy in an inflation targeting regime. Even so, it is also noted the case that the negative impact of an interest rate increase on investment is negligible, if the latter is too small to overcompensate the positive effect of higher demand on entrepreneurs profit expectations. Partly for this reason, Kriesler and Lavoie (2007) deem monetary policy as a blunt tool which requires drastic and persistent changes to bring aggregate demand to an appropriate level consistent with the desired level of economic activity. Hence, they support the discretionary deployment of fiscal policy to perform the task of both nominal and real stabilisation. Angeriz and Arestis (2009) document empirical evidence that shows significant stimulating effects of public spending on real growth and a strong case for giving fiscal policy some role for real stabilisation purposes.[179]

The current EMU fiscal framework is also heavily criticised on the ground that it practically leaves aside the view of fiscal policy in terms of functional finance. This approach recognises the inherent instability of private, free-enterprise, economies and thus proposes the use of budget deficits for correcting a potential deficiency in private aggregate demand (Lerner, 1943; Forstater, 2011). Adopting this approach, Arestis and Sawyer (2003c, 2004b) underline the stimulating impact of activist fiscal policy on private investment and therefore on the time path of the capital stock and the future productive capacity of the economy. As a result, if there is anything like a ‘NAIRU’ in the economy, it is a continuously variable indicator that is determined by effective demand and subject to path-dependency in the long-run (Stockhammer, 2011).

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[178] As mentioned in chapter 4, the main theoretical arguments that rationalise the case for downgrading the macroeconomic role of fiscal policy are the Ricardian Equivalence Theorem and the ‘crowding-out’ effect.

[179] On additional empirical evidence that suggests a significant influence of fiscal policy on aggregate demand and the rate of output growth, see Wren-Lewis (2000), Arestis and Sawyer (2003c, 2004a) and Hemming *et al.* (2002).

The long-run endogeinety of the NAIRU with respect to the level of effective demand, and hence to fiscal policy, explicitly questions the case for inserting rigorous institutional constraints on the implementation of discretionary fiscal policy to curtail inflationary dynamics in EMU and support the ECB in achieving its price stability goal. It may be rather that a depressed level of economic activity leads to lower future economic activity and to a worsening inflation position. Therefore, a more aggressive monetary stance toward inflation would be required to curb inflation, harming further investment and the overall macroeconomic performance in Europe. Moreover, Argitis (2012), based on a Kaleckian-Minskian context of analysis, treats public expenditure as liquid flows of money that drive entrepreneurial profits and create riskless assets that help private and public sector maintain a sound financial position. Constraints on fiscal policy are therefore very likely to cause depressed business expectations and greater financial risks, hence deteriorating the growth prospects for and the financial conditions of the Euro area economy. Finally, small government institutions and tight liquidity conditions have also major distributional consequences in that they influence unemployment rates and wage-price setting practices. This is expected to negatively feed back on private consumption and thus on long-run development. As a result, in a real world economy governed by aggregate demand and characterised by endogenous money, the notion of a balanced budget is fully unjustified and restricting government spending creates risks of protracted stagnation and financial instability.

At practical level, the above theoretical arguments imply that the institutional configuration of fiscal policies in EMU tends to entrap its member states in a vicious cycle of excessive economic instability, financial vulnerability and social inequality. In fact, the requirement each member state to maintain balanced budget with an eye to lowering its debt ratio leaves practically no room for them to manage demand and appropriately respond to various macroeconomic shocks via the countercyclical use of budget instruments. Meanwhile, in the context of the ECB's aggregate restrictive and regionally asymmetric inflation targeting approach,[180] it also precludes any option of a Union-wide compensating fiscal policy, hence consolidating a rigid institutional bias towards stagnation. Given the endogeinety of public finances to the pace of real GDP growth, this deflationary bias of the EMU fiscal approach becomes reasonably a main

[180] The next chapter presents a brief analysis and statistical evidence of the structural and regional asymmetries engendered by the ECB restrictive monetary policy strategy.

factor behind declining state revenues. Therefore, instead of preventing, it essentially contributes to the build up of excessive public deficits and debt servicing obligations which directly jeopardise member states' fiscal sustainability and financial order. This inherently destabilising effect of the established EMU fiscal regime is vividly evident in the present widespread recession, because states committed to budget consolidation are compelled to restore their fiscal balance through fiscal tightening and several other pro-cyclical policy measures. The result is a further contraction of domestic demand and consequently an increased risk of debt-deflation and insolvency.

Moreover, in an environment of strict fiscal discipline and significant liquidity constraints, and given the loss of the nominal exchange rate tool to confine economic imbalances, increasing net exports turns into the only channel of boosting aggregate demand and driving real growth in member states. This development inevitably brings the function and regulatory framework of labour market at the front stage of economic adjustment, because wage competition and market deregulation become fundamental of enhancing competitiveness and the export performance. The direct consequence is a tendency towards a 'run to the bottom' competition on labour costs and flexibility in EMU and a further thrust towards disciplined fiscal policy that substantially increases the danger EU to get entrapped in a long period of economic stagnation and deflation. It also creates strong incentives for private households and workers to become eagerly involved in financial activities to compensate for squeezed wages and social benefits retrenchment, thereby steadily inflating financial sector. This denotes another channel through which the stability-oriented policy regime opted for EMU systemically raises the risk and the potential of propelling excessive financial fragility and contractionary pressures in Europe. Unfortunately, EMU officials and elites fail to fully comprehend the systemic instability and the deficiencies of the economic policy and institutional formation of EMU. The newly launched Euro Plus Pact which supplements the Fiscal Compact and sets guidelines for fostering competitiveness in Europe via intensifying labour market deregulation and abolishing core welfare state institutions practically consolidates institutionally these destabilising deflationary tendencies in EMU.

The current institutional setting and policy regime of EMU completely ignores structural determinants of competitiveness; particularly its high level relationship with productivity growth, real investment, technological advancements and the productive structure of the economy. Obsessed with low inflation, fiscal prudence and the need to maximise the financial credibility of the euro, the European 'new constitutionalism' has instead transformed EMU into a neoliberal, free-market, economic area in which a highly dysfunctional sort of neo-mercantilism dominates with each EU member state striving to compete and dominate at the expense of its partners' economic prospects and the very stability of the Union as a whole. In fact, in a rather heterogeneous union comprising multi-country macro models with idiosyncratic institutional, structural and social underpinnings, this dogmatic fixation with a 'credibility-enhancing', export-led developmental agenda has given birth to significant growth asymmetries and payment imbalances within the Euro area. As indicated in the next chapter, the accumulation of unsustainable levels of public debt in the periphery, the severe sovereign insolvency crisis that ensued there and its rapid transformation into an EMU-wide deep economic and institutional crisis are the other side of the coin of those irregularities in the Euro area. Against this background, it is hardly comprehensible how the Euro Plus pact and the Fiscal Compact both relied on the pre-crisis NCM premises and policy hints offer a viable route out of the crisis. The devastating social and economic consequences of the structural programmes imposed on the highly indebted peripheral countries clearly invalidate both the scope and effectiveness of the chosen policy strategy of the EU.

The intrinsic destabilising effects of the EMU fiscal governance mode are also exaggerated by the institutional rigidity of the 'no-bail-out' clause which prohibits the direct monetary financing of national budgets and debt. Argitis and Koratzanis (2011) underline that the 'no-bail-out' clause lies at the root of the high risks of deflation and sustained financial instability in EMU. This is because it has made the deployment of fiscal stimulus measures and the degree of counter-cyclical fiscal stabilisation directly dependent upon investors' subjective expectations and sentiment about each member state's fiscal rigour and creditworthiness. The immediate result is that EU economies get engaged in a cut-throat competition to woo bond traders to buy their new debt issuances. Under the current crisis conditions, in which liquidity has contracted and financial markets extremely discriminate about financial risk, this stiff competition to attract bond buyers brings about a sharp deterioration in the terms of public borrowing and thereby an overall erosion of confidence in the sustainability of public finances, particularly across the EU periphery. This development reasonably provides an open field of rampant speculation and manipulation in sovereign credit markets and creates ample opportunities for financial institutions and funders to extract massive amount of profits. On the flipside, it threats EU member states perceived as weak issuers to slide deeper into an unfavourable situation of excessive financial instability, protracted creditworthiness crisis and economic recession.

In this way, the monetary financing prohibition and the resulting dependence of EMU economies on market funding tend to aggravate economic divergences within EMU. On the one hand, they generate a systemic disparity between the European core and periphery in terms of bond yields and thereby an asymmetry in their ability to and in the terms of gaining access to international capital markets. Sovereign debt issued by countries with low liquidity and default risk is typically considered as a safe haven by risk-averse investors. Thus, economies that retain greater budgetary discipline and responsibility typically enjoy a greater degree of freedom to formulate and implement discretionally fiscal policy for real stabilisation objectives. On the other, peripheral states with purportedly weak and unsustainable public finances and fragile financial positions are frozen out of international credit markets and become an easy victim of the speculative practices and appetites of market traders. These divergence dynamics do not only expose an unbridgeable gap between the EU ambitions for sustainable and inclusive economic development in Europe and actual performance. They also tend to systematically undermine the very stability and coherence of the entire Union. They heighten the risk of a sovereign default in the periphery and thereby make the danger of a general financial collapse in the Eurozone a tangible possibility.

It is clear therefore that the content and the operational philosophy of the SGP regime essentially promote the capture of fiscal policy and growth dynamics in EMU by financial interests. Indeed, as long as the margins for discretionary fiscal policies, the prospects for real convergence and the very macroeconomic and financial stability of states crucially depend on markets subjective expectations and valuations on their creditworthiness status, the whole macroeconomic policy framework and aggregate performance in the Euro area becomes *de facto* hostage to the discipline of finance. The new Fiscal Compact clearly intensifies the finance bias exhibiting its predecessor, by tightening the fiscal quantitative targets and reinforcing the budgetary surveillance mechanisms. Any member state detected to fail to comply with its stricter budgetary rules and procedures is characterised as fiscally irresponsible, a characterisation that may instantly trigger a harsh loss of credibility and an unfavourable creditworthiness assessment from private credit rating agencies. The downgrading of its sovereign debt will evaporate market trust and rise the borrowing costs in capital markets, therefore resulting in a severe deterioration of the fiscal conditions in the country concerned. As a result, rather than preserving market confidence and enhancing the enforcement and credibility of consolidation process, the Fiscal Pact, as the SGP, operates as a weapon of excessive market punishment for undisciplined states and thereby as a mechanism of sustained financial instabilities and uncertainties in the entire Eurozone.

Financial institutions and speculators are aware of the systemic instability and inefficiencies generated by the European new constitutionalism and myth of an ECB-centric EMU credible to financial markets. This myth impedes the institutionalisation of a pure mechanism to wind down liquidity shortages and credit risk and prevents the federalisation of national debt and the coordination of macroeconomic policies to deal with general macroeconomic fluctuations and country-specific needs. Sovereign debt issuance in EMU is instead decentralised with no any explicit collective guarantee from all EMU member states or the ECB, while the field of coordination is confined to measures that encourage deregulation competition and to an enduring commitment to 'sound public finances', both systematically undermined by the inflation targeting strategy of the ECB. This institutional deficiency does not permit an equal share of costs and responsibilities in EMU and the construction of a harmonised and growth-oriented macroeconomic policy mix. Instead, it produces harsh institutional rigidities and policy failures that directly endanger the financial stability and growth potential of the whole EMU. This is the main reason why financial traders, four years after the outbreak of the crisis, still remain highly sceptical and unconvinced by the insistent statements of the European governments about their strong political will and capacity to implement an austerity policy package to restore fiscal balance and improve credibility.

The current urgent actions taken by the ECB and other European institutions to offer external financial assistance to the troubled economies do not seem capable of providing a sure and long-term solution to the crisis, either. These urgency measures are conditional on agreement to and compliance with a restrictive macro adjustment programme which is very likely to sharpen deflationary pressures across the Euroland and hence to prevent debt ratio stabilisation. In addition, the existing rescue pacts are subject to major constraints in terms of the amount of liquidity provided and leverage of their funding capacity. Finally, they principally take the form of loans and are not a part of an efficient system of fiscal transfers and payment equalisation within EMU. Consequently, they are mechanisms of perpetuating rather of solving the problem of high insolvency risk and illiquidity across the Euro area (Argitis, 2012). The fact that conditions in national bond markets have not so far improved to a satisfactory degree after the announcement and implementation of these initiatives indicates that the EU liquidity assistance does not indeed represent a credible policy approach to overcome the crisis and prevent the threat of a contagion and chain reaction that may be sparked by the default of an individual member state. The intense market pressures on national debt issuances appear rather to arise from the soaring worries of global investors over the safety margins and the limited creditworthiness of the peripheral EMU countries under the ‘no-bail-out’ clause and the purported credible disciplinary neoliberalism.

Only if the ECB assumes a lender of last resort function and EMU establishes an EU-wide stable and efficient mechanism of financing macroeconomic imbalances, financial strains on the countries under crisis will lessen and thus bond markets would become once again functional. Kelton and Wray (2009) note that a sovereign country that retains the right and capacity of printing money so that it meets its own currency-dominated commitments does not in principle face any market imposed constraints on borrowing. In the Euroland a big plan of quantitative easing, low official interest rates and the abandonment of the presently procyclical fiscal strategy would arguably play the role of regaining, at a European level, a certain degree of monetary sovereignty and providing the capital needed to facilitate liquidity. This quantitative easing would diminish the risk of EMU as a whole sliding into slump and deflation and mitigate market fears over debt sustainability and dried up liquidity in the hardest-hit EMU members. This growth-oriented macroeconomic policy plan would arrest a disastrous rapid financial meltdown in the periphery and thereby reduce the risk of even core countries going also the way of the periphery.

Unfortunately, embarking on these institutional and policy initiatives should be an integral part of a thorough institutional reconstruction of EMU and this, in turn, requires a broad-ranging social, political and economic consensus over the need for a radical change in the Eurozone. The inability and/or reluctance of European leaders to overcome the deficient institutional and economic policy structures of the European new constitutionalism and move decisively towards a new EMU architecture sensibly signifies that the political, economic and ideological elements that paved the way for its launch and provided the rationale for its concrete institutional blueprint are still present and dominant, even in the current phase of protracted economic stagnation and multifaceted crisis of European capitalism. As indicated in the next chapter, these rigidities do not only risk Eurozone slipping back into a second deep recession within five years, but have condemned its member states into a situation of sluggish growth and rising income inequalities at least since the start of the EMU programme in 1992. The eruption and severity of the Euro crisis was the disastrous result of this protracted period of stagnation and inequality, whereas its root cause was the trend disciplinary financialisation caused by the EMU leaders' obsession with safeguarding the financial credibility of the euro.

Chapter 7: Economic Performance in EMU: Losses for the Poor, Gains for the Rich

7.1 Introduction

The European Union and the Eurozone are currently in the middle of the most serious and protracted economic crisis in their entire history. According to the recent report of the European Commission, over the past 4 years the economy has virtually grounded to a halt, whereas for 2012 is expected to plunge into a second recession since 2009.[181] The ongoing global financial and economic turbulence, that started with the collapse of the US subprime mortgage market in 2007, deepened by the global credit crunch in 2008 and reached another climax with the onset of the Euro sovereign debt crisis, has undeniably aggravated the economic problems of the EU over the last period. Nevertheless, a closer look at major macroeconomic variables reveals that Europe's weak economic performance is not a cyclical phenomenon. On the contrary, as indicated below, the European economy appears entrapped into an unacceptable situation of slow economic growth, high employment and deep social polarisation at least since the official launch of the Euro project in 1992. In our opinion, the main responsible for the persistently poor socio-economic developments in Europe is the neoliberal led institutional framework of EMU and the process of disciplinary financialisation that inflicts on the economic structures of individual member states.

To support the aforementioned argument, the chapter focuses on the statistical data of the original eleven member states of EMU, including both core, e.g. Germany, France, and peripheral economies, e.g. Greece, Spain, and Ireland. When appropriate, US data and performance are also considered for allowing the comparative analysis of the European and US economy. Data and calculations are based on original data set of reliable international economic organisations, such as the EU Commission, IMF, ECB and BIS. Due to data limitations, the time span of sampled data is variable, but surely covers the period from the launch of the euro in 1999 on that is a reasonable period of time for all comparisons. Finally, it should be underlined that each EMU state has its own distinct history, socioeconomic structure and institutional system. Consequently, evidence should be interpreted with special caution. However, they also share some

[181] See EC (2012a).

important common features that result from global patterns of economic development, and more importantly from the nature of the EU and Eurozone which, as noted, is part and parcel of the political economy of disciplinary neoliberalism and financialisation. Recall, the aim of the chapter is precisely this, i.e. to explore whether and to assess the extent to which the economic and social structure and performance of member states has been influenced by the disciplinary neoliberal character of EMU and the related process of disciplinary financialisation.

The remainder of the chapter is structured as follows. Section 2 provides an overview of the macroeconomic performance in the eleven EMU member states under investigation and the US. Section 3 turns to evaluating the monetary policy exercised in EMU from 1999 on. It tries to highlight the anti-inflation bias of the ECB's strategy and shows how much of the poor performance of the countries of our data set can be explained by the restrictive monetary regime institutionalised by EMU. Provided that fiscal policy is also major parameter for explaining the comparative macroeconomic performance, we complement the analysis of monetary policy with an analysis of the evolution of public finances in EMU. Subsequently, we examine the contribution of the current restrictive policy mix to the financialisation of the EMU economy and investigate its further impact on aggregate demand, growth, macroeconomic stability and social coherence. Therefore, section 4 provides evidence of the partial effect of financialisation on consumption patterns and real investment activity in the Eurozone. Section 5 emphasises on labour market indicators, notably the evolution of the labour remuneration, unit labour costs and wage shares in national income. On this basis, in section 6 we assess the level and trend in the functional distribution of income between labour, industry and finance to find whether the falling wage share observed in EMU has been in favour of rentier income. If so, this plausibly would give support to the central hypothesis of our dissertation regarding the social character and scope of the EMU institutional regime and of its policy model, the NCM. Finally, section 7 focuses on the relation between income redistribution and EMU-wide current account imbalances and considers it as one of the most important sources of the onset and severity of the current Euro crisis.

7.2 EMU macroeconomic performance: real stagnation and divergence in the benefit of price stability

Since the inception of the single currency, economic growth in the Euro area has been considerably feeble. Table 1 highlights the average annual growth rate of real GDP in EMU-12, the EU-15, the US and a sample of 11 EMU member states. Over the period 1992-2012, the economy of the Eurozone as a whole has grown on average at a rate of 1,5%. This rate has been marginally lower than that of the EU-15 (1,6%). From 1999-2008, i.e. throughout the pre-crisis Eurozone period, economic growth has moderately recovered in EMU, with the GDP expanding at an average rate of 2 % per annum. However, this macroeconomic performance can be still characterised as anaemic, and definitely unsatisfactory compared to the exceptionally fast growth path that enjoyed Europe in the past decades of the Golden Age when GDP increased by a record high of 5,3% and 3,4% per year. The paradigm shift away from the post-war 'Keynesian-neoclassical synthesis' towards neoliberalism that took place in the 1980s appears, thus, not a success story for Europe. Far from providing an effective and viable way-out from the stagflationary episodes and Europessimism of the 1980s, it seems to have entrapped the European economy into a protracted phase of low economic growth, or even stagnation.

Table 1: Real GDP growth rate

	1961-1970	1971-1980	1981-1990	1992-2012*	1999-2008	1999-2012*
EU-15	4,8	3,1	2,5	1,6	2,2	1,5
Euro area-12	5,3	3,4	2,4	1,5	2,0	1,4
Belgium	4,9	3,4	2	1,7	2,2	1,6
Germany	4,5	2,9	2,3	1,3	1,6	1,3
Ireland	4,2	4,7	3,6	4,6	5,1	3,2
Greece	8,5	4,4	0,7	1,5	3,7	1,3
Spain	7,4	3,6	2,9	2,2	3,5	2,3
France	5,7	3,7	2,4	1,5	2,0	1,5
Italy	5,7	3,8	2,4	0,8	1,3	0,6
Netherlands	5,1	3,0	2,3	2,1	2,4	1,6
Austria	4,7	3,6	2,2	2,0	2,4	1,9
Portugal	5,8	5,0	3,7	1,4	1,6	0,7
Finland	4,8	4	3,1	2,4	3,2	2,2
USA	4,2	3,3	3,2	2,6	2,5	2,0

Note: *Forecast values for 2012.
Source: AMECO (Spring 2012), author's calculations.

A similar trend of steadily decelerating rates of GDP growth is also occurred in the US from the 1980s onwards. Nonetheless, aggregate growth performance in the Euro area has been considerably weaker in relation to that recorded both in the US. As reported in Table 1, while real GDP growth in EMU has outpaced that of the US over the two decades before the 1980s; from the 1980s on, the US economy has performed significantly better than most other EMU members. We believe that the ECB's anti-inflationary bias, in conjunction with the SGP's restrictive fiscal framework and the vigorous promotion of neoliberal labour market reforms, all prescribed by the 'new consensus' policy model and purportedly necessary for supporting the ECB's policy credibility and euro's status in international financial markets, bear a large share of reasonability for this negative macroeconomic picture.

A closer look at the GDP growth in individual EMU member states illustrates a significant degree of variation between rates. Real output growth rates, presented in Table 1, suggest that the poor performance in the Euro area in the period 1992-2012 has been primarily driven by slow real GDP growth in Germany and Italy. In contrast, the pace of economic growth has been noticeably stronger in the economies of the so-called European periphery, with the exception of Portugal. Ireland has registered very high rates of growth, supported by investment by US-based multinational firms that enjoyed generous tax breaks. In Greece, real GDP growth also accelerated, especially over the period 1999-2008, in part because of infrastructure spending for the Olympic Games. Spanish growth rates have also been rapid throughout this period, bolstered by the boom in real estate investment. In France, Belgium and Austria real growth has been on, or slightly above, the Euro area average. Nonetheless, the general picture that emerges is that, despite variations, in the period 1992-2012 EMU member states have remarkably outperformed in terms of real GDP growth compared to the pre-Maastricht era. The launch of the common currency does not seem to have had a positive effect on output growth in the EU.

