

# Financial Crisis, Orthodoxy and Heterodoxy in the Production of Knowledge about the EU

Millennium: Journal of  
International Studies  
40(3) 647–673

© The Author(s) 2012

Reprints and permissions: [sagepub.co.  
uk/journalsPermissions.nav](http://sagepub.co.uk/journalsPermissions.nav)

DOI: 10.1177/0305829812442300

[mil.sagepub.com](http://mil.sagepub.com)



**Magnus Ryner**

Oxford Brookes University, UK

## Abstract

Although the financial/Eurozone crisis has profound effects on the EU, European integration scholarship failed to even recognise that there might be a problem. This article argues that this is due to the highly orthodox nature of European integration scholarship and the blind-spots that inhere in its instrumentalist basic code. It makes the case for a heterodox recasting of the production of knowledge about the EU, and argues that post-Keynesian, post-Marxist and neo-Weberian political economy can make significant contributions in that regard.

## Keywords

Eurozone crisis, EU integration theory, financial crisis, political economy

## Introduction

The global financial crisis is a test case for European integration scholarship that poses anomalies that are too heavy for it to bear. As such it raises serious foundational questions about this subfield. The crisis started in 2007 as the contagion-effect of a subprime mortgage crisis in the United States. Given the highly complex packaging of financial products through ‘securitisation’, it became impossible for buyers and sellers to sort out good debt from bad. Revelations about the balance sheets of the most iconic ‘blue-chip’ financial corporations generated such uncertainty and fear in markets that it caused a massive seizing up of economic activity. The destruction of values was such that even the most ardent neoliberal policymakers had to embark on massive nationalisations and state

---

### Corresponding author:

Magnus Ryner, Oxford Brookes University, UK.

Email: [mryner@brookes.ac.uk](mailto:mryner@brookes.ac.uk)

bailouts. The alternative would have been nothing less than the collapse of global capitalism.

It was at first commonplace to contrast European prudence with American profligacy and to speculate about a European ‘decoupling’ from the American economy.<sup>1</sup> Such wishful thinking was quickly abandoned after the collapse of Lehmann Brothers. The exposure of European finance to ‘toxic’ assets became all too evident, not the least in the form of real estate loans in Southern Europe. Attendant crisis measures required to keep the European economy afloat unceremoniously abandoned norms pertaining to state aids, the Growth and Stability Pact (GSP) and European Central Bank (ECB) lending. Following the G20 London Summit in 2009, large injections of liquidity primarily from the US Federal Reserve, massive government deficits and exports to emerging markets that used their accumulated foreign reserves to maintain growth, the recession abated and financial markets were temporarily stabilised. Yet, difficulties of forging EU stability on an uneven recovery and a fragile financial system soon re-emerged as the costs of socialising the losses of ‘too big to fail’ banks transformed the banking crisis into one of public solvency and debt. Eager to return to ‘stability culture’, the EU soon commenced an ‘exit strategy’ from crisis management. Thus, growth rates remained too anaemic to keep fiscal balances in the EU’s periphery within parameters required to maintain confidence in the recently rescued financial sector. As bond yields spread between Germany and the so-called PIIGS (Portugal, Italy, Ireland, Greece and Spain), the very being of the euro was suddenly in question. In a bid to avert regional and global contagion, this prompted further departures from Maastricht norms and understandings. Only after 11th-hour prodding from the International Monetary Fund (IMF) and the United States, a ‘Special Purpose Vehicle’ – that is, an embryonic ‘euro-bond’ – backed up by €750 billion collateral, was established in May 2010: a temporary European Financial Stability Facility (EFSF), to be replaced in 2013 by the European Stabilisation Mechanism (ESM).<sup>2</sup>

None of this stopped the bleeding because of, as widely reported in the financial press, doubts that the measures add up: the conditionality for access to the EFSF and ESM premise a PIIGS export-led recovery. But short of devaluations – that is Eurozone exit – it is unclear how this could be achieved. It implies a huge reduction of unit labour costs relative to Germany, which has virtually no inflation at all. Absent a Eurozone surplus of a magnitude that is unlikely when the US badly needs to consolidate, only counterproductive deflation that will exacerbate fiscal crisis seems to be on the cards. Hence, a succession of inter alia unravelling speculative attacks and EU summits has progressively increased the stakes and costs of crisis management far beyond the capacity of the EFSF. On 26 October 2011, following increased spreads of Italian and – even more ominously, French – bonds, Angela Merkel declared that Europe’s half a century of peace was at risk as it faced ‘the worst crisis since the Second World War’.<sup>3</sup> In November