The disappointment and concern about the economic outlook of the European economy increase regarding the empirical trajectory of unemployment indicators (see Table 2). During the period 1992-2012 unemployment rates have been consistent with declining real growth rates, with unemployment in the Euro area hitting a record high of 9,4% of the total labour force; a rate which roughly corresponds to over 13 million unemployed persons. The comparison of the EMU average unemployment rate over the period analysed with those prevailed in Europe in the golden decades of the 1960s and 1970s fuels further our disappointment and worries, because unemployment rates in the earlier decades have averaged just 2,3% and 4,1%, respectively; thus essentially corresponding to what statistically could be considered as full employment levels. Evidently, thus, the call for and implementation of labour market liberalisation policy measures that started gaining momentum over the 1980s as part of the EMS and EMU programmes seems to have not delivered the expected results. Rather than combating 'Eurosclerosis' and promoting employability across Europe through the suppression of wage costs, the removal of labour market frictions and the revival of profitability, they have sustained unemployment to economically and socially unacceptable levels. Arguably, the 'new consensus' NAIRU doctrine institutionalises this unsatisfactory, new situation in the European labour market.

One statistical finding that merits consideration is that in the same period Euro area's unemployment rate has exceeded that in the US. In fact, while until the decade of the 1970s unemployment across Euro area member states has been lower relative to the US, over the post-Maastricht period labour market conditions and developments have been evidently reversed. Although the marked surge of unemployment in the US economy after the 1980s-arguably consequent on the Volcker's monetarist experiment in fighting inflation and the conduct of rather restrictive monetary policies thereafter, since the 1990s unemployment has been higher in the Eurozone than in the US, with the overall unemployment rate surging in the period 1992-2012 to 9,4% (against 6,1% in the US). Admittedly, such differences in employment performance underline the failure of the EMU policy regime and institutions to enhance Europe's economic role and power relative to the US and can partially be attributed to the ECB's 'anti-growth bias' and asymmetric approach to manage inflation risks compared with the US Fed (see Bibow, 2005a).

Table 2: Unemployment (% of total labour force)

	1961-1970	1971-1980	1981-1990	1992-2012*	1999-2008	1999-2012*
EU-15	2,2	4,0	8,4	8,9	7,8	8,4
Euro area-12	2,3	4,1	8,4	9,4	8,5	9,0
Belgium	1,9	4,6	9,5	8,2	7,7	7,7
Germany	0,6	2,2	6,0	8,4	9,1	8,4
Ireland	5,4	7,7	14,7	9,0	4,7	7,2

Greece	5,0	2,2	6,4	10,7	9,9	11,3
Spain	2,4	5,4	16,2	15,3	10,6	13,6
France	1,8	3,9	8,2	9,6	8,9	9,1
Italy	4,9	6,1	8,6	9,1	8,2	8,3
Netherlands	0,9	3,7	7,2	4,6	3,8	4,0
Austria	2,0	1,4	2,9	4,2	4,3	4,3
Portugal	2,5	5,1	7,3	7,8	6,9	8,6
Finland	2,3	4,0	4,6	10,3	8,5	8,4
USA	4,7	6,4	7,1	6,1	5,0	6,2

Note: *Forecast values for 2012.
Source: AMECO (Spring 2012), author's calculations.

As outlined in Table 2, the trajectory of unemployment rates across individual member states of the EMU displays significant variation. Specifically, over the period 1992-2012, Spain and Greece have recorded the poorest employment performance, with unemployment in Spain reaching 15,3% of the total labour force and in Greece falling only slightly short (10,7%). Particularly alarming has also been the situation in Finland and France, where unemployment rates have increased to 10,3% and 9,6%, respectively. The same also holds for Germany, given the size and significance of the German economy in the Eurozone. Close to the Union's average rates has oscillated unemployment in some core EMU countries, like Italy and Ireland. On the other hand, Austria and the Netherlands have displayed relatively acceptable unemployment rates. There, unemployment has been kept at much lower rates (4,2% and 4,6%) relative to other EMU countries. The Portuguese labour market has performed quite similarly, with unemployment climbing to 7,8%, hence lagging behind the EMU average. Yet, once again, labour market conditions across EMU member states have considerably deteriorated from the 1960s and 1970s onwards, when European states, institutionally protected by financial speculation and committed to real stabilisation targets, followed the old 'Keynesian-neoclassical synthesis'.

The assertion that EMU, or the selected strategy for moving towards it, should not be deemed as a great achievement is supported by examining the performance of productivity indicators. Table 3 registers the rate of growth of labour productivity, a key variable that essentially well captures the dynamism and long-run prospects of the real economy. Over the period 1992-2012 the rate of growth of labour productivity in both EMU and the EU, has been at all time low. In the Euro area, productivity growth has averaged 1,1%, whereas in the EU has ascended somewhat more rapidly (1,2%). Interesting is also the evidence that after the inception of the single currency, i.e. over the sub-periods 1999-2012 and 1999-2008, labour productivity growth in the EU and EMU has decelerated. Europe has also scored poorly in terms of productivity growth as compared to the US economy, and its underperformance has been more noticeable after the start of the EMU system. Indeed, although during the pre-Maastricht era the Eurozone has displayed higher productivity growth than that of the US economy, in the post-1992 period, i.e. in the context of the convergence period and full operation of the monetary union, the US economy has registered superior productivity rates.

Table 3: Labour productivity growth

	1961-1970	1971-1980	1981-1990	1992-2012*	1999-2008	1999-2012*
EU-15	4,8	2,8	1,8	1,2	1,1	0,8
Euro area-12	5,3	3,1	1,7	1,1	0,9	0,7
Belgium	4,4	3,2	1,8	0,9	1,0	0,7
Germany	4,2	2,6	1,3	1,0	1,0	0,7
Ireland	4,2	3,8	3,8	2,4	1,8	1,9
Greece	9,4	4,0	-0,3	1,1	2,2	1,3
Spain	6,7	4,2	1,9	1,1	0,4	1,0
France	5,2	3,2	2,0	1,0	0,8	0,6
Italy	6,2	2,8	1,8	0,8	0,4	0,3
Netherlands	3,9	2,6	1,7	1,2	1,5	1,1
Austria	5,1	2,9	2,5	1,5	1,6	1,2
Portugal	5,6	4,9	3,5	1,5	1,0	0,9
Finland	4,4	3,6	2,5	2,1	1,7	1,3
USA	2,3	1,2	1,4	1,7	1,8	1,7

Note: *Forecast values for 2012.
Source: AMECO (Spring 2012), author's calculations.

In Table 3 it is also presented the evolution of labour productivity growth rates for individual EMU member states. Although a degree of considerable dispersion in rates is observed, roughly all member states of the Union (except Greece) have shown in the period 1992-2012 a decrease in the rates of labour productivity growth relative to the previous decades. The weakest productivity growth has been registered in Italy where it has fallen to just 0,8% per year. Quite mediocre productivity growth has been recorded also in France and Germany (1%). This demonstrates the lack of dynamism of these economies and it is partially correlated to the stagnant rates of GDP growth of the Eurozone over the same time-period. On the contrary, most peripheral countries have experienced labour productivity growth stronger than the Union's average; and undoubtedly have over-performed compared with their largest EMU partners, that are a laggard. Ireland, the 'Celtic Tiger' has exhibited the most remarkable growth rate of labour productivity (2,5%). In Finland and Austria productivity has also grown fast, i.e. at an average annual rate of 2,1% and 1,5%, respectively. Yet, a striking aspect of the data is that productivity growth rates across EMU-12 member states have been lower since the introduction of the common currency. Clearly, the introduction of the euro has failed to put participating EMU countries on a high productivity growth path.

In contrast to the real performance indicators, the run up to the monetary union has been a resounding success as regards the evolution of the inflation rate. In Table 4, there are listed the average inflation rates from the 1980s onwards. As it is shown, since 1992 inflation rate in both the Eurozone and the EU has averaged just over the 2% target of the ECB, falling from a range of 8% and 10%, respectively over the 1980s. An important element drawn from Table 4 is that disinflation has been stronger compared to the US. Whereas in the 1980s inflation has run at a much slower pace in the US, from the 1990s on Europe has had a better inflation record. It is clear, that the selective anti-inflationary fixation of EMU, and especially the application of inflation targeting by the ECB, have produced the desired disinflation effect. Bearing in mind the 'new consensus' considerations, this would also help long-term price expectations be anchored to price stability and affect favourably price-wage setting. But the return to price stability in Europe can be seen at most as a qualified success for the ECB. As already shown, any potential credibility gain has not been translated into flourishing economic conditions. The ECB's restrictive quantitative definition of price stability and the pursuit of inflation targeting have made disinflation to come at the expense of employment, real GDP and productivity growth.

Table 4: Inflation rate

	1981-1990	1992-2012*	1999-2008	1999-2012*
EU-15	10,5	4,0	2,6	2,5
Euro area-12	8,2**	2,2	2,2	2,1
Belgium	4,6	2,1	2,2	2,2

Germany	2,6	1,9	1,7	1,6
Ireland	7,8	2,3	3,4	2,4
Greece	19,7	5,2	3,3	3,0
Spain	9,4	3,2	3,2	2,8
France	6,4	1,8	1,9	1,8
Italy	9.9	2,8	2,4	2,3
Netherlands	2,4	2,2	2,4	2,1
Austria	3,4	2,0	1,9	1,9
Portugal	17,4	3,2	2,9	2,6
Finland	6,6	1,8	1,8	2,0
USA	6,0	2,3	2,8	2,5

Notes: *Forecast values for 2011 and 2012, **Unweighted average.
Source: IMF World Economic Outlook (April 2012), author's calculations.

Looking at the inflation performance of the individual euro member states, there can be observed significant cross-country differences. Over the post-1992 era, inflation has been cut noticeably in all EMU economies of the sample compared to the 1980s. The most rigorous disinflationary adjustment has taken place in the peripheral states, with the most remarkable occurring in Greece and Portugal-of a magnitude of more than 14 percentage points. The core EMU countries have, in contrast, reported a much more balanced disinflation effort with average inflation falling less than 5% relative to the 1980s. It appears, therefore, that the EMU project and the introduction of the euro have succeeded in instigating the planned trend of competitive disinflation across the periphery, putting the ex-high inflation-high deficit EMU members into a path of low inflation rates and stable monetary conditions. Nevertheless, it is worth emphasising that after 1992 German inflation rates have consistently remained below the EMU average and the ECB ceiling of 2%. Some degree of inflation divergence has also remained between the other core states and the peripherals. Such diverging trends in inflation partially explain GDP disparities across EMU and are basically a reflection of the different employment conditions and divergent wage growth in EMU (see below).

All in all, the picture that emerges from the above empirical analysis of central macroeconomic indicators is that the economic performance of the EU and EMU has been unsatisfactory throughout the past two decades. Improvements in price stability have gone along with pervasive real economy developments which have moved to the opposite direction to that aimed for by the EMU founders and supporters and formally encapsulated by the Lisbon Agenda. Indeed, rather than becoming the world's most competitive economy until 2010, the Union appears to have become a laggard at great social cost and unable to master the problems and challenges underlying the current highly competitive and complex global economic landscape. In our view, a principal reason behind the EMU economic weakness is the continuing neglect of the role of aggregate demand and the process of disciplinary financialisation imposed by its 'new constitutional' governance structure. In what follows, we consider the contribution of the ECB's restrictive monetary policy strategy, SPG's tight budgetary constraints and labour repressive policy measures to EMU poor macroeconomic conditions and seek to investigate forces and aspects of financialisation across the Union.

7.3 'Credible' monetary restrictiveness and fiscal austerity: the root of stagnation

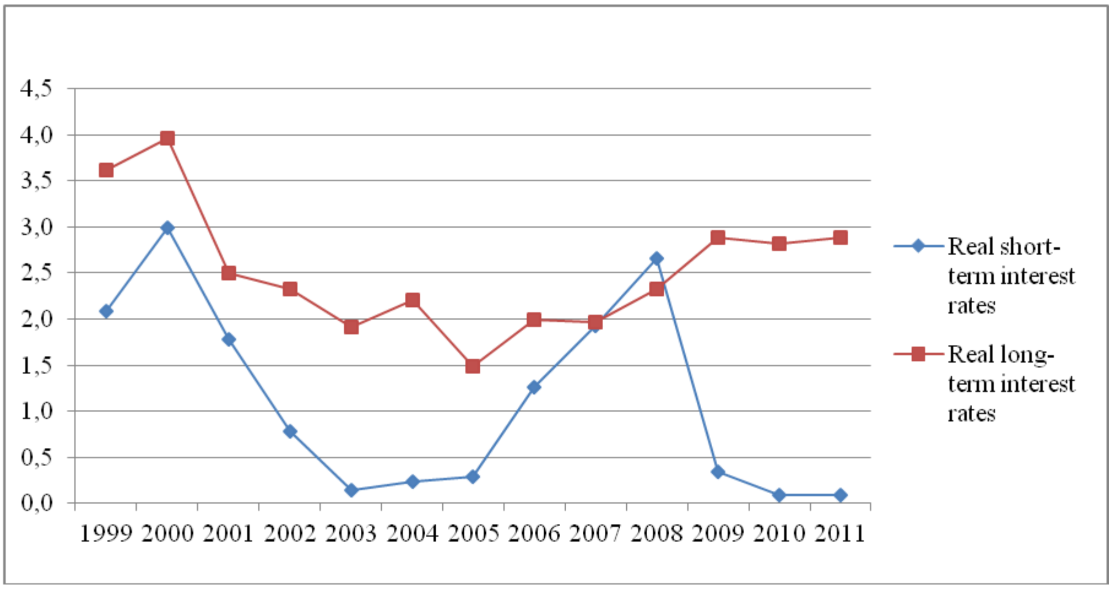
Monetary policy can be evaluated by the evolution of the short-term real interest rate. As noted in chapter 5, inflation targeting central banks use the short-term interest rate as a policy instrument in order to control price developments and stabilise inflation rate at the pre-arranged target. Although the ECB can be seen as an inflation targeter, we refrain from relying on a Taylor-like rule to assess ECB's policy reactions because of the endogeinety of the 'equilibrium' real interest rate incorporated in Taylor rules. For this reason, we assess the macroeconomic impact of monetary policy by focusing on the development of the real short- and long-term interest rate, and especially on the difference between short- and long-term real interest rate, on the one hand; and output growth, on the other.[182]

It is immediately evident from Figure 1, that the short-term real interest rate in the Euro area has been positive on average over the period 1999-2010. The long- term real interest rate has exhibited a similar pattern of development following the path of the short-term rate, though at reasonably higher levels, ranging between 1,5% and 4%. It is important to mention that the harmful for the economic growth prospects of EMU maintenance of real interest rates at positive levels has coincided with a period during which the average inflation rate in the Euro area has not exceeded the 'sacrosanct' 2%

[182] For a similar approach to assessing ECB monetary policy see Hein and Truger (2006).

inflation target of the ECB (see Table 5). Since commercial banks typically determine interest rates in credit markets by marking-up the central bank's base rate, the ECB's tight monetary policy is therefore likely to have considerably increased the borrowing costs of households and non-financial corporations, thus harmfully influencing further growth and employment conditions in the Euro area. The reported 'anti-growth' bias of the ECB stems from its too restrictive definition of price stability and reluctance to relax its policy when expectations came down from the inflation target. Such a policy attitude results from its desire to build its anti-inflationary credentials and reputation in financial markets and has been particularly evident in the face of the 2000-2001 slowdown, and in its responses to the current economic and financial crisis (Bibow, 2005a; and Bibow, 2009).

Figure 1: Real Interest rates in the Euro area-12



Source: AMECO (Spring 2012).

A direct outcome of the counter-inflationary monetary policy of the ECB has also been the formation of an unfavourable difference between real interest rates and real GDP growth rates in the Eurozone (Table 5). Particularly, on average in the phase 1999-2010 in EMU as a whole the difference between short-term real interest rate and GDP growth has been slightly negative (-0,3%), whilst the long-term interest rate and real GDP growth difference has remained positive (1,2%). Over the same period, the US Fed has succeeded in establishing more growth-friendly differences (-1,1% and -0,2%). Thus, the relatively more expansionary policy stance of the US Fed might well explain the superior growth performance of the US *vis-a-vis* the European economy during the post-EMU era. Furthermore, provided that higher long-term interests imply increased burdens of servicing the accumulated external debt, the ECB's reluctance to stimulate the real economy by cutting its policy rates might also have undermined the sustainability of member states fiscal positions, with potentially negative effects on their fiscal credibility and hence on their sovereign creditworthiness.

Table 5: Monetary policy indicators for the Euro area & USA (average values, 1999-2010)

	Short-term real interest rate	Long-term real interest rate	Short-term real interest rate minus real GDP growth	Long-term real interest rate minus real GDP growth	Inflation rate
EU-15	1,4	2,5	-0,3	1,0	2,4
Euro area-12	1,2	2,5	-0,3	1,2	2,0
Belgium	1,1	2,4	-0,7	0,8	2,1
Germany	2,2	3,3	1,0	2,5	1,5
Ireland	0,8	2,5	-2,8	-1,4	2,5
Greece	0,7	2,0	-1,8	-0,6	3,3
Spain	-0,1	1,2	-2,7	-1,6	2,8
France	1,3	2,5	-0,3	1,2	1,8
Italy	0,8	2,3	0,0	1,8	2,2
Netherlands	0,7	1,9	-1,2	0,1	2,1
Austria	1,5	2,8	-0,4	1,1	1,8
Portugal	0,4	1,9	-0,8	0,9	2,5
Finland	1,6	2,8	-0,8	0,6	1,8
USA	1,0	2,2	-1,1	0,2	2,5

Source: AMECO (Spring 2012), IMF Economic Outlook (April 2012), author's calculations.

Another important evidence derived from Table 5 is that the ECB's restrictive monetary strategy has been particularly detrimental for Germany, Europe's economic locomotive. One central reason behind this negative development is the lower than the EMU average inflation rate reported in Germany. This, along with the convergence of nominal interest rates in the Euro area since 1999, has contributed to an unfavourable short-term real interest-real GDP growth difference, which EMU members has been on average positive only in Germany between 1999 and 2010. However, as pinpointed below, this had not impeded Germany to apply 'neo-mercantilist' income policies that lifted German exports and soared its trade surplus. In that way, Germany achieved to stimulate German firms' profitability and partially neutralise the contractive impact of the ECB's policy on domestic consumption and investment.

In contrast, the high inflation-high deficit countries, Spain, Ireland, Greece and Portugal, have registered lower real interest rates, hence creating improved investment opportunities and a macroeconomic environment conducive to economic growth. The same group of EMU countries has also registered a fairly expansive constellation with negative short-term real interest rate and GDP growth differences; as well as negative differences between long-term real interest rate and GDP growth, with the exception of Portugal. Bearing in mind the negative impact of real interest on economic growth, the above reported differences in real interests may well explain the observed growth differential between peripheral and core EMU countries, notably Germany. Yet, it has to be conceded that the ECB's monetary operations are executed under uniform terms and conditions in all Euro area member countries and thus it does not react to inflation differences. This is where a marked flaw of the EMU system, i.e. the absence of Euro area-wide coordinated wage policies, becomes relevant. As noted, this arrangement is related to the ECB-centric structure of EMU, seemingly essential for safeguarding its task as credible enforcer and preserver of monetary stability in Europe.

Fiscal policy has been also conducted in accordance with the stringent context set by the Maastricht Treaty and the SGP. As portrayed in Table 6, for the Euro area as a whole the budget balance has been reduced from an average -4,9% of GDP in the period 1992-1998 to -1,9% in the period 1999-2008. Undeniably, this improvement in public budget positions has been facilitated by the substantial reduction in the average long-term nominal interest rates caused by the rapid interest rate convergence towards the lower German levels. However, the cost of the fiscal adjustment in terms of a loss in public goods provision, lower employment cost, and/or higher tax burdens has been still significant. The primary budget balance, that is net government lending excluding net interest payments, has remained positive averaging 1,5% of GDP per year over the period 1999-2008. Because of the recent economic and financial turmoil, public fiscal positions have turned negative in the Eurozone after 2008, with the deficit soaring to 5% and the primary deficit to 2% of the GDP. Yet, as a whole in the post-Maastricht era the government deficit to GDP ratio has stayed low and has not departed from the 3% threshold of the SGP. Despite that, it should be underlined that on average the medium-term target of a 'close to balance or in surplus' budgetary positions stipulated by the SGP has not been reached.

Considerable consolidation effort has also taken place in most singular EMU member states. As illustrated in Table 6, from 1999-2008 the most conservative fiscal policy has been pursued by Finland and Ireland, with the overall government balance being on average in surplus (3,9% and 0,7%, respectively). In the same period, Spain, the Netherlands and Belgium have stood also out with sizeable public deficit declines that approached close to balance. Alongside Italy and Finland, these economies have also registered substantial primary fiscal surpluses, indicating strong fiscal positions and aggressive fiscal consolidation undertaken during 1999-2008 period. On the other hand, weak fiscal performance has been shown by some southern EMU economies. In fact, Greece and Portugal have failed to impose fiscal austerity over the period 1999-2008 with the deficit ratio ascending to 5,7% and 4%, respectively; despite the major reduction of long-term interest rates. Some mainstream analyses have argued that the continuous fiscal irresponsibility of those countries was at heart of the euro sovereign debt crisis.[183] However, as stated below, such a view ignores important structural flaws of the EMU system, e.g. escalating current account imbalances, divergent wage and price developments, dysfunctional policy coordination and endemic speculation and fragility in financial markets. Indeed, falling revenue and growing public expenditure provoked by financial crisis have led to strong increases in government deficits once the crisis began to bite in 2008. Therefore, many economies have turned to the capital markets to pump large volumes of funds, hence leading to the outburst of government debt in almost all countries (see below).

Table 6: Public budget balance and primary public budget balance (% of GDP, average values)

	Deficit (% of GDP)			Primary Deficit (% of GDP)		
	1992-1998	1999-2008	2009-2012*	1992-1998	1999-2008	2009-2012*
EU-15	-4,5	-1,7	-5,4	n/a	1,4	-2,5
Euro area-12	-4,9	-1,9	-5,0	n/a	1,5	-2,0
Belgium	-4,6	-0,4	-4,0	4,4	4,8	-0,6
Germany	-3,7	-2,0	-2,3	-0,3	0,9	0,3
Ireland	-0,9	0,7	-16,6	4,3	2,1	-13,5
Greece	-8,2	-5,7	-10,6	2,4	-0,2	-4,6

[183] See, for instance, ECB (2012c).

Spain	-5,2	-0,2	-8,9	n/a	2,1	-6,6
France	-4,6	-2,7	-6,1	-1,2	0,1	-3,6
Italy	-7,0	-2,8	-4,0	3,9	2,6	0,9
Netherlands	-2,7	-0,4	-4,9	2,8	2,4	-2,9
Austria	-3,6	-1,6	-3,5	0,2	1,4	0,9
Portugal	-5,2	-4,0	-7,2	0,2	-1,2	-3,6
Finland	-4,2	3,9	-1,6	-0,4	5,9	-0,5
USA	-2,9	-2,6	-10,0	1,6	0,3	-7,3

Note: *Forecast values for 2012.
Source: AMECO (Spring 2012), author's calculations.

Yet, the application of tight fiscal policy constraints in the Eurozone has been proved quite unsuccessful in lowering the gross debt-GDP ratio (Table 7). For EMU as a whole this ratio has remained roughly stable for the entire period from 1992-2008, being on average around 69,5%. This is a fairly disappointing piece of evidence given the beliefs and anticipations of European officials and 'new consensus' scholars on the usefulness and effectiveness of rigid budget constraints for preserving sound public finances and long-run fiscal sustainability in Europe. Sensibly, the preservation of high public debt ratio in the Euro area also presents a direct challenge to the very credibility of the EMU institutional and policy framework as it has clearly exceeded the 60% upper bound of the Maastricht Treaty and SGP, hence failing to improve risk sentiment in financial markets on fiscal consolidation. From 2009 to 2012 the average level of public debt in the Eurozone has increased sharply. The most important driver for this development has been the fiscal repercussions of the ongoing financial turmoil and the consequent recession that has hit the Eurozone since 2008.

Table 7: Gross government debt (% of GDP)

	1992-1998	1999-2008	2009-2012*
EU-15	66,2	63,4	83,9
Euro area-12	69,3	69,5	87,0
Belgium	127,4	97,7	97,6
Germany	52,9	64,1	80,2
Ireland	77,4	33,4	95,5
Greece	95,2	103,4	150,1
Spain	60,6	48,4	66,1
France	52,5	62,4	84,5
Italy	116,3	106,3	119,5

Netherlands	73,7	52,4	64,7
Austria	63,7	64,7	71,9
Portugal	54,8	58,2	99,5
Finland	52,7	41,3	47,7
USA	70,5	63,7	100,5

Note: *Forecast values for 2012.
Source: AMECO (Spring 2012), author's calculations.

The observed persistence of the average gross debt-to-GDP ratio above the Maastricht reference value from 1992-2008 can plausibly be the result of the anaemic rates of real GDP growth experienced by most EU economies since the inception of the EMU programme. It may also ensue from the overly restrictive monetary policy of the ECB that kept public sector borrowing costs high, despite the reduction in the average long-term interest rates. Certainly, a further important reason behind the reported high levels of government debt in EMU has to be found in the increase in the gross public debt ratio observed in the two largest EMU economies, i.e. Germany and France (12% and 10%, respectively). Nevertheless, it is important to point that many EU member states have succeeded in lowering their public debt-to-GDP ratios in the period 1999 to 2008. The largest drop has been displayed in Ireland and Belgium with debt ratios falling on average by more than 43 and 30 percentage points, respectively, compared to the convergence period. However, most EU countries have registered an abrupt rise of public debt over the last 4 years, largely due to their efforts to rescue their financial systems, while supporting aggregate demand. The straightjacket imposed by the SGP on EU member states appears, therefore, to have failed to establish sustainable public finances in EMU and build up an effective fiscal buffer for 'bad times'.

It is worth arguing that the evolution of actual fiscal positions does not fully capture the macroeconomic impact of fiscal policy. It only portrays the underlying economic conditions and not the active fiscal policy. For analysing the stabilising or destabilising impact on business cycle, we make use of the output gap and the cyclical adjusted budget balance-potential GDP ratio (see Table 8). The output gap provides a measure of the current state of economic activity. A positive output gap indicates that the economy is overworking its resources, whereas negative values illustrate capacity underutilisation. Hence, if there is a positive change in the output gap, the economy is in a cyclical upturn, whereas a negative points to a downturn. Accordingly, a positive change in the structural balance denotes a fall in structural deficits (or an increase in structural surpluses), and thus fiscal policy provides a restrictive stimulus to aggregate demand, and *vice versa*. If the structural balance is constant in the face of a changing output gap, fiscal policy is neither expansive nor restrictive. In this case, the automatic fiscal stabilisers are fully operational.[184]

Assessed in the manner explained, fiscal policy across individual EU members has been practised as follows: In the first long period from 1992 to 1998, fiscal policy in all EMU countries appears strongly restrictive with considerable improvements in the structural balances. Over the same phase, fiscal policy has also implemented pro-cyclically as it has lowered structural deficits regardless of the sharp reduction in the output gap in all EMU states (except Finland). The most rigorous fiscal restriction has been observed in the high inflation-high deficit EMU countries. Greece and Italy have managed to achieve the largest fiscal adjustment in the Eurozone with average annual improvements in the cyclically adjusted fiscal balance 1,25% and 1,23% of potential GDP, respectively. Remarkable has also been the reduction in the structural deficit in Belgium, Portugal and Spain. On the other hand, core economies, e.g. Germany and France, together with Finland and Austria, have conducted fiscal policy in the move to the EMU less rigorously. This plausibly could be attributed to the lower deficit-to-GDP ratios enjoyed these countries during the decade of 1990s (Table 6). Yet, despite considerably more moderate, fiscal contraction has remained there on average pro-cyclical during the period analysed. Such a highly unfavourable constellation of pro-cyclical restrictive fiscal policy largely stems from the great effort of EMU members to comply with the strict fiscal criteria of the Maastricht Treaty. Reasonably, it bears a great share of responsibility for the slow growth path suffered the Eurozone relative to the previous decades.

[184] It should be noted that such cyclically adjusted measures should be interpreted with caution due to the path dependency of the NAIRU and its endogeinety to aggregate demand. Their use here solely aims at taking into account the four major trade cycles from 1992 to the recent crisis and thus producing a more accurate depiction of the macroeconomic impact of fiscal policy. See Hein and Truger (2006) for a critique of relying on cyclically adjusted measures and for a similar assessment of EMU fiscal stance over the period 2001-2005.

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In the period from the initiation of the EMU until the outbreak of the present financial crisis, the picture is rather diverse. Yet, in the first phase (1999-2003), fiscal policy has been strongly expansionary only in the high growth Ireland and Greece to a lesser extent in stagnant Italy. Four EMU countries, i.e. Germany, the Netherlands, France and Portugal, have pursued slightly expansive fiscal policy with the structural balance falling by less than 0,26 percentage points, hence reacting in a very moderate counter-cyclical manner against the drop in the output gap. In Spain, fiscal contraction has turned to be anti-cyclical, because the output gap has improved, in a very modest way though. In the remaining EU member states, Austria, Belgium and Finland, fiscal policy has been exercised pro-cyclically restrictive in the first phase after the adoption of the euro. While the output gap has fallen, fiscal policy has tightened with Belgium registering the largest budgetary contraction (0,5% per annum). The picture has also been mixed from 2004 to 2007. Fiscal policy has been pro-cyclically expansionary in most EMU members. However, overall the expansion can be characterised as modest but some exceptions (Greece and Ireland).

Table 8: Fiscal policy indicators for several Euro area-12 member states and the USA (average values)

	Cyclically adjusted budget balance* & output gap**							
	1992-1998		1999-2003***		2004-2007		2008-2012	
Belgium	1,18	{-0,31}	0,70	{-0,12}	1,01	{0,85}	-0,20	{-0,66}
Germany	0,18	{-0,16}	-0,26	{-0,11}	0,50	{0,97}	0,11	{-0,62}
Ireland	n/a	{-0,17}	-1,17	{-0,13}	-1,61	{2,02}	0,37	{-2,02}
Greece	1,25	{-1,02}	-0,79	{0,87}	-0,80	{1,87}	1,09	{-3,09}
Spain	0,75	{-0,57}	0,15	{0,05}	0,04	{0,85}	-0,45	{-1,66}
France	0,18	{-0,29}	-0,18	{-0,17}	0,12	{0,38}	0,09	{-0,68}
Italy	1,23	{-0,17}	-0,38	{0,00}	0,51	{0,69}	0,56	{-1,32}
Netherlands	0,43	{-0,09}	-0,20	{-0,42}	0,25	{1,12}	-0,37	{-0,88}
Austria	0,21	{-0,11}	0,26	{-0,12}	-0,39	{1,06}	0,07	{-0,97}
Portugal	0,90	{-0,83}	-0,23	{-0,28}	0,26	{0,55}	0,28	{-1,28}
Finland	0,18	{0,51}	0,50	{-0,43}	-0,04	{1,48}	-0,51	{-1,47}
USA	n/a	{-0,31}	-1,91	{-0,51}	0,44	{0,19}	-0,62	{-1,00}

Notes: *Forecast values for 2011 and 2012 (for Greece, Portugal, Finland, France estimates start after 2010), ** Forecast values for 2011 and 2012 (for Greece, Portugal and Spain estimates start after 2010), ***For Ireland: 2001-2003 instead of 1999-2003, for the USA: 2002-2003 instead of 1999-2003.
Source: IMF World Economic Outlook (April 2012), author's calculations.

Quite destabilising has been the fiscal behaviour of most EU economies in the course of the ongoing economic crisis. During the whole period from 2008-2012, only four EU countries have displayed a counter-cyclical stance: the Netherlands, Finland, Belgium and also Spain-possibly as a result of the huge fiscal injections to prevent the collapse of its banking sector. In the remaining countries, fiscal policy has been rather restrictive pro-cyclical against a significant plunge of the output gap. Fiscal policy has been particularly restrictive in the three EMU member states currently under the EC-ECB-IMF Troika austerity programmes (Greece, Portugal and Ireland), and in Italy, that have started to apply an austerity programme in response to intensified political pressures as of the early 2010. Bearing in mind the substantial drop of output gap in these countries, it seems that the predicted expansionary impact of fiscal consolidation that represents a core tenet of the 'new consensus' and EU-IMF model has remained more wishful thinking than fact. Driving down wages, destructing welfare state and pursuing super fiscal tightening seems rather to retard demand and GDP growth and to undermine the stability of fiscal finances in the countries concerned. On the other side, negative pro-cyclical fiscal policy has been less substantial in Germany, France and Austria with changes in their cyclical adjusted budget ranging around, or less than 0,1 of GDP.

The fiscal behaviour of the EMU member states has been in striking contrast to that of the US authorities. In the US, fiscal policy in the period from 1999 to 2003 has responded in a considerably expansive way in the face of economy's slowdown occurred in early 2000's. In the next period (2004-2007), with the economy showing signs of recovery, authorities have implemented a moderate fiscal restriction, thereby reacting again in a counter-cyclical manner with the cyclically adjusted fiscal balance increasing on average by 0,44 % of GDP per year. Nonetheless, from 2008 on, with the start of the financial turmoil, the US has ceased its restrictionary fiscal policy and has been driven into expansive, anti-cyclical fiscal measures with an annual average increase in the cyclically adjusted budget deficit 0,62% of GDP. In so doing, the US fiscal authorities have succeeded in halting a further financial meltdown and thus have prevented a deep and prolonged recession; despite the projections for a weakening of economic activity in 2012, mostly due to the ongoing crisis and uncertainties surrounding the prospects and stability of the European economy.

In view of the evidence presented above, it is tempting to conclude that the EU disciplinary fiscal regime has led to destabilising, pro-cyclical fiscal policy responses over the post-Maastricht period. Apart from a relatively short phase in the mid-2000s, the majority of EU countries since the start of the EMU agenda in 1992 have reported a pro-cyclical restrictive, or at best an inadequately proactive, fiscal behaviour. Thus, the SGP fiscal rules and monitoring process have prevented public authorities in many member states from suitably responding to the deflationary pressures generated by the ECB's policy conservatism, hence contributing to the persistent stagnating tendencies of the EMU, and to the widening growth gap between member states and the US and EMU, alike. Arguably, this negative macroeconomic impact is expected to aggravate with the ratification and full operation of the EFC, which makes fiscal regulation even tougher. Nevertheless, the EMU restrictive policy mix is only one factor that explains poor macroeconomic performance in the Eurozone. In what follows, we focus on how it has also contributed to the financialised transformation of the EMU economy and assess the macroeconomic effect of this phenomenon.

7.4 Macroeconomic restriction and the background of disciplinary financialisation in EMU

An immediate consequence of the current restrictive monetary and fiscal framework of EMU is depicted in Table 9 that shows the real GDP annual change and the growth contributions of real aggregate demand for the Euro area-12 as a whole. As it can be seen, exports have become the most important driver of GDP growth in EMU since the beginning of the Euro project in 1999. On the other hand, real domestic demand has remained almost stagnant for the same period. In particular, the contribution of private consumption, that represents the largest component of aggregate demand (amounting to more than half of GDP), has been particularly weak, hardly exceeding 1% of GDP. Admittedly, the slightly increased growth contributions from government expenditure and real investment observed during the 1999-2008 period, have been too small and insufficient to counter Eurozone's general macroeconomic decline. Finally, as a result of the current crisis after 2009 there has been a virtual collapse of domestic demand in the Eurozone with private consumption and investment registering even negative real GDP growth contributions.

Table 9: Real GDP growth and growth contribution of demand aggregates in the Euro area-12

	1992-1998	1999-2008	2009-2012*
Real GDP growth**	1.7	2,0	-0,3
Domestic demand	1,5	2,0	-0,7
Private consumption	0,9	1,0	-0,1
Public consumption	0,3	0,4	0,1
Gross Fixed Capital formation	0,3	0,5	-0,7
External demand	0,3	0,1	0,4
Exports	1,8	1,9	0,5
Imports	-1,5	-1,8	-0,1

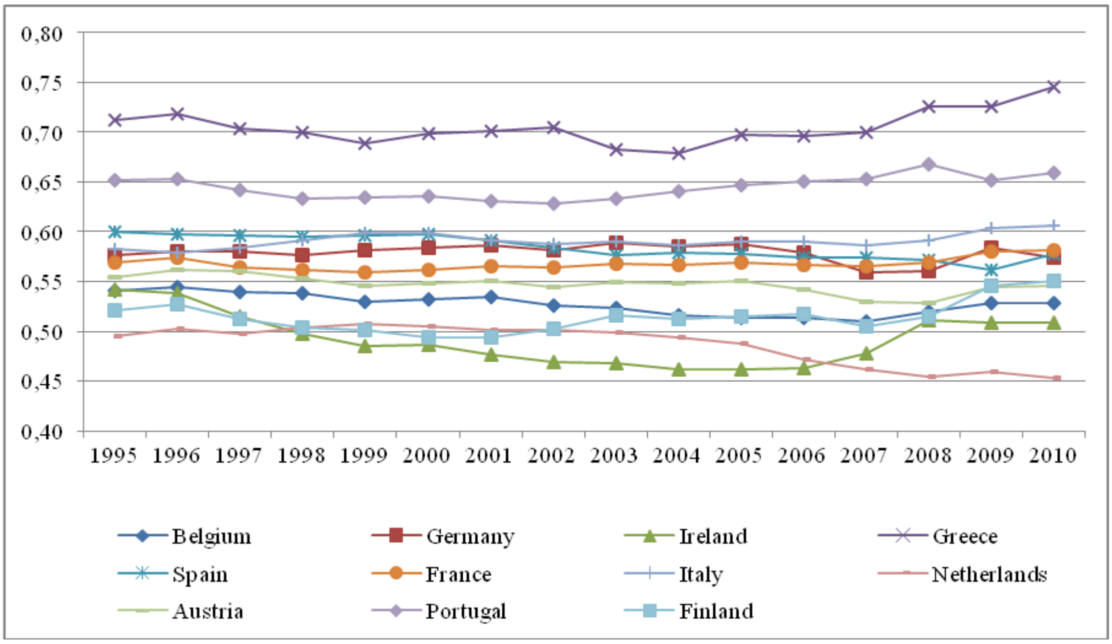
Notes: *Forecast values for 2012, **The sum of demand aggregates may not equal to GDP growth rate in the AMECO data.
Source: AMECO (Spring 2012), author's calculations.

Below the general over-reliance of the Eurozone on external trade and a weak domestic demand, both in the private and in the public sectors, a wide dispersion of consumption and investment patterns among individual EU states can be observed. This diversity largely reflects the differential mode and impact of their integration into EMU and is also indicative of the financialisation trend generated by the disciplinary neoliberal nature of the Eurozone's macroeconomic regime. As discussed in section 6, the interaction of the EMU-wide neoliberal governance mode with divergent national-level accumulation regimes has been central in setting the scene for the outbreak and the severity of the current Euro crisis.

7.4.1 Consumption and households' behaviour

As it is clearly evident in Figure 2, household consumption has remained pretty stable relative to nominal GDP, with the exception of Portugal and Greece where it has risen significantly after the launch of the euro. An important piece of evidence drawn from Figure 2 is, however, that private consumption has been exceptionally high in Greece and has accelerated significantly during the second half of the 2000s. For both states, high domestic consumption has been one of the major by-products of their integration in the Euro area. This is a marked difference with other peripheral states (e.g. Ireland, Spain, and Italy), and especially with core member states. There, private consumption has been a fairly low proportion of GDP with no large fluctuations during the period analysed. Among the group of EU countries with relatively lower consumption levels, Spain and Italy, and to a lesser extent Germany and France, have recorded the highest private consumption-to GDP ratio with the consumption component of GDP reaching around 60%. On the other hand, the Netherlands and Ireland have had exceptionally low household consumption-to-GDP ratios. As indicated below, the above presented differences in consumption patterns have important implications for the expansion of household indebtedness and for investment performance across EMU countries.

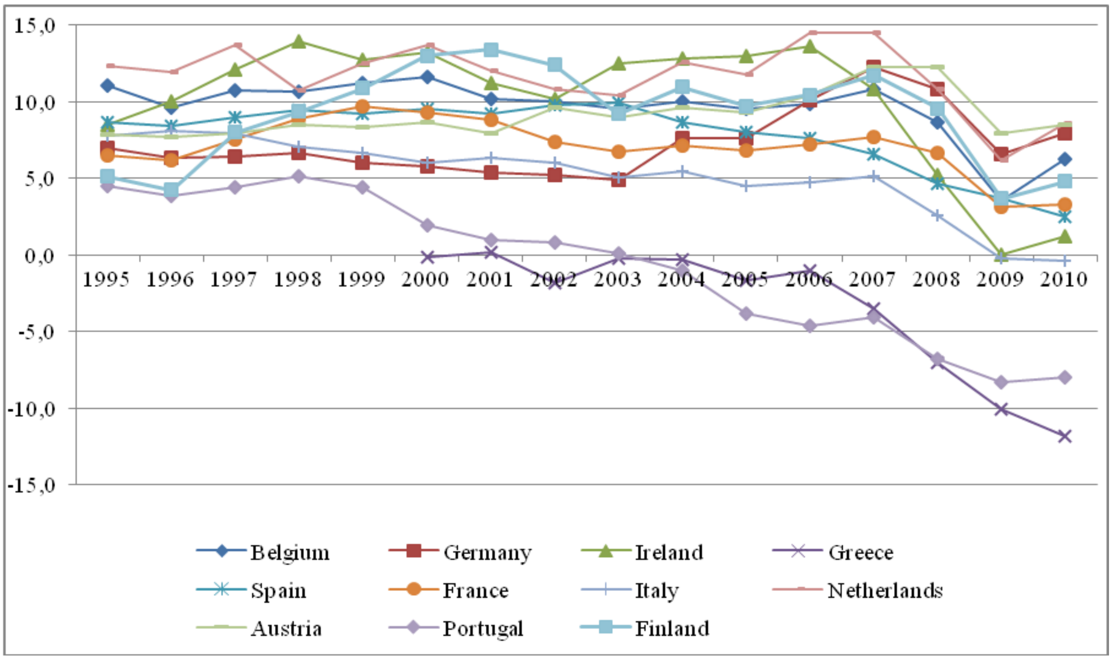
Figure 2: Household Consumption (% of GDP)



Source: AMECO (Spring 2012), author's calculations.

The patterns and trends of consumption are generally depicted in the evolution of savings as a share of GDP (see Figure 3). For both Greece and Portugal, savings as percentage of GDP have turned negative throughout the second half of the 2000s. As a result, high and increasing private consumption has been financed by rising levels of household indebtedness (see below). Savings have also fallen in Spain and Italy since the introduction of the euro. The same also holds even for Ireland from the mid-2000s on. Therefore, households in the periphery have hardly succeeded in maintaining their level of consumption through current income flows. On the contrary, in Germany, the Netherlands and Austria, the proportion of savings in GDP has increased during the second half of the 2000s, in line with weak consumption spending. Real GDP growth in this cluster of EU members has been neither investment- nor consumption-driven, but it has actually come from exports. The contractionary pressures present in the core European countries (particularly in the German economy) have been a fundamental factor for growth stagnation in EMU. Moreover, as indicated in the next sections, they significantly contributed to the increasing macroeconomic imbalances within the Euro area, and ultimately to the current sovereign debt crisis.

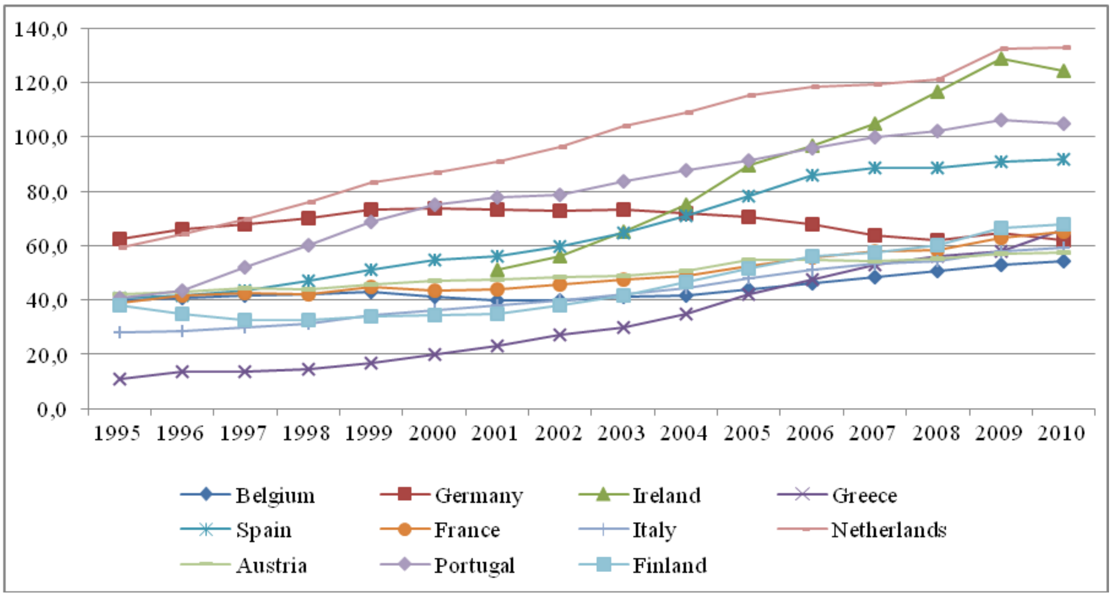
Figure 3: Savings (% of GDP)



Source: AMECO (Spring 2012), Eurostat (May 2012).

Household debt has also increased consistently across most EU countries (see Figure 4). Particularly, the Netherlands, Portugal, Ireland and Spain have seen a major increase in households' debt-GDP ratios, which over the second half of the 2000s has even surpassed 100 percentage points (expect Spain). In Italy, France and Belgium, yet, household debt as share of GDP has grown at a moderate pace during the 1995-2010 period. Nevertheless, the share of debt to income has remained at relatively high levels, whereas for the most part the observed debt accumulation has taken place after the formal operation of the EMU regime. Greece has also reported very high levels of households' indebtedness, i.e. from 11% in 1995 to over 65% of GDP in 2010, mainly fuelled by private consumption boom. Households' indebtedness has declined in only one country in our sample, Germany. In fact, while households in most member states have been accumulating an increasing amount of debt after their accession to the Euro area, German households have managed to decrease the extent of their debt overhang. In Germany, during the 2000-2010 period households' debt has been reduced by more than 10 percentage points of GDP.

Figure 4: Household Liabilities (% of GDP)



Source: Eurostat (May 2012).

The explosion of households' debt loads and the falling saving rates represent reasonably another indication of the disciplinary financialisation of the EU economy associated with the established neoliberal orthodoxy of the EMU. The liberalisation of financial activities, the increasing financialisation of low paid labourers and relatively low real interest rates (especially across the high inflation peripheral countries) in the 2000s, since the ECB pursues an 'one-size-fits all' strategy in the Euro area, has made access to credit easier for a greater number of private households, thereby rising debt-income ratios. Besides, stock market and real estate growth increased financial wealth and provided collateral for consumer loans. Finally, the promotion of new financial products and services, the relaxation of lending requirements and creditworthiness standards and the adoption of new 'high risk' financial practices, such as mortgage debt securitisation and 'originate and distribute' strategies, increased substantially banking lending to low and medium income individuals.

The increase in financial wealth and increasing housing wealth can be clearly observed for several European economies in Table 10 and Figure 5. Specifically, most EU countries have experienced both a stock market and house price boom since 1995, and this trend has been particularly pronounced in the period from the start of the euro to 2008. Consequent on this development is the increase in net financial wealth taken place in most countries. In particular, Spain, Ireland, Greece and the Netherlands with heavily indebted households have registered the most drastic increases in net wealth and rising residential property prices. In France, Belgium and Italy net wealth-income ratios and residential property prices have also drifted upward, reflecting the high levels of private household debt. On the contrary, Germany has been marked neither by major increases in net wealth income nor in residential properties, a development that reasonably may account for the fairly stable wealth-income ratios and residential property prices reported there. Moderate can also be characterised residential property prices in Austria, thereby contributing to the modest levels of household indebtedness observed in this country. The sole exception to this peculiar constellation of financial wealth-driven accumulation of debt is Portugal with no sizeable hikes in residential property prices, despite the increasing household debt.[185]

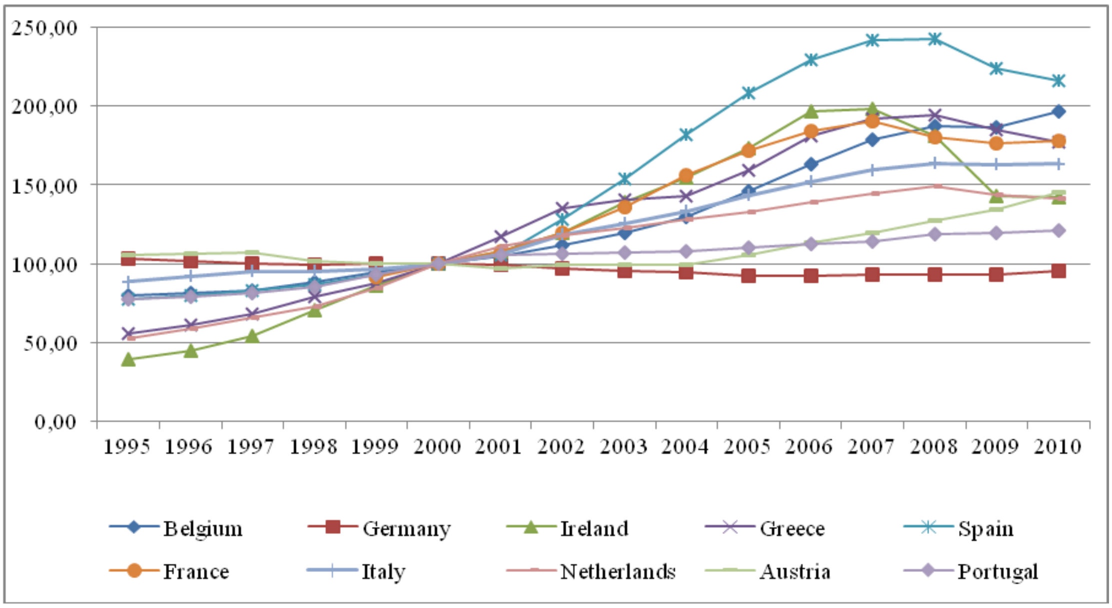
Table 10: Stock market capitalisation and net financial wealth

	Market capitalisation			**Net wealth**		
	1995	2000	2005	1995	2000	2005
Belgium	36,9	78,4	76,5	n/a	n/a	n/a
Germany	22,9	67,3	44,2	541	575	578*
Ireland	38,5	84,0	56,2	n/a	618	775
Greece	13,1	89,1	60,4	n/a	n/a	n/a
Spain	33,1	86,8	85,0	540	646	935*
France	33,2	109,1	82,3	461	547	752
Italy	18,5	69,6	44,7	702	820	936*
Netherlands	85,1	166,3	92,9	369	528	515
Austria	13,6	15,6	40,8	n/a	n/a	n/a
Portugal	15,8	51,7	34,9	n/a	n/a	n/a
Finland	33,7	241,1	107,0	n/a	n/a	n/a

Notes: * For 2004 instead of 2005.
Sources: World Bank (2012), Girouard et al. (2007: p.7) quoted in Hein (2011), author's calculations.

185 For a similar method to depict changes in financial wealth in the Eurozone see Hein (2011).

Figure 5: Residential property prices, Index 2000=100 units



Source: BIS (2012), author's calculations.
Note: #Data refer to residential property prices of existing dwellings in the whole country. For Greece: all flats in Athens and Thessaloniki, for Austria: in Vienna.

Clearly, such wealth-based increases in private households' indebtedness may stimulate private consumption and hence compensate for the contractive effects of the austere policies of the ECB and SGP on demand. Under certain conditions,[186] they may even give rise to a 'finance-led' accumulation regime that, as already mentioned in chapter 1, is embedded in the current financialisation process (see Boyer, 2000). In fact, econometric studies indicate a positive and significant relation between financial and housing wealth and consumption spending (see Onaran *et al.*, 2011). The fact that there is no evidence of a significant change in households' consumption behaviour in EMU may be attributable to several factors (see Stockhammer, 2008). One reason is the growing dependence of several EMU members on capital-based pension systems, in which households invest their savings in capital markets. Since a higher share of income has to be privately saved for investment, this should result in an increase in savings and a fall in consumption spending. Second, mortgages need not be used as collateral for consumer credit, but may induce a residential investment boom. In this respect, the typical cases are Ireland and Spain, where real estate investment became

[186] According to Hein (2011), the conditions for a finance-led growth regime to emerge are a low propensity to save out of financial wealth and/or a strong effect of credit access on consumption.

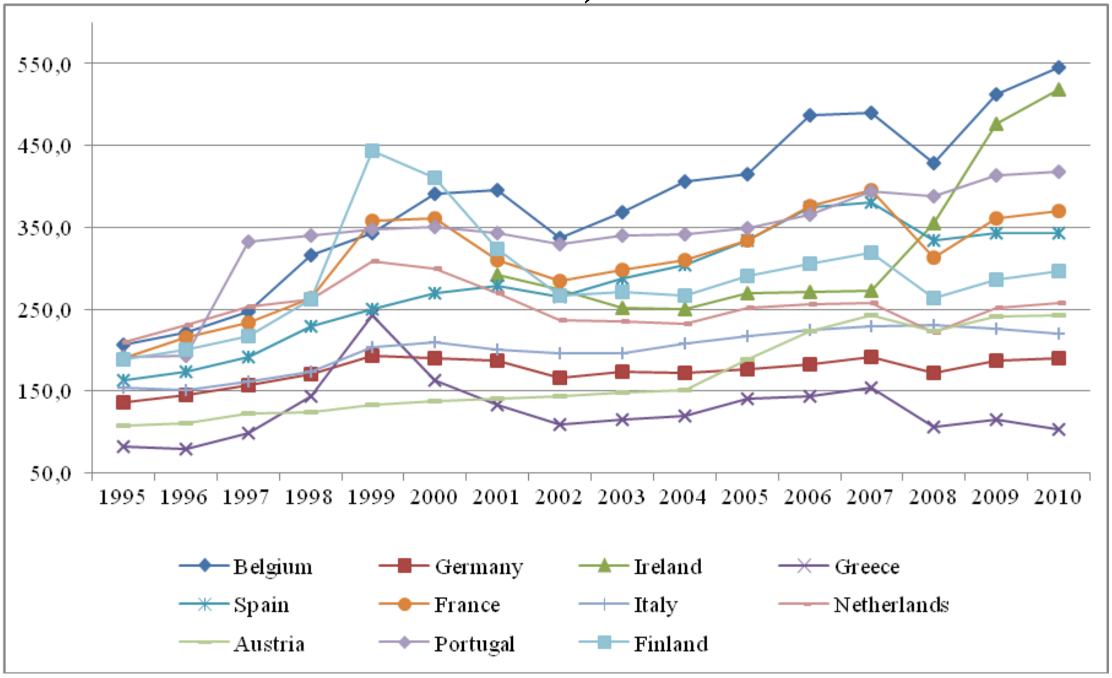
an important engine of real GDP growth since the mid-1990s. However, above all, most EMU economies have experienced a remarkable reduction in the labour income share (see below). Provided that wage earners have typically a higher propensity to consume than profit earners, this might have a depressing effect on consumption demand and thus on consumption shares.

7.4.2 Investment behaviour and capital accumulation

Changes in consumption patterns have also been accompanied by important changes in businesses and households' investment behaviour. Such changes embedded in and reminiscent of the trend of disciplinary neoliberalism and financialisation of the EMU economy have significant negative implications for the financial position of economic units, the terms of financing real investment purposes, the preference over and return of different investment projects. As such, they can be considered as indicative of the observed sluggish real investment activity and weak macroeconomic fundamentals of the Euro area.

Figure 6, for instance, traces the corporate debt to GDP ratios across the 'old' EMU economies. As it is clearly evident, non-financial sector debt has shown a clear tendency to rise significantly across the sample after the introduction of the euro. The most notable growth of corporate debt has occurred in Belgium, Ireland and Portugal, where it has roughly doubled as proportion of GDP relative to the pre-1999 period. Strong growth of corporate debt-to-GDP ratios has also been reported in France and Spain, with non-financial sectors' liabilities exceeding 300% of GDP. On the flipside, in Italy, and to a lesser extent in Austria, non-financial corporations have registered somewhat more modest increases in their financial liabilities. Finland, Greece and the Netherlands have been the only EU member states in the data set which have shown a comparative improvement in firms' financial position after the launch of the common currency. Important is also the evidence that across the Euro area states only Germany appears to have managed to sustain a fairly stable ratio of corporate debt-to-GDP over the period 1999-2010. This evidence is consistent with an economy being in surplus, with high saving rates and depressed levels of real domestic demand, in which growth is virtually spurred by the development of an export-led strategy.

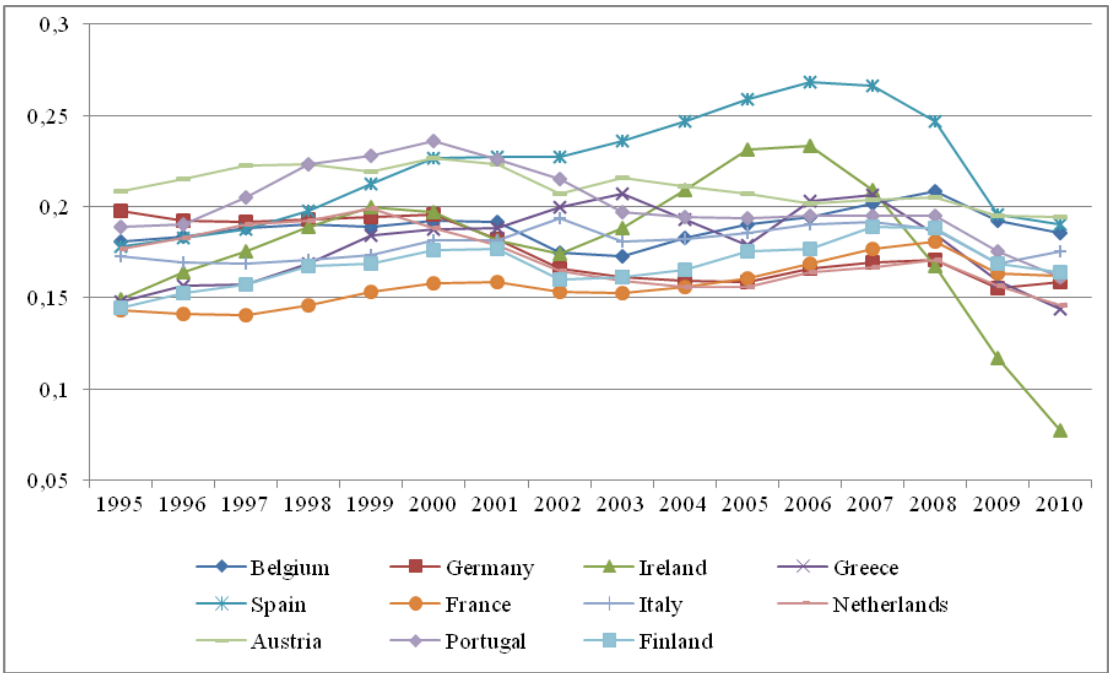
Figure 6: Non-financial Corporations Liabilities (% of GDP)



Source: Eurostat (June 2012).

Certainly, in a modern monetary production economy in which debt and credit money are vital for capitalist production process, easier access to credit and increasing debt ratios could have a stimulative effect on real investment and therefore on growth. Yet, a closer look at the investment activity of non-financial corporations shows that this has not been the case. As presented in Figure 7, investment performance has been poor, with the exception of Spain and Ireland as a result of the real estate investment boom underwent these countries in the 2000s. The weakest investment performance has been registered by the stagnant Germany and Austria, as well as the Netherlands, in spite of the high level of corporate indebtedness observed there. Higher real interest rates, together with deficient private consumption demand, seem to have depressed private sector's profit expectations and hence investment activity. In related fashion, the scale of private investment has been insufficient also in France, Finland and Italy, where on average it has remained stuck at the fairly low level of less than 20% of total GDP. Equally, Portugal, with remarkably strong investment growth during the 1990s, has seen the investment-to-GDP ratio to deteriorate and approach the low EU average since 2001. A better picture of the underlying trend has been reported by Greece with the fixed capital formation-to-GDP ratio increasing particularly until 2004, driven by relatively lower real interest rates and the construction boom preceding the Olympic Games. Nevertheless, despite any observed variation of investment performance, the overall evidence is of a monetary union with generally lacking productive investment, and too small to justify the rapid growth of corporate debt reported in its most EMU member states.

Figure7: Gross Fixed Capital Formation (% of GDP)



Source: AMECO (Spring 2012), author's calculations.

As already underscored, stagnant real investment activity can be attributed to the combination of tight monetary conditions and depressed effective demand arising from the anti-inflation fixation of EMU. At the same time, it might also be a reflection of the increased role of shareholder interests in firms across the monetary union. Hein (2011) underlines two ways by which higher shareholder power may have negatively affected firms' investment in capital stock. Firstly, shareholders demand for higher profit distribution (higher dividend payments) that reduces internal means of finance for real investment. Secondly, management remuneration aligned to stock options and short-term profits that weaken managers' preference for firms long-run expansion and growth via investment in capital stock. Stockhammer (2008) also stresses escalating instability and uncertainty in financial markets as an additional reason behind lacking manufacturing investment. Although it is hard to pin down and estimate these effects with great precision, existing empirical studies seem conclusive to suggest a negative impact of these facets of financialisation on physical investment projects across EMU (see Stockhammer, 2004; and Van Treeck, 2008b).

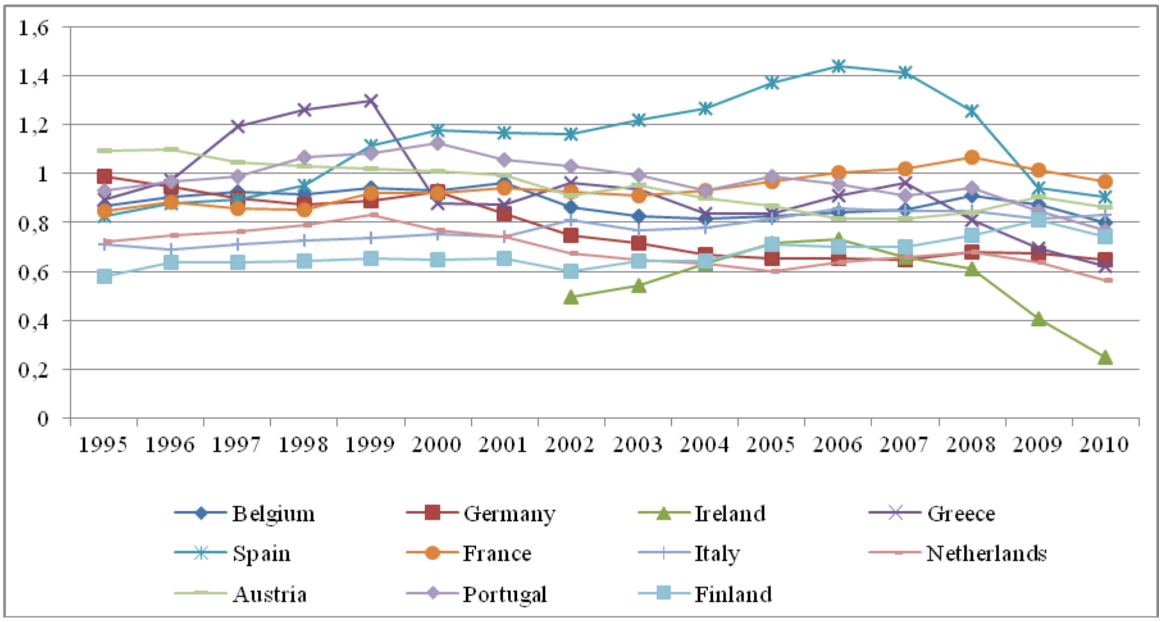
The harmful effect of financialisation (shareholder value movement, increased interest payment and dividend payments) on real investment and capital accumulation can also be illustrated through the changing relation between profits and investment. As can be observed in Figure 8, in most European economies the investment-to-profit ratio has shown a smooth declining trend. The sole exceptions in the data set are, once again, Ireland and particularly Spain, where due to the real estate boom the ratio has exhibited an upward trend which is terminated with the start of the 2008 crisis. France and Finland have also experienced on average a stable ratio in the period 1995-2010. On the contrary, Greece, Portugal and Belgium have generally been characterised by a deteriorating investment-profit ratio with the ratio dropping on average all through the period after the circulation of the single currency. The most notable finding is, yet, the strongly declining tendency of the investment-to-profit ratio in some core economies, such as Germany, the Netherlands and Austria. Particular attention should be given to Germany, the largest EMU economy, where the ratio has remained virtually plunged for the whole period under investigation. As the operating surplus variable used here consists of all non-wage incomes, this trend also denotes a change in the composition of profits, i.e. higher interest and dividends payments. In section 7.5, this phenomenon is elaborated in a more detail.

An important conclusion drawn from the above evidence is that higher profits in EMU do not necessarily translate into higher investment spending. Admittedly, this empirical finding appear to verify a core thesis of many Post-Keynesian economists, i.e. what drives investment is not profits *per se*, but the state of long-term expectations formed in an environment of fundamental uncertainty. Kalecki (1971) even noted that the causation runs in the opposite direction, i.e. private investment usually determines corporate profits.[187] In fact, Stockhammer (2008) reports evidence showing that profits have only a negligible influence on aggregate investment in the EU. Yet, it should be argued that the combination of higher debt ratios, soaring cash payment

[187] Cited in Stockhammer (2008).

commitments and deficient domestic demand is possible to deteriorate firms' liquidity position and profit expectations, hence restricting further investment in real assets. The depressing impact of financialisation on the Eurozone's productive capacity and real investment projects is amplified taking into account the investment behaviour of private households.

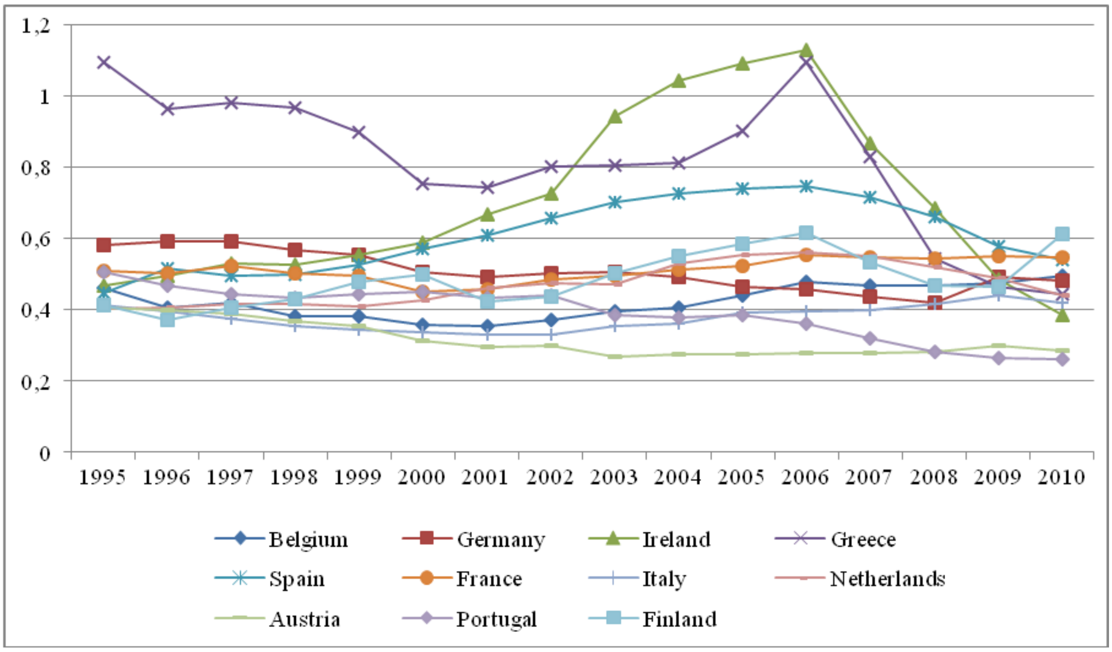
Figure 8: Gross fixed formation (% of operating surplus)



Source: AMECO (Spring 2012), author's calculations.

As already argued, a central aspect of the financialisation trend in EMU is that individuals and households have pumped substantial volumes of mortgage credit over the past decade. The fact that rising household indebtedness has not on average led to a marked growth of private consumption could be attributed to the growth of private residential activity. Figure 9 shows the ratio of residential-to-non residential business investment in selected EU countries from 1995 on. It is clear, that on average in most countries the ratio has not increased; it has rather fallen (e.g. Germany, Portugal, Austria and Greece)-or remained roughly stable (e.g. Italy, France, Belgium, and the Netherlands). The only notable exceptions in the sample are Ireland and Spain, where residential property investment has grown faster than business investment due to the real estate boom these countries had seen in the 2000s. Modest real estate investment has also been reported in Finland, where the residential-to-business investment ratio has reached 60%. Yet, despite such evidence, the general picture that emerges is that residential investment across EMU has stayed stagnant in the period analysed, thus complementing the declining investment activity in productive sector. Consistent with the financialisation hypothesis, increased credit access and household indebtedness seems therefore to have instead fuelled short-term financial investment and stock exchange booms as it is clearly discernible in the data on market capitalisation and stock prices (Table 10).[188]

Figure 9: Residential investment (% of non-residential business investment)



Source: AMECO (Spring 2012), author's calculations.

In total, there seems to be no solid evidence that the move to the EMU and the related trend of disciplinary financialisation have stimulated business real investment. In contrast, data indicate that investment performance in EMU has been unfavourably affected by financial deregulation, stock market growth, increasing market uncertainty and firms' shareholder value orientation. While most economies of the Euro area have generally faced deficient investment in capital stock, this has been especially the case for the largest EMU economy, Germany. The German economy has produced a fairly poor and destabilising macro performance of slow growth, high unemployment rates, sluggish consumption and flat real investment. The German stagnating economy has, thus, set the tone for the entire Eurozone and placed its stamp on the mal-performance

[188] See Stockhammer (2008) for a similar, though more extended, analysis on households' investment activity.

of the monetary union. And, as we explain below, it has also done so in the domain of labour market policies. In fact, the present Euro crisis has at least as much its roots at the pronounced wage moderation that took place over the last decade in Germany, as it does in the presumably 'irresponsible' macro policies of peripheral countries.

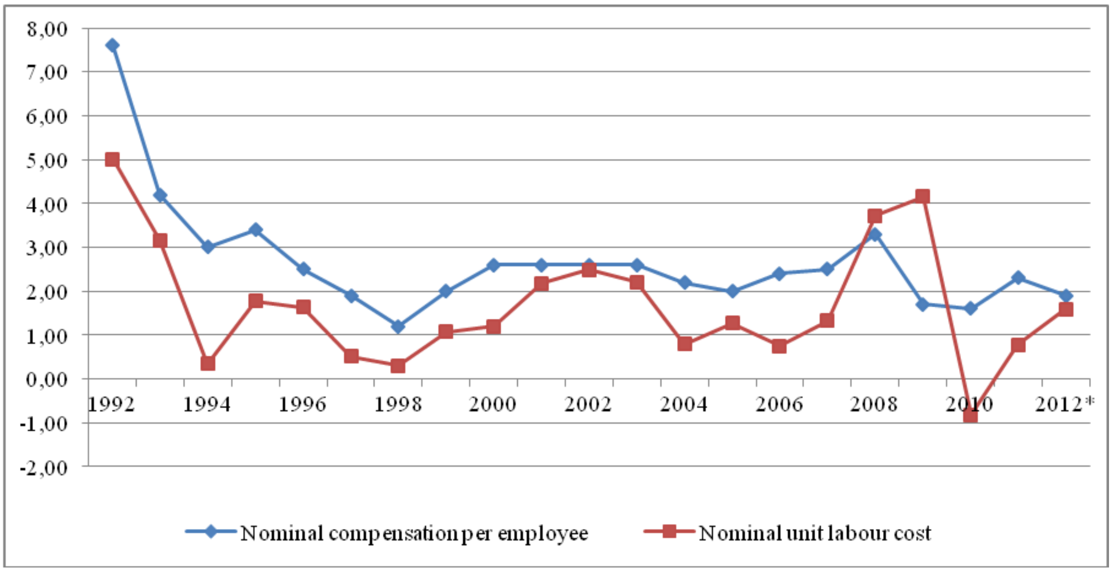
7.5 Labour discipline and wage restraint: the economic root of the crisis

One fundamental pillar of the macroeconomic policy regime of EMU is the promotion of neoliberal labour market reforms. As noted, compressing wage costs and imposing labour market flexibility are important for reinforcing the anti-inflationary credibility of the ECB. Furthermore, given the single monetary policy and the strict constraints on fiscal policy through the SGP and Fiscal Compact, labour market policy is the only lever available to EU members to absorb idiosyncratic economic shocks and improve external competitiveness. Consequently, a considerable downward pressure on wages is expected to have taken place after the adoption of the euro. Recall, this anticipated effect has been a large source of elite support for the EMU agenda and has shaped the vision for EMU to advance Europe's structural position and economic power in the global monetary system.

The impact of EMU on labour market conditions and wage costs can partially be captured by the behaviour of nominal wage growth in EMU. As indicated in Figure 10, after the inception of the EMU programme, nominal wage growth has followed on average a declining trend. The sharpest decline has taken place during the Maastricht convergence period with wage growth plunging from 7,6% in 1992 to 1,2% in 1998. Without doubt, the observed deceleration of wage growth has been propelled by the considerable slowdown of inflation rates that has occurred in the Eurozone as a result of member states attempts to meet the accession criteria to EMU. However, it should be underscored that from 1999 onwards, average nominal wages across the Eurozone has remained virtually sluggish with increases in nominal compensation per employee not exceeding 3%, despite a slight recovery in 2008 and the stabilisation of inflation rates at very low levels (see Table 11).

Nominal wage moderation has been accompanied by a significant contraction of nominal unit labour costs across Europe. As in the case of nominal wages, the rate of growth of unit labour cost has registered the most remarkable drop at the beginning of the adjustment phase of EU economies to the Maastricht regime. From the launch of the euro on, unit labour cost growth has been moderate and has not outstripped 2% per year; except from the periods 2001-2003 and 2008-2009, when labour costs have been recouped somewhat. From the statistical analysis of labour cost developments in the Euro area two further elements come into light. First, the observed slowdown in the rate of growth of nominal unit labour costs has been primarily the outcome of the considerable wage restraint that has prevailed in the same time-period in EMU, given the anaemic productivity growth rates reported in most EU economies. Furthermore, and perhaps more importantly, nominal unit labour cost growth in the Eurozone has been on average less than the 'below, but close to 2%, in the medium-term' inflation rate benchmark of the ECB. This aspect is directly associated with the shift in income distribution away from wages observed in EMU in the same time period (see below).

Figure 10: Nominal compensation per employee and Unit labour cost in the Euro area-12 (annual growth)



Note: *Forecast values for 2012
Sources: European Economy (Spring 2012), AMECO (Spring 2012), author's calculations.

Nominal wages and labour costs have shown a similar pattern of development across the individual Euro area states. As shown in Table 11, most EMU members in the period 1999-2012 have recorded a major curtailment on wage increases compared to the period 1992-1998. Of considerable account is the aggressive wage moderation that has taken place in Germany, where wage growth has been reduced from 3,3% to

1,4%, the lowest rate present in the entire Union. Deflationary wage policies have also been launched in Greece, Spain with the average wage growth falling to 3%, as well as in Portugal where wage growth has shrunk to 2,7%. This can partially be attributed to the stabilisation programmes imposed by the IMF-EC-ECB Troika in the context of the current crisis, but also to the noticeable convergence of inflation rates to the lower EU average. However, nominal wage growth in these EU countries does not appear to have surpassed the average annual inflation rates reported from 1999 to 2012 (expect Portugal). On the contrary, close to the EMU average has been the rate of growth of nominal wages in Austria (2,5%), while somewhat above the average performance of EMU have been wage increases in Italy and Belgium (2,6% and 2,7%, respectively). The Netherlands and Finland represent the unique cases in the sample of countries considered here with annual labour compensation growth well above both the Union average and the rates that they have enjoyed before the start of EMU.

Table 11: Wage policy indicators for the Euro area & USA (average values, 1992-1998 &1999-2012)

	Nominal compensation per employee (annual growth)		Nominal unit labour costs (annual growth)		Labour productivity (annual growth)		Inflation rates
	1992-1998	1999-2012*	1992-1998	1999-2012*	1992-1998	1999-2012*	1999-2012*
EU-15	3,1	2,4	1,8	1,8	1,8	0,8	2,5
Euro area-12	2,8	2,3	1,8	1,6	1,7	0,7	2,1
Belgium	3,1	2,7	1,6	2,0	1,4	0,7	2,2
Germany	3,3	1,4	1,7	0,7	1,6	0,7	1,6
Ireland	4,7	3,7	1,3	1,8	3,4	1,9	2,4
Greece	10,5	3,0	9,6	1,8	0,8	1,3	3,0
Spain	4,9	3,0	3,5	1,9	1,4	1,0	2,8
France	2,4	2,6	0,7	1,9	1,7	0,6	1,8
Italy	3,8	2,6	2,0	2,3	1,8	0,3	2,3
Netherlands	3,0	3,3	1,7	2,2	1,3	1,1	2,1
Austria	3,4	2,5	1,3	1,2	2,1	1,2	1,9
Portugal	8,4	2,7	5,7	1,8	2,6	0,9	2,6
Finland	2,7	3,2	-0,8	1,9	3,5	1,3	2,0
USA	3,5	2,6	1,7	1,9	1,7	1,8	2,5

Note: *Forecast values for 2012.
Sources: AMECO (Spring 2012), IMF Economic Outlook (April 2012), author's calculations.

As far as the trajectory of nominal unit labour costs is concerned, the picture is rather different. As reported in Table 10, most European economies have registered in the EMU era a rise of unit labour costs relative to the period from 1992 to 1998. This evidence may reasonably reflect the significant decline in productivity growth evident in all EMU countries after the introduction of the single currency. The highest growth of unit labour costs has been reported in Finland with the average cost of labour per unit of output growing at an average rate of 1,9% (against -0,8%) per year; and also in France and Ireland, where annual unit labour costs have ascended to 1,9% and 1,8% (compared to 0,7% and 1,3%), respectively. On the other hand, Germany and Austria- despite the sizeable plunge in productivity growth, and some peripheral EU countries (Spain, Portugal and Greece) have succeeded in squeezing labour costs considerably. Particularly in Germany, the largest economy in EMU, nominal unit labour costs have grown at a remarkable low rate (0,7%), causing deflationary risks. Worth mentioning is also the fact that, despite any observed variation, in the majority of EU economies average annual growth of unit labour cost has been accompanied by slower inflation, implying decreasing real unit labour costs. Consequently, nominal wage moderation is also expected to have negatively affected income distribution between labour and capital (see Felipe and Kumar, 2011).

In effect, the distribution of income has been shifted away from workers and towards the broad capital income during the era of disciplinary neoliberalism in EMU. As is listed in Table 12, on average the labour share, given by the compensation per employee as percentage of GDP at factor prices, has declined in all EU members since the early 1980s, but Portugal. The reduction of the wage share to GDP has been more significant in Ireland and Austria, where the labour share has fallen in 1999-2012 by more than 14 and 8 percentage points of GDP at factor costs, respectively, in relation to the period 1981-1990. Remarkable redistribution of income from labourers to capital has also occurred in some countries of the European periphery, e.g. Greece, Italy and Spain, as well as in France, where labour income share has dropped by more than 5 percentage points of GDP. On the contrary, in the remaining core EU countries labour income repression has been somewhat more moderate. In Belgium the adjusted wage share has reduced by 2,1%, in the Germany by 2,9%, whilst in the Netherlands by 3 percentage points.

Table 12: Labour income share (% of GDP at current factor prices)

	1961-1970	1971-1980	1981-1990	1992-1998	1999-2012*
EU-15	71,6	72,9	70,1	67,5	66,1
Euro area-12	71,0	72,4	69,4	66,8	64,6
Belgium	63,6	70,3	70,5	70,7	69,3
Germany	67,9	70,4	67,4	66,7	64,5
Ireland	77,0	75,0	70,4	62,8	56,2
Greece	81,7	66,9	69,4	63,4	61,5
Spain	70,8	72,4	68,3	67,1	62,3
France	74,2	74,3	72,3	67,4	66,8
Italy	72,5	72,3	68,8	64,8	62,4
Netherlands	68,4	73,8	69,0	67,8	66,0
Austria	75,8	76,2	72,2	70,1	64,7
Portugal	71,6	80,3	64,1	66,6	66,5
Finland	74,9	72,8	71,7	66,4	63,1
USA	69,8	69,9	68,3	67,2	65,6

Note: *Forecast values for 2012.
Source: AMECO (Spring 2012), author's calculations.

The picture of an increasingly unequal distribution of income in EMU from the early 1980s on strongly contrasts with the trend of attenuating income inequalities reported in the earlier decades of 1960s and 1970s (Table 12). Reflecting the post-war corporatist integration of labour, active government strategy to target full employment and growing trade union power and activity, throughout these decades, in most EMU member states the labour share has exhibited on average a continuous upward trend. Remarkable is also the evidence that whereas Europe’s post-war development agenda can be described as more balanced and equitable than that of the US, from the early 1990s on the average wage share in Europe has fallen relative to the US economy.

As a result, it appears that the move towards the ‘new Europe’ and the rise of competitiveness discourse has indeed delivered the predicted downward pressures on wage income. This development is, yet, expected to have undermined macroeconomic performance and stability in EMU. On the one hand, provided that capitalists tend to save a greater proportion of disposable income than workers do, a declining labour income share implies a contraction in consumption demand and in capacity utilisation with negative repercussions on real investment and growth; and this is particularly the case for a large and rather closed economy, like the Euro zone. On the other, as noted below, under conditions of liberalised financial markets, wage restraint and increasing inequality has been a major driving force behind the emergence of unsustainable debt-led consumption booms-mostly in the peripheral countries, which eventually triggered the present economic and financial crisis. Finally, and more importantly, the observed wage trends signal the gradual deconstruction of a basic post-war social institution in Europe, i.e. the long-run stability and predictability of labour relations via regular real wage growth, prompted by the disciplinary neoliberal nature of EMU. Plausibly, such a development poses serious risks on the social and political legitimacy of EMU itself. Mediating force of these phenomena, all associated with the trend of financialisation, is the ‘new consensus’ paradigm and the resolute policy quest for a stable and credible euro in international markets.

However, it should be stressed that wage developments and income inequality capture only income distribution between labour and capital as a whole. As pinned down in chapter 3, the rationale for and the particular institutional formation of EMU is to an extent related to the emergence of the global neoliberal order triggered by the fall of the Bretton Woods organisation and the ensuing resurrection and dominance of financial interests in contemporary capitalism. As a result, in the next section attention is attached on functional income distribution developments across EMU. Arguably, evidence for income re-distribution towards the financial sector will be supportive of our socio-political conceptualisation of EMU and the ‘new consensus’ model, as pro-finance institutions.

7.6 Disciplinary financialisation and functional income distribution in EMU

Wage stagnation and changes in personal income redistribution across the Euro area have come along with significant changes in the functional distribution of income, i.e. the division of income between labourers, industry and financial capital. These latter changes can be regarded as denotative of the expanding structural role and economic power of financial capital in the political economy of Europe and reasonably spotlight the role of the trend of disciplinary financialisation unleashed by the anti-inflation and deregulatory bias of the present EMU institutional architecture and policy regime.

Table 13 reports evidence on the evolution of corporate profits to employee compensations ratio. As observed, from the introduction of the euro to 2008, profits have shown a remarkable increase relative to employee compensation in the most EU member states, hence supporting the evidence of a shift of income away from labour to capital indicated above. The growth of corporate profits relative to wages has been particularly pronounced in Austria and Germany, where the profits to compensation ratio has increased on average by 8% and 6%, respectively compared with the prior EMU era. The reason for this development is arguably the labour repressive policies implemented as part of their export-led growth model. Considerable re-distribution in favour of corporate profits has also occurred in other core EMU economies, such as Finland and the Netherlands. In contrast, in Portugal and in France the corresponding ratio has remained relatively stable, despite the contraction of labour costs reported in these countries after the adoption of the common currency. Italy is the only exception of the sample that has shown a minor improvement in labour compensation relative to profits. Given restrained wage growth in Italy, this development could reasonably be attributed to the long phase of economic stagnation and deindustrialisation and the resulting slowdown of corporate profits facing the Italian economy since the 1990s.[189] Interesting is finally the evidence, that despite the deteriorating business climate, throughout the crisis years in Germany, Spain and Belgium the ratio of corporate profits to labour remuneration has kept growing, indicating further wage compression in favour of capital income.

Table 13: Operating surplus (% of employee compensation)

	1992-1998	1999-2008	2009-2010
Belgium	0,40	0,41	0,42
Germany	0,39	0,45	0,46
Ireland	n/a	0,79*	0,66
Greece	n/a	n/a	n/a
Spain	n/a	0,40*	0,43
France	0,32	0,32	0,30
Italy	0,59	0,58	0,50
Netherlands	0,48	0,50	0,50
Austria	0,39	0,47	0,44
Portugal	0,42	0,42	0,41

[189] For a brief assessment on the problems and macroeconomic mal-performance of the Italian economy, see the Euromemorandum (2005).

Finland	0,51	0,54	0,41

Notes: *For 2002-2008 instead of 1999-2008, **2000-2008 instead of 1999-2008.
Source: OECD National Statistics (June 2012), author's calculations.

Furthermore, Table 14 provides data on the development of interest payments relative to non-financial corporation (NFC's) profits, a key macroeconomic indicator that partly proxies the division of capital income between non-financial and financial sector. As it is shown, in Germany, Belgium and Portugal over 1999-2008 the NFC's interest payment has grown as a proportion of retained profits. Yet, in the remaining EU member states corporate interest expenses have fallen with the greatest reduction occurring in Italy (12% of corporate retained profits), and the rest following suit but with considerably smaller reductions. Although at first glance, such evidence could convincingly imply an improvement in the financial position of NFC's after 1999; the data should be interpreted with great precession. First, due to the lack of an extended formal data set, the empirical examination spans mostly the era of 'Great Moderation' that has been characterised by declined macroeconomic volatility, stable inflation and financial conditions and blowing profits. Hence, it only provides a limited, and fairly biased, depiction of NFC's financial performance. In effect, available evidence shows that NFC's interest payments in the Eurozone have followed an upward trajectory well before 1995. Power *et al.* (2003) document that interest payments have increased from the 1960s on, and this trend has been more pronounced between the 1980s and 1990s. Duménil and Lévy (2005) also report evidence that shows a steady increase in NFC's net real interest payments in France since 1975. A more recent empirical study conducted by Epstein and Jayadev (2005) includes 15 OECD countries for the period 1960-2000, removing the effects of inflation, and arrives at similar conclusions with those presented in the study of Duménil and Lévy (2005).

To the extent that interest payments are a major component of financial sector total income receipts, the above presented evidence suggests an increase in cash flows towards finance since the launch of EMU. Moreover, it designates additional channels associated with financialisation that may provide further insight into the deceleration of growth in the Eurozone relative to the prior decades. In fact, econometric evidence is supportive of the hypothesis of the detrimental effect of increasing interest expenses on investment activity. Argitis (2008) in a study that covers six original EMU member states documents a negative impact of the interest income received by financial sector on consumption growth, fixed capital formation and real GDP growth. Stockhammer (2004) applying time series analysis finds that the share of interest in NFC's profits is negatively correlated with real investment in capital stock in France, the UK and US. Additionally, Onaran *et al.* (2011) present a negative effect of net interest expenses of domestic industry on gross private domestic investment for the US in the period 1962-2007. At a similar conclusion arrives also Van Treeck (2008b), indicating a reduction in the internal means of finance as a result of higher financial expenses and therefore the unfavourable impact of financial payments on capital accumulation.

Table 14: Interest and Dividend Payments (% of retained profits)

	1992-1998	1999-2008	2009-2010	1992-1998	1999-2008	2009-2010
Belgium	0,28	0,35	0,32	0,50	0,66	1,04
Germany	0,23	0,24	0,22	0,23	0,24	0,22
Ireland	n/a	0,25*	0,10	n/a	0,96*	1,37
Greece	n/a	n/a	n/a	n/a	n/a	n/a
Spain	n/a	0,30**	0,26	n/a	0,33**	0,36
France	0,47	0,43	0,45	0,58	0,85	1,34
Italy	0,34	0,22	0,12	1,00	1,13	0,90
Netherlands	0,29	0,24	0,19	0,27	0,34	0,32
Austria	0,20	0,18	0,17	0,44	0,57	0,48
Portugal	0,33	0,36	0,38	0,27	0,57	0,91
Finland	0,24	0,22	0,32	0,27	0,43	0,58

Notes: *For 2002-2008 instead of 1999-2008, **2000-2008 instead of 1999-2008.
Source: OECD National Statistics (June 2012), author's calculations.

Table 14 also reports the development of NFC's retained profits as percentage of dividend payments. During the period 1999-2008 dividend payments have clearly increased as a share of profits compared with the 1995-1998 period. Such a trend has been particularly evident in Portugal and France, where the increase has been of about 30 percentage points on average. A considerable boost in the share of NFC's dividend payments in profits has also taken place in Finland, Belgium, Austria and Italy, with the ratio being on average 13% until 17% higher than the one observed before the launch of the euro. The growth of distributed relative to retained profits has, yet, been more modest in Germany and the Netherlands, averaging 24% and 34%, respectively (against 23% and 27% between 1995 and 1998). Despite any observed variation in the ratio of dividend payments to retained profits of NFC's, the general picture that arises is that of a marked expansion of dividend payments in all member states considered. Such evidence plausibly indicates a major change in the composition of payments to capital towards dividends and an increasing shareholder power vis-a-vis management. Consistent with the financialisation hypothesis, European corporations seem therefore to have reduced their internal means of finance for productive investment purposes in favour of the interests of stock-market investors. Sensibly, this preference should have adversely influenced further investment in capital stock and thus the growth potential of the EMU economy.[190]

The aforementioned developments in functional income distribution are partly summed up in Table 15 that depicts the share of the NFC's property income payments in the total economy. As shown, the share of NFC's property payments to nominal GDP has significantly grown in nearly all EU countries under observation. The most remarkable increase in property income payments of NFC's has occurred in Belgium, where it has almost half doubled relative to the pre-EMU era, averaging 16% of GDP over the period 1999-2008. Considerably upwards has also moved the ratio in the two largest EMU economies, i.e. in Germany and France, where on average it has climbed from 11% over 1995-1998 to 15% in the period 1999-2008. More moderate increases have been recorded in Finland, Austria, Portugal and the Netherlands, where the total property income paid by NFC's as a share of GDP has not exceeded 3 percentage points compared with the average level of the period 1995-1998. On the other hand, the only member state, in which the ratio of property income paid by NFC's to GDP appears to have decreased relative to the pre-EMU period, is Italy. Nevertheless, the decrease has been quite slight with the ratio lowering by only 1 percentage point.

[190] See van Treeck (2008b) and Orhangazi (2008) for a discussion of the effect of increasing shareholder power on capital accumulation as well as for relevant empirical evidence.

Table 15: NFC property payments (% nominal GDP)

	1992-1998	1999-2008	2009-2010
Belgium	0,11	0,16	0,19
Germany	0,11	0,15	0,16
Ireland	n/a	0,18*	0,20
Greece	n/a	n/a	n/a
Spain	n/a	0,08**	0,08
France	0,11	0,15	0,17
Italy	0,11	0,10	0,11
Netherlands	0,10	0,11	0,12
Austria	0,09	0,11	0,10
Portugal	0,08	0,10	0,11
Finland	0,10	0,13	0,13

Notes: *For 2002-2008 instead of 1999-2008, ** 2000-2008 instead of 1999-2008.
Source: OECD National Statistics (June 2012), author's calculations.

Plausibly, all of the above empirical evidence suggests an increase in the share of financial income and rentier in the national economies of the EU. In fact, a number of empirical studies indicate that this has been the case. Epstein and Power (2003), for example, in a study that covers 29 OECD countries-including 12 EMU member states, find evidence for a significant growth of rentier income to GDP in all EMU states (but Spain), in the 1980s and 1990s relative to the 1970s and 1960s. In a similar fashion, Stockhammer (2004) investigates the trend, by calculating the property income of the household and non-financial business sector in Germany, Italy, France, the UK and US for the period 1960-1996. In his empirical work, he reports a rise of the rentier income as a share of both the business' and households' income; although in the US and the UK the latter is found higher than in the other three economies. Finally, in a more up to date empirical assessment, Dünhaupt (2010) calculates the rentier income share in the German economy and compares it with that in the US. The presented data indicate a gradual rise of rentier income shares in Germany that began to occur from the start of the 1990s onwards, as a result of the process of gradual financialisation of the German economy.

Overall, the observations presented so far imply that the era of 'disciplinary neoliberalism' and 'disciplinary financialisation' in EMU has been characterised by a shift of income distribution towards capital, a change in the composition of payments to capital that has raised dividend and slightly interest payments and an increase in the financial sector and rentier income. As a result, given the depressing impact of lower wages and higher distribution of profits on aggregate demand, the observed increasing rentier and financial power in EMU may have further contributed to the slowdown of real investment, capital accumulation and growth rates. It should yet be recalled that such a conclusion may not be clear cut. Indeed, relevant scholarship stresses the likely expansive effects associated with income re-distribution in favour of rentier interests. These may arise if rentiers have a high propensity to consume and/or the wealth-based effect on private consumption is strong. These increases in consumption are likely, via the accelerator effect, to boost real investment spending, thereby offsetting the drop in consumption demand due to the declining labour income share and the contraction in real investment due to the reduction of firms' internal means of finance. Hence, rising financial and rentier incomes are probable to support, rather than impede, capital accumulation and growth.

Despite the potential growth stimulating effects of high profit shares, Hein (2011) cites several econometric analyses which indicate that in the long-run domestic demand in most EU states, and in EMU as a whole, is wage-led. This is attributed to the strong negative re-distribution impact on consumption expenditure-because of lower propensities to consume out of profits than out of wages, on the one side; and to the little or statistically insignificant negative influence of labour costs on investment spending, on the other. In addition, wages in most of the Eurozone countries appear to remain as the most important driver of aggregate demand, even if one allows for the effects of the external sector, foreign trade and globalisation-despite the significantly positive impact of income re-distribution on net exports which in some EU economies makes demand to turn profit-led. The empirical evidence thus suggests that declining wage shares prompted by the disciplinary neoliberal and financialised character of the EMU tend to contract demand in most of the EU states considered in the study, and consequently retard economic growth. Though, this is not to argue that this is the only negative development of unequal functional income distribution. As it is explained below, increasing income inequality lies behind the emergence and rapid widening of unsustainable current account imbalances across the Eurozone which undercut its financial and economic stability and eventually paved the way for the outbreak and severity of the ongoing Euro debt crisis.

7.7 Disciplinary financialisation and regional imbalances in EMU: the crisis unleashed

In an unfavourable environment of fast growing income inequalities, shrinking wage shares of total income and deficient productive investment activity, produced by the neoliberal format of the EMU and the related process of disciplinary financialisation, two complementary national accumulation regimes appear to have emerged across the Euro area from the early 1990s on. On the one hand, there is a 'debt-led consumption boom' model, in which the realisation of increasing profits is accomplished primarily by debt-financed consumption demand. On the flipside, there is a 'neo-mercantilist' growth regime, in which exports are an important source of aggregate demand and hence contribute to the realisation of profits. As argued below, such diverging growth regimes have created a quite instable and unsustainable configuration that ultimately gave rise to the 2008 Euro crisis and, at present, challenges the stability and coherence of the monetary union itself (see Hein 2012).[191]

The structural features of both regulation and growth models embedded in the neoliberal-led EMU regime are presented in Table 16. Over the post-1999 period, the 'debt-consumption boom' accumulation regime has been prevalent in Greece, Ireland, and Spain. As already noted, these EU countries have registered booming house price indices and a substantial rise of notional financial wealth. Real estate and financial speculative booms have hence become key sources of financing consumption, thereby causing consumption spending and, more generally, domestic demand to become the most important factors in influencing overall GDP growth. On the positive side, this process has driven the superior growth performance of those countries compared with the Union average. At the same time, though, it has generated growing household debt burdens and hence the private household sector has run negative financial balances. In

[191] The analysis of the two complementary Euro accumulation models under financialisation, as well as the idea of presenting their main macroeconomic indicators in Table 16 is based on Hein (2011) and Hein (2012).

all EMU states of this group, this development has made the private sector as whole to record a negative balance. Finally, in Greece weak public finances have added to the economy's overall negative financial balance. On the other hand, the government sector in Spain has been slightly in deficit, whereas in Ireland the financial balance of the public sector has remained on average positive.

As within an open economy framework the sum of public, private and foreign sector's financial balances for each economy adds up to zero, these EU members had to run current account deficits to balance their domestic deficits out. In fact, as shown in Table 16, all consumption-boom countries in the period 1999-2008 have displayed positive financial balances of the external sector, with Spain and Greece being more in need of foreign capital inflows. With the exception of Ireland, increased domestic spending has boosted import demand and hence the balance of goods and services has negatively contributed to GDP growth. To the development of net export and current account deficits important has also been the role of other relevant economic variables. Particularly, accelerating unit labour costs and higher price inflation, together with an overvalued currency rate, and more importantly Germany's and other core states' strategies of wage restraint, have brought about the appreciation of the real effective exchange rate of the peripheral economies and hence a severe erosion of their export competitiveness in the internal market. Consequently, the EU peripherals relying on a debt-finance consumption growth model have driven their EU partners' exports up, virtually acting as regional growth engines of the EU core (Hein, 2011).

Inevitably, given that the current account of the Eurozone as a whole has been roughly balanced (see EC, 2011), there must have been another group of countries within EMU which consistently has run surpluses. This group comprises the so-called 'neo-mercantilist' EMU economies: Germany, Belgium, Austria, the Netherlands and Finland. A common characteristic of these EU states is the observed large deficits that they run in the financial balance of their external sector. Provided that the government sector has been in each of these EMU economies in deficit (except Finland), surpluses have primarily been the outcome of remarkably positive financial balances of private households, albeit the differences in the level of household indebtedness among them. Corporate sector's financial balance has also been only slightly negative in Germany and Austria, whilst in the other EU states pursuing mercantilist export-led policies has remained in surplus. Hence, private consumption and domestic demand have not had a significant role in driving GDP growth. Especially for stagnant Germany, economic growth appears for the most part to have been driven by export growth. Within the group of surplus EU countries, only Finland has been the country that seems to have relied relatively more strongly on domestic demand between 1999-2008.

Table 13 sheds also light on additional reasons behind the emergence of large export surpluses in the 'neo-mercantilist' Eurozone's countries. One noticeable factor is the low growth rates in unit labour costs as a result of the undertaken labour market reforms. Especially, in Germany and Austria unit labour cost have almost stagnated, whilst in the other surplus EU countries has increased at a rate well below that of the peripheral countries. Besides, the deceleration of the unit labour costs, lower inflation rates, accompanied by smaller changes in the real effective exchange rate, have led to a gradual improvement in price competitiveness and hence a competitive advantage in relation to the debt-led economies. However, strong reliance on this export-led growth model has been to the detriment of mediocre growth performance. Indeed, real GDP growth in all export-led countries has, on average, lagged behind the real GDP growth in the debt-led economies in the period from 1999-2008. This has been especially the case for Germany because of the larger size and the limited openness of its economy relative to the other core economies.

The only member states in our data set that cannot readily be classified either as debt- or export-led economies in the period 1999-2008, have been France, Italy and Portugal. In these EMU members, the private household sector has been in positive, despite the high household's debt-to GDP ratios registered in France and Portugal. On the other hand, in each of these countries the corporate sector financial balance has on average been negative, whereas the public sector has ran negative financial balances. With the exception of France, this has produced a negative overall financial balance for the total economy and therefore a positive financial balance for the external sector. Concerning the growth contribution of the single components of aggregate demand, private and public consumption have been the main drivers of real output growth as a consequence of high government deficit ratios and somewhat moderate or even absent shifts in income distribution against labour. Yet, strong domestic demand growth has been accompanied by higher than the EU average inflation rates, unit labour costs and effective exchange rate that weakened external demand and thus GDP growth and led to soaring external payment deficits particularly *vis-a-vis* the core economies.

Table 16: Basic Macroeconomic indicators and Imbalances for selected Euro area-12 member states, 1999-2008 (average values)

	'Consumption-boom' economies			'Neutral' economies			'Neo-mercantalist economies'				
	Greece	Ireland	Spain	Portugal	Italy	France	Belgium	Germany	Austria	Netherlands	Finland
External sector financial balance*	10,6	1,5	5,2	8,1	0,6	-0,2	-4,0	-3,1	-1,7	-6,4	-5,9
Public sector financial balance	-5,7	0,7	-0,2	-4,0	-2,8	-2,7	-0,4	-2,0	-1,6	-0,4	3,9
Private sector financial balance	-5,1	-2,2	-5,0	-4,1	2,3	3,0	4,5	5,1	3,3	6,8	2,1
Households	-8,0	n/a	-0,2	1,9	3,7	3,8	4,1	5,2	4,4	0,0	-2,3
Corporations	2,9	n/a	-4,8	-6,0	-1,4	-0,8	0,4	-0,1	-1,1	6,8	4,4
Real GDP growth**	3,7	5,1	3,5	1,6	1,3	2,0	2,2	1,6	2,4	2,4	3,2
Contribution of domestic demand	4,5	4,4	4,2	1,8	1,4	2,3	1,8	0,9	1,5	2,0	2,5
Private consumption	2,7	2,5	2,0	1,4	0,6	1,2	0,8	0,5	0,9	0,8	1,6
Public consumption	0,6	0,8	0,9	0,4	0,4	0,4	0,4	0,2	0,3	0,7	0,3
Gross fixed capital formation	1,2	1,1	1,3	0,0	0,4	0,7	0,6	0,2	0,3	0,5	0,6
Contribution of balance of goods & services	-0,8	1,3	-0,8	-0,2	-0,1	-0,3	0,3	0,8	0,8	0,5	0,6
Nominal unit labour cost growth	3,1	4,0	3,2	2,8	2,5	1,9	1,9	0,1	0,8	2,2	1,6
Inflation rate	3,3	3,4	3,2	2,9	2,4	1,9	2,2	1,7	1,9	2,4	1,8
Nominal effective exchange rate growth	0,8	0,7	0,8	0,4	1,1	0,9	0,7	1,0	0,7	0,7	0,8
Real effective exchange rate growth	1,2	3,3	1,8	1,2	1,3	0,7	0,7	-1,4	-0,5	1,1	0,4

Notes: *As percentage of nominal GDP, ** the sum of demand aggregates may not equal to GDP growth rate in the AMECO data.
Sources: AMECO (Spring 2012), IMF World Economic Outlook (April, 2012).

The evolution of regional imbalances in the Eurozone can be summarised with the help of Table 17. As it is illustrated, the 'neo-mercantilist' EMU economies have achieved large surpluses in their current accounts from the 1999 onwards. In contrast, peripheral economies have faced a continuous deterioration of their current account positions, with their external deficits peaking in the year 2008, that is just before the outbreak of the crisis; when in some countries, as in Greece and Portugal, have even jumped to a double-digit percent. Another interesting finding is that the gap between the EU North and South has broadened remarkably since the formal initiation of the monetary union. It appears that an important reason for this development has been the large gains in export competitiveness of the German economy. Indeed, while most EU members with current account surpluses over the Maastricht convergence phase have seen their external balance worsen (Belgium and France), or even turn negative (the Netherlands and Ireland), Germany with a current account deficit during the sub-period 1992-1998 and the first couple of years of EMU (1999-2000), has began to list positive external balances, with the highest recorded in 2007, when it has climbed to 7,5% of GDP. Dominating trading and capital flows within the Eurozone, Germany has hence been the beneficiary of the monetary unification project with respect to the 'consumption-boom' economies and other core economies. Its aggressive policies of wage deflation and labour flexibility have been the main driver behind this outcome.

Table 17: Current account balance (% of GDP) in several Euro area-12 member states

	1992-1998	1999-2008	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Belgium	-4,9	3,0	7,9	4,0	3,4	4,5	3,4	3,2	2,0	1,9	1,6	-1,6	-1,7	1,5
Germany	-0,9	3,1	-1,3	-1,7	0,0	2,0	1,9	4,7	5,1	6,3	7,5	6,2	5,9	6,1
Ireland	2,7	-2,0	0,2	-0,4	-0,6	-1,0	0,0	-0,6	-3,5	-3,5	-5,3	-5,7	-2,9	0,5
Greece	-2,1	-8,7	-5,3	-7,7	-7,2	-6,5	-6,6	-5,9	-7,4	-11,2	-14,4	-14,7	-11,0	-10,0
Spain	-1,1	-5,9	-2,9	-4,0	-3,9	-3,3	-3,5	-5,3	-7,4	-9,0	-10,0	-9,6	-5,2	-4,6
France	1,2	0,5	3,2	1,5	1,8	1,2	0,7	0,5	-0,5	-0,6	-1,0	-1,7	-1,5	-1,7
Italy	1,4	-0,7	1,0	-0,2	0,3	-0,4	-0,8	-0,3	-0,8	-1,5	-1,2	-2,9	-2,1	-3,5
Netherlands	4,6	5,2	3,9	2,0	2,6	2,6	5,5	7,6	7,4	9,3	6,7	4,3	4,2	6,6
Austria	-1,8	1,7	-1,7	-0,7	-0,8	2,7	1,7	2,2	2,2	2,8	3,5	4,9	2,7	3,0
Portugal	-2,7	-9,6	-8,7	-10,3	-10,3	-8,2	-6,4	-8,3	-10,3	-10,7	-10,1	-12,6	-10,9	-10,0
Finland	2,1	5,5	5,3	7,8	8,4	8,5	4,8	6,2	3,4	4,2	4,3	2,6	1,8	1,4

Source: IMF World Economic Outlook (April 2012), author's calculations.

The pattern of international transactions that has emerged for EMU countries after the inception of the common currency represents a rather inconsistent and fragile macroeconomic constellation. Under conditions of unequal income distribution, weak real investment, precarious employment and increasing financialisation of low income populations, the dynamic consumption boom model pursued by many EU peripherals had, on the one hand, to rely on accommodative financial conditions and especially on ever-increasing stock indices and property prices to enable households' collateralised debt. On the other hand, it had been highly dependent on the volition and capacity of current account surplus countries and the global financial system to provide adequate resources to sustain periphery's current account deficits. Correspondingly, the export-led accumulation regime followed by the 'neo-mercantilist' economies had to depend on the capacity of debt-led economies to pump up credit that would, in turn, support the expansion of foreign demand and the development of their export markets (Hein, 2011). Evidently, therefore, a key pre-condition of the functional sustainability of the entire Euro macroeconomic system has been a stable and highly liquid payment system between the Union's core and periphery. Against this background, a sudden collapse of financial confidence and run would be enough to throw into turmoil and ultimately to break down this highly fragile constellation.

The ongoing financial and economic crisis in the Euro area is the result of the partial crumbling of this fragile constellation embedded in the disciplinary neoliberal nature of the Eurozone and its underlying 'new consensus' model. Following a period of excess over-confidence and risk-taking, the collapse of the US sub-prime mortgage market triggered, within a context of deregulated and liberalised international capital markets, a financial market meltdown and a worldwide liquidity crunch. The financial crisis hence essentially disrupted the financing channels towards the deficit economies with fragile external positions, culminating in the break of their debt- led consumption boom model. The financial havoc and the consequent economic downswing in the EU periphery have also severely affected the export-led countries. On the one hand, it has resulted in a collapse of the export market, thereby dragging down aggregate demand. Furthermore, they were affected, because their capital exports towards the collapsing financial markets of the former debt-led economies were drastically devalued by the crisis. The outcome was the EU economy to fall into a profound economic recession (ibid). Yet, the recession has not equally influenced all EU member states. Although ‘export-led’ countries with strong trade linkages to the dynamic emerging market economies, notably China and India, managed to contain the severity and duration of the crisis, in the periphery the crisis rapidly turned into a harsh sovereign public debt crisis that led to an even deeper contraction of the real economy, especially after the introduction of the strict stabilisation programmes of the Troika.

Attributing the present financial and economic crisis in EMU to the emergence of regional imbalances inherent to the disciplinary neoliberal and financialised content of the European monetary project, several important connotations can be drawn. First and foremost, it reveals the practical failure of the current EMU to operate as a project of heightened policy credibility, economic power and autonomy via the embracement and institutional imposition of an EU-wide neoliberal mode of governance. In fact, far from becoming a guarantor of lasting macroeconomic stability and greater structural financial power, that would in the foreseeable future become a thrust power of deeper political integration of Europe as envisioned by its founders and designers, EMU has undermined Euro area’s functional coherency and macroeconomic strength, creating conditions for greater financial fragility and ultimately causing a generalised financial meltdown. Plausibly, the failure of EMU to consolidate a genuine and efficient model of regulation and accumulation does not only jeopardise the stability of the Eurozone and increase tensions between EMU member states; but it seriously risks destabilising the entire global monetary system. The recent projections for a world economic slump in 2012 and the ongoing heated debate on the way out of the crisis and the distribution of adjustment costs within the Eurozone seem to confirm such a claim.

Related to the preceding remark, the analysis sheds light on the structural and systemic nature of the recent crisis, hence elucidating potential alternative options for its management. Indeed, contrary to the mainstream economics and policy debate that regards high and mounting public debt ratios as the primary reason for the Euro crisis, it interprets the crisis as the result of the growth and interconnection of public, private and foreign debt generated by the precise institutional and policy structure of EMU. Given that the surplus of any single sector of the economy must be equal to the other two sectors’ deficit, if an economy maintains a surplus in its current account, then in one other economy the private and/or the public sector has to run a financing deficit (see Hein, 2012; Brecht *et al.*, 2010).[192] This implies that the public sector does not operate in isolation and unsustainable public deficits, rather than the cause, are the result of unsustainable private and external sector balances. In fact, in the three 'debt-led consumption boom' economies of the data set, the private sector has run a deficit. This has been related to public surpluses in Ireland and Spain, or increased by public sector deficits in Greece. The combined outcome of these developments has been high and increasing current account deficits in the three countries which contributed to the outbreak of the crisis (Hein, 2012).

Against this background, the conventional solution to tackle recession through wage deflation and export competitiveness, expressed by policy-makers and advisors in Germany and the EU, can be considered as misleading. First, it is the core countries that are characterised by high wages and strong social policies. In contrast, peripheral economies, for reasons associated with their own distinct historical and institutional background, and their structural position within the European division of labour, are generally characterised by weak welfare states, low real wages and increased income inequality. As a result, it is quite doubtful whether the troubled deficit countries have the economic, political and social potential, and even legitimacy, required to carry out tough labour markets reforms to recoup competitiveness. Besides, placing the burden of adjustment on the troubled deficit countries disregards one chief reason behind the development of unsustainable imbalances in the Eurozone. The real problem has not been excess wage growth in the periphery, but stagnating wages in export-led states, principally in Germany. Even in Greece, where labour compensation growth has been somewhat strong, the rise has not been explosive and has begun from a lower starting point relative to the surplus EU members. Clearly, beggar thy neighbourhood policies pursued by the core countries, like Germany, has been the driving force of escalating structural current account deficits and of the financial and economic collapse in the periphery (Lapavitsas *et al.*, 2010a).

Furthermore, the implementation of the austerity programmes with the aim of ameliorating the competitive weakness and the resultant debt problems facing several peripheral countries is possible to entrench eventually the competitiveness divergence

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[192] External debt can be linked to the domestic components of the economy by using the following accounting identity which holds for any open economy: Public sector financial balance + Private sector financial balance + Foreign sector financial balance = 0.

between the EU South and North in the near future. In fact, the adoption of austerity across the periphery bears the risk to lead to an EU-wide regulatory race to the bottom with the EU core economies resorting to similar deflationary measures to sustain their external competitiveness position. In a heterogeneous monetary union, in which core economies are characterised by a highly competitive industrial structure and efficient production technologies, the implication would be the rapid re-establishment of the competitiveness handicap of the periphery, with current account deficits rising again for the periphery and surpluses amplifying for Germany and the rest industrialised EU economies. Hence, instead of providing a viable solution to the underlying problem, the implementation of an austerity policy package is probable to make it even more thorny and cause even greater economic damage to the whole society, particularly for the poor (Lapavitsas *et al.*, 2010b).

Under the existing institutional architecture and neoliberal policy orientation of EMU, the hope of a rapid recovery of the periphery and the Euro area as a whole seems vain. Provided that deflationary policies have been spread beyond the European south, it is highly doubtful whether the large amount of government and private debt, accumulated since the introduction of the euro, will be drastically shrunk. The most probable eventuality is rather that peripheral countries enter a deflationary spiral with falling prices, downward pressures on wages and a sharp contraction of GDP, thereby worsening debt dynamics and deteriorating the debt servicing capacity. The explosion of the Greek public debt in the aftermath of the launch of the austerity programme, finally leading to a debt relief through a ‘voluntary’ haircut, and the stubbornly high spreads still facing other EMU member states under ‘rescue’ programmes, validates this risk (ibid). EMU fixation with austerity policies is hence threatening to condemn peripheral countries to long-term depression that would deepen the split between rich core and poor periphery. For overcoming the structural sources of the European crisis, ensuring the euro’s survival and promoting sustainable and equitable development, a radical transformation of the EMU institutional layout and policies is thus required. In the final chapter of the thesis, we sketch briefly the main components of an alternative macroeconomic policy regime based on Post-Keynesian principles. We also consider the basic political and social requirements for this alternative policy regime to become dominant and ultimately viable in a current context of financialised global capitalism.

Summary and conclusions

The EU and the Eurozone are today plunged in the most dramatic crisis of their entire history. Without doubt the crisis that unfolded as a financial crisis in the US, spread rapidly under the conditions of highly liberalised and integrated capital markets over major parts of the world and turned into to the sharpest global economic slump since the 1930s, signifies a systemic breakdown of global capitalism. Yet, the acuteness and endurance of the crisis in Europe has unveiled several serious defects of the economic policy regime of EMU. It has become evident that the EU and EMU are governed by inappropriate institutions and policy concepts. In particularly, there is a serious lack of established and efficient mechanisms designed to prevent financial panics and support economic growth. In the meantime, the current public debate and policy framework is still dominated by the economic paradigm that has contributed to the crisis. Proposals for the way out of the crisis ignore its structural sources and responses are still marked by a narrow focus on stiff economic discipline and intensified market liberalisation. Some urgent and exceptional measures applied to stabilise capital markets and revive economic activity have been conceptually flawed and, as reality has proven, incapable of putting European economy on a sustainable growth trajectory. Unless a radical transformation of its institutional setting is undertaken, the Eurozone will continue to be entrapped on an unsatisfactory situation of deflationary stagnation and prolonged instability.

The thesis attempted to provide a deeper understanding of the issues at stake in the context of the ongoing Euro crisis. Abstaining from conventional interpretations which, based on rather economistic premises and definitions, often situate the origins of the crisis on country-specific irrational incentives and misguided policies, it locates it in the backdrop of the long-run developments of global capitalism and in particular in the profound transformations taken place in its social and institutional basis. In this framework, the central argument of the dissertation is that the run-up to EMU, its particular institutional layout, its selective fixation to anti-inflationary and neoliberal policies, its current moment of crisis and the potential for a change are linked to the rise and dominance of a new powerful structure of financial power entrenched in the contemporary global neoliberal order and in its related institutions. More specifically, EMU represents a deep political project that demolishes past institutional frameworks of social protection and economic regulation and coercively standardises neoliberal structures of financial dominance and control in the political economies of its member states. This is attained through the establishment of a concrete governance system that comprises a wide set of legally binding institutional devices and policy commitments. The rationale of this specific mode of regulation is to make EMU countries to become more responsive to the disciplines and imperatives of global finance with a view to stabilising their macroeconomy and advancing their structural position within a highly competitive global monetary order. The institutional rigidity of the EMU governance regime, along with its broad elite support and theoretical legitimisation by a dominant economic policy paradigm-all constituent parts of the hegemony of financial capital, explain the continuing neoliberal tenacity of EMU, while the economic and distributional consequences of its implemented policies are responsible for the current economic and social disorder in the Euro area.

To support the argument, the thesis gave firstly an insight into the profound transformation taken place in the institutional structure of modern capitalism since the 1980s, i.e. the transition from the post-war embedded liberal world order to neoliberal globalisation. We have argued that the root cause of this shift can be found to an array of social, economic, political and ideological forces that modified the competitive and integration structure of world capitalism and then subverted the core institutional and functional pillars of the Keynesian, state-regulated capitalist regime. In this regard, special focus is placed to the erosion of the system of labour market corporatism and discipline, the accumulation crisis of Fordism, the demise of the Bretton Woods order, the rapid growth and internationalisation of financial exchanges and production and the gradual shift of political spectrum to the right. We have also claimed that a direct consequence of the neoliberal restructuring in recent decades was the disruption of the post-war forms of financial surveillance and repression and the concurrent emergence of a new 'finance-dominated' system of socio-economic organisation, today typically encapsulated under the term 'financialisation'. Financialisation is viewed to transform the operation of modern capitalist economies in several ways: (a) it expands the role and influence of finance over the real sector and society; (b) it generates a regime of capital accumulation, in which profit-making increasingly occurs through financial motives and practices and that systematically favours financial capital and fosters its expansion; and (c) it contributes to increasing income inequality and wage stagnation. Given these distinctive aspects of financialisation, the process is often treated as a key explanatory reason for the long phase of stagnant growth, heightened macroeconomic instability, excessive financial fragility and crisis that global capitalism has gone through since 1980s.

On account of the negative impact of financialisation on capital accumulation, economic growth and social conditions, the dissertation also attempted to advance our understanding of the tenacity and even extension of neoliberalism and financialisation in global capitalism. For this reason, we have shifted our attention to institutional and systemic developments associated with the structure and working of modern financial markets. We have stressed that the liberalisation of cross-border financial operations, their centralisation to a selected group of powerful financial elites and their intrinsic proclivity to trigger financial panics and runs have transformed global capital markets into structures of considerable economic power and discipline that practically restricts nation states' policy option to run expansionary economic policies and thus counteract the adverse effects of financialisation. This financial structure of neoliberal discipline draws theoretical rationale and legitimacy on a concrete set of assumptions and tenets of neoclassical economic theory which declare the superior rationality of free market capitalism and the ineffectiveness of alternative, progressive developmental strategies. In the contemporary political economy of neoliberalism both structural and normative elements of financial power find conceptual essence in the notion of economic policy credibility and practical application in the 'new constitutionalism' governance regime. Core intention of this governance approach is to legally confine the political space for contestation and resistance to neoliberal policies in order to improve their credibility in the eyes of financial investors. From this perspective, and in view of the causal relation between neoliberal restructuring and financialisation, we have also considered 'new constitutionalism' as a political project which consolidates a sort of 'disciplinary financialisation'. The phenomenon of 'disciplinary financialisation' is today at heart of the political economy of 'finance-dominated' capitalism. It involves the continuing development and deepening of the structures of financial power and dominance in the economic system of modern day capitalist countries and thus expounds the episode of sustained and persistent economic stagnation, instability and crises observed under neoliberalism.

The political rationale and the particular institutional architecture of EMU are part and parcel of the emerging global forms of power and control prevalent in the era of financial globalisation and disciplinary neoliberalism. In particular, the transition to EMU can be treated as the historically specific outcome of the ambitions and strategic interests of an organic unification of both national and transnational elites in the EU to solve the growing problems in the accumulation process and reconsolidate economic policy and competitiveness in Europe against the background of destructive financial speculation, social upheaval, the transnationalisation of production and the increasing US structural monetary power following the dissolution of the Bretton Woods order. The promotion and peculiar stability of this transnational hegemonic project appears contingent on the requirement of a 'strong euro' strategy and the maintenance of a high degree of policy credibility in global financial markets. This goal is principally pursued via the enforcement of a disciplinary macro policy-mix, that we have dubbed as 'finance-led absolutism and austerity', which places clear-cut constraints on the macroeconomic autonomy of EU states and anchors through legal and constitutional provisions strict economic policies and market-promoting reforms. This self-limiting system of neoliberal regulation in EMU involves the systematic retreat of the welfare-statist tradition of the EU economies and a corresponding tendency of 'disciplinary' convergence toward a market deregulatory, financialised form of capitalism. We have maintained that the underlying trend of 'disciplinary financialisation' in EMU is at the root of the growth deficiency and widening social inequalities in the Eurozone and it also takes prime responsibility for its present crisis.

Whilst the economic policies and exact institutional format of any organisation cannot be readily classified to a particular macroeconomic policy paradigm, the thesis has shown that the theoretical justification of the 'new constitutional' architecture and anti-inflation policy direction of EMU is provided by what today is broadly known in academia and policy-making cycles as the 'new consensus' paradigm. The ideological roots of the paradigm are found in the political philosophy of economic liberalism and *laissez faire* capitalism and its analytical stronghold derives from a mix of monetarist, new Classical and new Keynesian economic policy beliefs, assertions and principles. Briefly summarised, these are: the classical dichotomy between the real and monetary side of the economy; the Walrasian notion of the existence and stability of a supply-side determined, competitive general economic equilibrium; the axiom of the long-run neutrality of money and monetary policy; the presence of institutional market frictions that allow for short-run policy reactions to macroeconomic shocks; the rationality of agents' expectations under ergodic (path independent) dynamic economic conditions; and the short-sighted and opportunist behaviour of democratically accountable policy makers.

The ECB fully embraces the 'new consensus' approach to monetary policy via the formulation and implementation of an overly stability-oriented monetary strategy and the use of a strict quantitative inflation target to impose long-run price stability in EMU. The ECB's inflation targeting policy can be seen as a monetary strategy rooted in the political economy of 'new constitutionalism' and 'disciplinary financialisation', since it entirely focuses on nominal stabilisation purposes, neglects the development of real macro variables, adheres to the 'one instrument-one goal' rule, using the short-term nominal interest rate as the only instrument, abstains from an explicit exchange rate policy, precludes the direct bail-out of national debts; and all these provisions are formally inscribed in a constitutional Treaty. The key objective of this approach is the medium-term stabilisation of the Euro area-wide inflation, the reduction of the euro exchange rate variability and the enforcement of significant labour discipline in EMU, which ostensibly are major preconditions for the formation of a hospitable climate for financial investment and the achievement of rapid and sustainable economic growth. This pro-finance bias of monetary policy under EMU is also reinforced and legally institutionalised through the independence of the ECB from any national or European democratically elected policy bodies and by the ECB's narrow conceptualisation of its policy accountability and transparency. Both arrangements ensure the ECB institutional primacy as enforcer and guardian of anti-inflation monetary abstinence and hence of improved financial policy credibility.

The European fiscal governance framework established by the SGP's and the Euro Fiscal Compact's provisions practically supports the credibility and reliability of the EMU disciplinary and ECB-centric structure. Both institutional pacts attempt to dispel the destabilising impact of policy discretion and welfare statism and essentially eliminate central aspects of political and social intrusion in decision-making agencies. Fiscal discipline is presumably in the interest of long-run price stability as it restrains a rampant expansion of aggregate demand, averts the build up of unsustainable fiscal imbalances and the ensuing danger of an inflationary monetisation of public debts and delivers convergent inflationary expectations. In this manner, it reduces financial risk exposure and mitigates market instability, promoting optimal policy implementation and communication and the operational credibility of monetary authorities to financial markets. At one with the policy goals and social scope of the 'new constitutionalism' project, the enforcement and credibility of sound public finance positions in the Euro area is preserved through legally binding constraints and strict mechanisms of policy surveillance and punishment upon irresponsible EU fiscal units. Reasonably, this form of negative fiscal coordination in EMU represents a system of unequal representation and mirrors a concrete social dominance orientation. It bestows more political weight to technocratic elites that have strong linkages to the financial community and leaves social demands and expectations outside from the process of decision-making and public policy formulation.

The EMU's new constitutional approach to economic policy and institutional reorganisation is also evident in the area of wage and income policy. In the prevailing view, tepid employment and economic growth in Europe is not a problem of deficient aggregate demand but a structural trend directly linked to market rigidities bequeathed by the outdated Keynesian and social democratic management. Consequently, there is no shortage of policy recommendations aimed at dismantling the 'sclerotic' European social model and EMU is seen to act as a stimulant of the long heralded deregulation reforms. The deregulation of European labour markets is a crucial determinant of the credibility of the single monetary policy geared exclusively to price stability, since it reduces the 'inflation barrier' of the EU economy and help investors risk expectations stay anchored at the ECB's target. Furthermore, wage restraint and social benefit cuts prevent harmful fiscal distortions and stimulate business climate and profitability that are indispensible prerequisites for improving Europe's competitiveness in the global economy. In addition, promoting a mobile labour market is essential for assimilating symmetrical and asymmetrical shocks and thereby for making the entire Eurozone an 'optimal currency area'. In spite of the non-legal binding character of these neoliberal proposals, such positions have shaped important policy initiatives and regulations of the EU since the start of the EMU regime and are now a recurring feature of structural adjustment and stabilisation programmes for managing the crisis.

Associating the EMU institutions and economic policies with dominant forms and concepts of social domination of the present neoliberal era and treating the NCM as the policy paradigm that offers theoretical legitimacy to those institutions of power, the dissertation also attempted to build an alternative political economy framework of analysis to accent the social and political underpinnings of the NCM and indentify the precise channels by which reliance on this core premises and policy recommendations culminated in the Euro crisis. The NCM is an institution which essentially reflects the powerful structural position of global finance in modern capitalism since it effectively informs institutions embedded in the political economy of 'disciplinary neoliberalism' and 'new constitutionalism'. In fact, it proposes a strong institutional commitment to deflation, monetary discipline and market deregulation which predominately supports financial interests and market traders consider as credible and reliable policy practice. In this way, the NCM paradigm plausibly operates as a theoretical counterpart to the disciplinary power of global finance and at the same time as a trigger of 'disciplinary financialisation' and huge income redistribution in the countries, in which it has been adopted. Besides its theoretical strength and academic prestige, its ascendancy and growing popularity among policy makers in the EU spring from the consistency of its central policy hints with the European ambition of a credible EMU in global financial markets. Unfortunately, the trend of 'disciplinary financialisation' and the consequent structural inefficiencies brought about by its credible policy suggestions lie behind the socio-economic mal-performance of the Euro area and the eruption and severity of its ongoing crisis.

In so doing, the dissertation also aimed to fulfil a two-fold goal: first, to enrich critical scholarship on EMU and the NCM, particularly that based on Post-Keynesian theoretical premises, which, although flourishing, typically concentrates its critique on the deflationary and destabilising effects of the EMU framework and financialisation, without taking into account key aspects of power rooted in the neoliberal restructuring of global capitalism. Hence, it tends to ignore the role of important structural forces in shaping institution building and determining policy path and performance, as well as the interplay of those factors in explaining regime persistence. Making use of the neo-Gramscian concepts of 'disciplinary neoliberalism' and 'new constitutionalism' and putting forward the notion of 'disciplinary financialisation' the dissertation attempted to fill this gap in the relevant Post-Keynesian studies on EMU and the NCM. Second, the concept of 'disciplinary neoliberalism' also supplements the neo-Gramscian, and critical political economy literature more generally, with an additional conceptual tool of indicating and evaluating particular mechanisms of extending and reproducing financial dominance and hegemony in the contemporary neoliberal world order.

In fact, a constructive synthesis of core theoretical concepts and ideas of both the Post-Keynesian and neo-Gramscian schools seems instrumental in examining and explaining some major tendencies and phenomena of modern capitalism and EMU. In particular, it can offer an explanation of the puzzling persistence of stability-oriented policy strategies despite the deflationary stagnation pressures they create; it designates channels of systemic profit extraction and expanding influence of financial capital and describes the resulting permanent shift in income distribution and inequality indexes. It also explains the increasing episodes of financial fragility, run and crisis, the biased interpretation of the causes and intensity of macroeconomic and financial instability, the cost distribution of the crisis management and resolution frameworks, as well as the particular choice of consolidating and broadening 'new constitutional' institutions and policy strategies, leaving aside alternative ideas and proposals for a more efficient and inclusive reorganisation of capitalism. The root source of this peculiar situation is the incessant quest for improved policy credibility with financial markets consequent on the unhampered mobility of speculative capital and the ideological ascendancy of the NCM model. The unsatisfactory performance and the recent calamity of the Euro area are indicative of the adverse socio-economic impact of the trend of 'disciplinary financialisation' in Europe inflicted by the EMU stability-oriented regime.

The empirical findings seem indeed supportive of the central hypothesis of our thesis that EMU and its basic macroeconomic policy paradigm, the NCM, through the prescribed legal and constitutional mechanisms, institutionalise a sort of 'disciplinary financialisation' in EMU and this development provides a plausible explanation of its poor economic and social performance since its inception. The switch to the common currency has been accompanied by mediocre aggregate growth, higher unemployment rates, frail labour productivity and inordinately low inflation completely inappropriate under conditions of economic stagnation. Meanwhile, the exclusive, but unwarranted, reliance on macro discipline has failed to cement monetary credibility and economic stability to a satisfactory degree. Since 1999, many EU members have seen their fiscal positions becoming very vulnerable. This development, along with lacking productive investment, eroding labour markets and the disproportional and fragile expansion of the financial sector have further waned the dynamism and long-run outlook of the EU economy. And in the final analysis it was the incoherent interaction of the EMU-wide disciplinary institutional form with diversified national accumulation regimes under financialisation that has led to widening regional divergences and mounting payment imbalances and gave rise to the eruption and severity of the present debt crisis. In this disappointing process, the working class has been figured as the *de facto* victim. After the start of the EMU agenda, labour has seen its share to national income to shirk and its institutional power to corrode compared with capital and rentier interests. And it is even more unsettling that EMU officials seem to have not learned their lessons by the recent experience. The assault against labour still persists with even higher intensity as part of the crisis management plan.

Given the above presented theoretical arguments and empirical evidence in the dissertation, it would stand to reason that the founding of EMU can so far be viewed as an unsuccessful political and economic experiment unable to fulfil the central goals and ambitions of its architects and European citizens alike. Far from becoming a pillar of social integration, progress and stability, as originally envisioned, EMU has turned into an instrument of massive redistribution, widened social inequality and systematic deconstruction of the remaining social democratic institutions in Europe. Meanwhile, the monetarist and neoliberal leaning of its macroeconomic governance regime driven by the motivation to gain maximum credibility in financial markets has prevented the formation of a sound Union-wide system of regulation conducive to long-run growth, financial stability and cooperation. This arguably does not only impede the Euro area from fully capitalising the efficiency gains conferred by the euro and promoting its structural monetary power in the current globalised economic environment. More worryingly, as its hitherto failure to reach consensus on a viable crisis resolution mechanism clearly manifests, it also creates the serious danger of becoming a destabilising factor for the entire global economic order. Undeniably, the construction of the Eurozone has been built upon shaky foundations. Its disciplinary institutions and its narrowed-minded anti-inflationary policy stance have begun to transform its current economic crisis into a veritable existential crisis and the adoption of the euro instead of creating a 'zone of monetary stability' is increasingly becoming a source of global financial turbulence.

Against this background, the essential question that arises is whether the entire EMU programme has a future in the years to come. Our answer to this question is a positive one. We consider comments and allegations that forecast the disintegration of EMU in the near future unappealing. EMU is not a politically neutral project that can fail or succeed on the basis of simple economic calculus and rationality. Despite being elite-driven, its foundation is also a major part of the larger process of European integration that in turn rests on the vision of reconciliation and cooperation in Europe. From this perspective, a possible euro collapse seems a prospect with great political cost since it might imply a confidence collapse in the EU and a return to isolationism and national antagonism that today no one desires to risk. In addition, the common currency *per se* has found and still enjoys the wide support of a range of social groups and constituencies that, despite their conflicting interests, see their welfare directly reliant on its existence and stability. It is hence doubtful whether a potential political initiative to break up the euro would find the necessary social consensus to materialise. Finally, the collapse scenario entails grave economic risks. It would involve the fall of the whole European payment system and a continent-wide deep recession with repercussions on the global economy far more disastrous than those following the collapse of Lehman Brothers. Given these considerations, we deem that the central issue is not whether, but at what socio-economic cost will the euro survive; and more essentially, under which political and social circumstances could its economy reach a sustainable growth path.

In our opinion, there are three strategic options available to member states and the EMU for overcoming the crisis and secure the continuity of the euro project; two are feasible within the current institutional and operational context of EMU and one that presupposes a deep restructuring of the character and purpose of the Eurozone. With respect to the first set of alternatives,[193] one is the intensification of austerity through the strengthening of the institutional foundations of EMU and thus through a deeper economic Union. In that case, macroeconomic stabilisation could be obtained through further market deregulation and greater monetary discipline. The other policy option refers to a selective and voluntary exit of the troubled deficit countries from EMU. This choice could reinstate macroeconomic stability via a recoup of lost external competitiveness provided by the powerful tool of floating exchange rate and devaluation. However, we consider both alternatives profoundly counterproductive.

[193] For a similar argument and a detailed presentation of the options available to the EU member states to overcome the current crisis see Lapavitsas *et al.* (2010b).

The former does not solve the institutional and policy flaws of the Eurozone and, as outlined in chapter 7, carries with it the risk of spreading deflation and economic depression across EMU and world economy. The exit option, on the other hand, is problematic as it might set a dangerous precedent for other troubled economies, hence setting off another round of speculative attacks and a succession of exits that would require massive bail-out interventions to preserve EMU's integrity and stability. In addition, does not help set the countries on a path of sustainable economic growth in the near future as it is quite uncertain whether a return to the national currency would sufficiently expand policy space, particularly under conditions of unrestricted capital mobility and excessive financial speculation.

The third option, and the one that we advocate here, refers to a new alternative guideline for economic policies and institutional restructuring of the EU that departs fundamentally from the current new constitutional, finance-led mode of governance in Europe. The transition to and the central building blocks of this regime consider the distinctive features and tendencies of European capitalism and address the key causes of the economic and social mal-performance of EMU and severity of its present crisis. It is based on a sustainable wage-led recovery aimed at stimulating domestic demand, restoring full employment and alleviating social inequalities and it is guided by the principles of democratic participation, social integration and solidaristic cooperation. This new progressive policy package involves structural interventions on and radical reforms in at least five policy domains; in particular, a new monetary policy strategy for the ECB, the reconstruction of the EMU fiscal and income policy framework; the reregulation of the international financial system; and a new pattern of international macroeconomic policy coordination (Hein and Truger, 2010; and Hein, 2012).[194]

Monetary Policy: The ECB has to cease to target inflation in the long-run and shift its focus on real variables which directly contribute to the welfare of the majority of EU citizens. In this regard, targeting full employment with decent real wages and working conditions could be a reasonable monetary policy approach (see Epstein, 2003). For

[194] Although this policy plan draws upon Hein and Truger (2010) and Hein (2012), a similar alternative approach to EMU macroeconomic policy and institutional design has been provided by Argitis (2011), Arestis and Sawyer (2011) and Hein and Stockhammer (2010), as well as by the various annual reports published by the EuroMemo Group of European Economists for an Alternative Economic Policy in Europe.

promoting employment, different versions of accommodative monetary policy can be applied. One approach, advocated by Hein and Truger (2010), is for the ECB to set its policy rate so as to establish in the economy a positive real interest rate below long-run productivity growth. In this manner, financial portfolios will be protected against the corrosive impact of price inflation, but income will be redistributed towards the productive sectors with an expansive impact on productive investment, employment and GDP growth. Another alternative is for the ECB to target a zero real interest rate. This would permit financiers to preserve their real wealth, but not to gain from real growth, ultimately bringing the 'euthanasia of the rentiers' (Smithin, 2004).[195] Apart from a 'parking-it' approach to monetary policy several scholars have also proposed a more proactive stabilisation strategy for central banks. Based on an 'activist' strategy (Moore, 1988; Palley, 2006b; and Fontana and Palacio-Vera, 2007), the ECB should use the interest rate tool more actively to 'fine-tune' economic activity and guarantee strong economic growth and full employment.

Whatever policy approach is selected, this employment-friendly reorientation of monetary policy should also incorporate advanced principles of transparency and accountability and be underpinned by a high level of corporation and democratic deliberation in policy formulation and decision-making procedures. Furthermore, the ECB should accept an explicit responsibility as a 'lender of last resort', guarantee a percentage of national public debts-particularly in the present crisis situation, and be involved together with national governments in an active euro exchange rate policy to promote productive capacity and regulate international current account imbalances. This host of measures will shift the adjustment burdens to macroeconomic imbalances away from working people with additional positive effects on private demand. They will also provide adequate guaranties for the stability and liquidity of the Eurozone's financial system.

[195] A final heterodox policy recommendation is the Pasinetti's 'fair rate of interest' rule. According to the 'Pasinetti rule', the ECB should equalise its real rate to labour productivity growth so that monetary policy becomes distributionally neutral. We do not support this position in that, albeit politically more feasible, it practically leaves the redistributional purpose of monetary policy and its income stimulating potential aside. For a more detailed presentation of the Post-Keynesian monetary policy rules see Hein and Stockhammer (2007).

Fiscal Policy: The discredited SGP and the newly established Fiscal Compact should be abolished. Rather than being subordinated and restricted to protect the counter-inflationary credibility of the ECB, as advised by the 'new consensus' model, fiscal policy should be oriented towards real stabilisation, job creation and the alleviation of social inequalities. The adoption of a 'functional finance' approach to fiscal policy becomes mostly valuable in periods of crisis and deflation given the zero lower bound of the nominal interest rate and the risk of excessive private saving. For maintaining the desired level of aggregate demand in the economy, fiscal spending must focus on public investment in infrastructure, the promotion of a European fund for employment stabilisation, the extension and efficient use of the cohesion funds, the strengthening of research and innovation policies and the financial support of regional development programmes. Beyond stimulating aggregate demand and generating full employment, an ambitious expansionary fiscal pact of this sort would also support private saving and hence restore financial stability. Furthermore, it would promote structural change and encourage the technological modernisation of productive basis across the Europe, hence redirecting economic growth towards an environmentally sustainable trajectory with fairer competitiveness, greater interregional cooperation and social inclusion. Finally, along with this permanent function of public expenditure, fiscal policy should assume a greater role in providing the required stabilisation in the event of temporary demand disturbances. This task can be performed via the operation of automatic stabilisers and the use of proactive anti-cyclical fiscal injections unconditional on the rigid arithmetic deficit rules.

For enhancing EMU's prospects for a wage-led recovery and improving the stabilisation properties of fiscal policy it is vital to have a net of progressive income taxation in place, as well as property taxes and social contributions and transfers. In addition, in the short-run the function and responsibilities of existing institutions, e.g. the European Investment Bank and EMS, should be expanded to fund large scale public investment and social projects and build a sufficient buffer stock for providing the necessary liquidity to the financial sector. In the medium-term, the promotion of sustainable growth and strong public services would necessitate a larger EU budget and in the far-distant future even the creation of a federal budget. These policy measures and initiatives can be financed either through the introduction of new taxes at EU level (a common tax on corporate profits, interest and dividend incomes and capital gains) or directly through national budgets. Regarding the issue of long-term fiscal sustainability, this is not a real world problem, since, as Domar (1944) showed, in an economy with a permanent deficit ratio d and a constant positive growth rate g, the public debt ratio will not blow up but will gradually reach a finite value of size d/g. Therefore, 'the problem of the debt burden is essentially a problem of achieving a growing national income' (ibid; p. 822), rather than one related to the size of national deficit or debt stock. Finally, the coordination of national budgetary policies at the EU level is highly recommended. The founding of a European authority mandated to regulate and monitor the paths of general government spending in each member state to stabilise demand at full employment levels and flexibly combat demand shocks is vital in this respect.

Wage Policy: Wage policy should be in charge of providing nominal stabilisation in the economy, i.e. safeguarding price stability and a balanced current account position. To this end, the growth rate of nominal unit labour cost should equal to the country's inflation rate, i.e. nominal wage growth should correspond to the sum of the ECB's 2% inflation rate ceiling and labour productivity growth. With a constant mark-up in firms' pricing, adherence to this wage-setting rule will leave distribution intact and fiscal and monetary authorities will be free to boost demand and employment without the risk of accelerating inflation. It will also discourage the pursuit of neo-mercantilist practises based on labour cost compression. To deliver this outcome, labour market deregulation must be abandoned and in its place an effective Union-wide mechanism of wage bargaining coordination with strong trade unions and employer organisations must be promoted. Moreover, in a context of increased labour mobility in the internal market, the introduction of a European minimum wage is also important to prevent 'in work' poverty and impede cross-border wage dumping effects which are particularly evident in low-wage sectors. After all, especially in the present-day fragile economic situation, there is also the urgent need for the public sector to restore its function as guarantor of social welfare and employment. For this reason, a strategy of 'employer of last resort' must be implemented. The hallmark of this policy is that governments ensure permanent jobs at a specified wage to unemployed people who cannot be absorbed by the private sector (see Wray, 2007c). As to its macroeconomic effect, this strategy would help greatly to stabilise demand and hence provide a buffer against the risks of deflation and stagnation.

Financial reregulation: The reorientation of macroeconomic policies based on the principles outlined above must be accompanied by a thorough reregulation of the financial sector so as to orient it to what it is supposed to do: to finance real economic activity. This can be accomplished in four ways: First, through measures that increase information and transparency and reduce systemic financial uncertainty, moral hazard and market manipulation. In this respect, off-balance sheet operations, private bank lending to hedge funds and off-shore market activity should be banned. Furthermore, strict banking and financial rules must be put in place to contain excess risk-taking and externalising risk to shadow banking. Second, through incentives that discourage market short-termism, such as the abolition of stock options programmes, additional minimum holding requirements, the prohibition of share buy backs activities and the introduction of a general tax on financial transactions. Thirdly, it is vital that private banks and non-bank financial institutions with systemic relevance to be placed back under public ownership and control with democratic governance and clear economic duty to finance at reasonable terms productive investment and socially desirable projects. Last but not least, the ECB should take over explicit responsibility for the smooth functioning of the financial system in the Eurozone and be explicitly engaged in macro-prudential regulation and supervision to deal with systemic risk and fraud.

Transformation of the global payment system: The successful implementation of a progressive and socially inclusive macroeconomic agenda requires major changes in the structure and operational basis of the world monetary system. These changes must tackle two principal causes of the present global financial crisis: to thwart the build-up of major international macroeconomic imbalances; and tame cross border speculative currency flows. An important step towards a stable financial order would be the return to a cooperative regime of managed exchange rates between major world currencies backed by coordinated foreign exchange interventions and interest rate adjustments to counter speculation and sustain currency parities. To prevent speculative activity and stimulate demand, the system must also contain symmetric adjustment responsibilities in the unfortunate event of mounting external imbalances. Not only countries running sustained payment deficits must be forced to deflate and devalue their currencies, but also surplus economies should be encouraged to fuel domestic demand and appreciate their currencies. In this manner, the risk of a deflationary spiral leading to depression would be staved off and an upward thrust to global demand with further short- and long-term expansionary macroeconomic effects for all participant countries will take hold. What is though more important is that a low interest rate policy strategy aimed at income redistribution and employment generation should be protected through a regulatory review of the financial system on global scale. Tight rules governing the international flows of mobile capital and the establishment of a new global financial supervisory regime, that would heavily rely on selective restrictions on capital flows and cross-border cooperation to police speculation practices, would be a logical step for dealing with the monetary policy dilemma and creating the space for national macro policy autonomy.

Whether this format will become a reality in the near future is, yet, far from sure. Recalling our political economy conceptualisation of macroeconomic dynamics and institutional change, putting an overarching policy package based on a vigorous left-wing economic strategy with greater social solidarity and control over finance on the agenda of the EU and preparing its adoption requires a deep-seated transformation of the fundamental principles of the European socio-economic order. In this process, the configuration and political empowerment of a broad social and economic alliance inspired by progressive ideas, vital for overtly challenging the status quo of neoliberal economics and authoritative decision making in Europe and opening opportunities for its progressive structural transformation, is of profound importance.

A first step towards the formation of counter-hegemonic social coalition could be the intensified cooperation among trade unions in Europe on a new comprehensive vision of social and economic policies along the lines sketched above. Certainly, there are important impediments to the design and implementation of a broad Europeanised trade union strategy. Most crucial are the programmatic differences of ideology within the labour union movement, the institutional diversity of national modes of regulation, and the country- and sectoral-specific socio-economic conditions which call for multi-faceted solutions. Besides, it seems quite hard for employers to consent to the binding supranational agreements underlying a progressive policy programme. Nonetheless, in principle, there are good reasons for trade unionists to agree upon and coordinate their actions around a common base policy plan that goes beyond neoliberalism, e.g. resist wage competition, precarious working conditions and deteriorating social regulations. A broader and intensified political action of the European Trade Union Confederation (ETUC) could arguably be an essential initial stage to distrust and elaborate a credible alternative to EU disciplinary neoliberalism. Under the present crisis conditions, this new policy understanding and plan can also find significant support from fractions of capital that are mostly hit by the financial crisis and neoliberal austerity. This sensibly would provide the necessary baseline of the new broad social configuration centred on the need of subverting the current finance-led European new constitutionalism.

Trade union and broader social mobilisation against disciplinary neoliberalism should be supplemented by an organised political movement with clear and consistent political ideology and purpose to gain greater influence over electoral and governing process. In such a process, the left and other progressive political forces should have a decisive role to play. They have to reassess the criteria of policy action, incorporate relevant theoretical frameworks and transmute the potential for social resistance into a creative political agenda capable of inspiring European citizens towards a progressive institutional reorganisation of the EU. To this end, the left needs a clear break with fractions of the social democracy that are part of the mainstream and still accept new constitutionalist solutions and embrace instead political forces (from traditional social democracy to the radical and communist left) which propose measures fundamentally different from the current EMU regime. Important is also that the political programme of the left should be neither reactive nor defensive, but associated with the vision of a new overall macroeconomic and social policy reorientation relevant and appropriate for Europe as a whole. As part of this strategy, proposals must concentrate on real and practical policy solutions for central issues of economic and social activity which are affordable, can be financed and therefore are attainable within an explicit time-frame. This would allow the formation and development of a more institutionalised approach to the left alternative able to feed into formal governmental policy formulation, hence gaining broad social confidence and support particularly in an era of organic crisis of the European disciplinary order. Finally, for promoting further its attractiveness and dissemination in society, this strategic perspective also requires the close coordination and programmatic convergence among the European left parties and enrichment with policy issues that go beyond macroeconomic policy.

These new forms of political organisation and activity should, in turn, translate into an intensification of political struggle against structures of unequal representation and create the potentials for the democratic and social change in the EU. This issue is crucial because European integration is an open process and therefore its disciplinary character is far from complete. Political mobilisation and confrontation presupposes a renewal of civic responsibility and must occur within a multi-level context involving a broad array of policy interventions. These include active parliamentary participation, public interventions on European policy summits and decision-making cycles, active involvement in forums of political and policy dialogue, regular information exchange and collaboration between related social movement organisations and political parties, as well as more unconventional forms of political action, e.g. participation in protests and demonstrations and campaign-oriented activities. All these activist initiatives are of great significance because they could enlighten, mobilise and organise EU citizens and political parties to act upon the pressing problems facing the European integration project and demand progressive structural reforms.. Additionally, policy mobilisation would arguably provide internal logic and political scope to any potential collective will on radical change in the EU. In this way, it could solidify the counter-hegemonic movement across Europe and avert any possible risk of deformation that could arise as a result of separate or conflicting policy paths and strategies to the EU crisis.

Furthermore, in a highly interconnected global economy, a radical institutional reform of this order in Europe requires considerable cooperation with key actors who shape world politics and power relations to reverse potential adverse repercussions on the structure and function of the world economic system. Central issues that should be addressed include *inter alia* the management of exchange rate and inflation dynamics, the distribution of the burdens of adjustment to financial imbalances, the regulation of hyper-mobile capital, the patterns of production and specialisation on global scale, the system of international policy coordination, the problem of currency competition and monetary power in the global payment system, the issue of regional trade linkages and currency blocs, the type and content of the integration of developing countries into world markets. The task is quite complicated because it requires drastic economic and social transformations at both the EU and world order level and notably confrontation with powerful national and transnational elite formations that have strong interests in the preservation of the current regime. However, in principle, elite hostility to radical change does not rule out the potential for progressive reform in Europe or the chance that this programme will gain broad social support, if a credible political group put it forward. Still, given the structural importance of EMU in the global economy, Europe enjoys a relative degree of policy autonomy which could plausibly support the choice of a progressive policy reorientation. There is also the possibility a radical policy shift of this type in Europe to instigate profound social and economic developments in other regions of the world, thereby becoming a genuine blueprint of global restructuring.

Lastly, and more broadly, strengthening the potential for a counter-hegemonic alternative to the current disciplinary structure of EMU requires a fundamental change in the core values, norms and ethical codes of our lifestyle and political action. Such a change involves a shift away from the logic of competitiveness, personal interest and the economism of finance towards a new long-run perspective on our civilisation that: recognises the limits of economic growth and consumerism; places greater emphasis on ecological restructuring and sustainable economic development; supports fair trade and equitable international economic relations; encourages democratic transparency, public discussion and participation in all decision-making processes; conceptualises the policy credibility criterion on the basis of social welfare and accountability, rather than of financial stability and monetary discipline; and understands security and order beyond the military rationale, panopticism and punishment, embracing topics such as the protection of universal human rights and dignity, peace, social progress, individual and collective responsibility, equality, and democracy. The formation of a new ethical and cultural climate of this sort across Europe would sensibly provide a solid basis for the rise and consolidation of the new patterns of political governance from below. It would also allow this transformative approach to European politics to gain a stronger foothold in states and civic societies, thereby challenging more effectively the present disciplinary neoliberal order in Europe and in rest of the world.

If nowadays the necessary social and political infrastructure for delivering this structural change in Europe is present and/or consolidated enough is an open question. However, some positive progress is visible in this respect. The plan for a Eurozone's banking union; the foundation of a permanent, though conceptually flawed and poorly performed, bail-out mechanism; the spreading social dissatisfaction with the existing system of austerity in EMU and its expression into multiform social mobilisation, the latest electoral gains of radical left parties across some parts of Europe, the increasing international pressures on EMU leaders to take decisive action to solve the Euro crisis and the gradual revival of confidence in demand-led macro policies in academia and policy-making cycles indicate that the prospect of a growth-friendly recovery strategy in Europe is progressively gaining ground. At the same time, yet, there are also some important reasons for pessimism, e.g. the strengthening of disciplinary institutions and neoliberal austerity in EMU, the Irish vote for the EU ‘Fiscal Compact’, the stubborn reluctance of the EU to discuss over the role and institutional status of the ECB, the persistent dominance of the ‘new consensus’ paradigm in economics, the rise of anti-European populism and the unsettling reappearance of old tensions and stereotypes among Europeans. All these contradictory developments clearly suggest that Europe is at the moment at a crucial crossroads which will determine the path and content of its future institutional structure and role. Whether this change will be in the direction of democratisation and progressive reforms or involve the deepening and extension of its current new constitutionalist set up time will show. Whatever happens, the final choice belongs to society and as always is the result of struggle.

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