- 
1. For example, International Monetary Fund, *Spillovers and Cycles in the Global Economy: World Economic Outlook* (Washington DC: IMF, 2007), ch. 4.
  2. Tony Barber, ‘Saving the Euro: Dinner on the Edge of the Abyss’, *Financial Times*, 10 October 2010. Available at: <http://www.ft.com/cms/s/0/190b32ae-d49a-11df-b230-00144feabdc0.html#axzz1mHU6XLkB> (accessed 13 February 2012).
  3. Angela Pop, ‘Merkel Wants “Permanent” Supervision of Greece, Warns of War’. Available at: <http://euobserver.com/19/114075> (accessed 11 February 2012).

2011, the situation was becoming so acute that it threatened the basic functioning of European inter-bank markets. The title feature of the 26 November 2011 issue of *The Economist* on the Eurozone read 'Is This Really the End?'. To *Financial Times* columnist Wolfgang Münchau, the euro only had 'days' before collapse.<sup>4</sup> Only the ECB's injection of €489 billion into European banks averted meltdown, conducted against the backdrop of ECB President Mario Draghi's extravagantly bullish spin on the 9 December Summit agreement on a fiscal pact that may not even have resort to EU law and institutions. Yet, at the time of writing, the underlying imbalances remain. In short, together with three decades of anaemic growth,<sup>5</sup> growing divergence within the Eurozone and a legitimisation crisis expressing itself in increasingly parochial nationalism and the rise of xenophobic politics, misallocation and destruction of values as represented by the financial crisis continue to cast a long shadow over the future of the EU.

What did established European integration scholarship have to say about these developments? What warnings were issued by its most prominent representatives and organs? The answers are: not much, and virtually none. A survey of the discipline-leading *Journal of Common Market Studies* from the time of the inception of the Single Market in 1993 to mid-2009 revealed that, at a generous interpretation, only five of 732 articles (0.7%) had anything of pertinence to say on the topic. The verdict is somewhat qualified by a number of studies conducted by economists affiliated to the ECB itself. But as has been said about the last Bourbon King of France: they have forgotten nothing and learnt nothing. It is no exaggeration, then, to assert that the situation is reminiscent to that faced by International Relations (IR) at the end of the Cold War, which took the discipline almost entirely by surprise.

The aim of this article is, firstly, to offer an explanation for this failure of European integration scholarship to even identify, let alone predict, the developments in question that have such profound implications for the essence of its very object of analysis. The second aim is to propose a recasting, not unlike that of post-Cold War IR, of the production of knowledge about the EU that faces the full implication of the anomaly that the financial crisis represents for integration scholarship.

Concerning the first aim, I argue that European integration scholarship is symptomatic of the dangers of producing the 'worst of two possible worlds' that are entailed in interweaving theory and practice.<sup>6</sup> Significantly, I cut through variations in the complex ecosystem of integration theory to identify their common code that is 'prior to any theoretical rule',<sup>7</sup> and which owes its success primarily to instrumental reasons. Instrumentality is not in and of itself a problem, and the capacity of European integration scholarship to

---

4. Wolfgang Münchau, 'The Eurozone Really Has Only Days to Avoid Collapse', *Financial Times*, 27 November 2011.

5. On a decade-by-decade basis, Eurozone (original 12) average aggregate annual real GDP growth has declined since the inception of the Single Market. It was 2.4% in 1981–90, 2.2% in 1991–2000 and 1.1% in 2001–10. By contrast, during the so-called 'stagflation' decade 1971–80, it was 3.4%. European Commission, *European Economy Spring* (Brussels: DG ECFIN, 2011), Statistical Annex, Table 10.

6. Andrew Hurrell, Opening Panel of the 2011 Millennium Annual Conference 'Out of the Ivory Tower: Weaving the Theories and Practice of International Relations', 22 October 2011.

7. Thomas Kuhn, *The Structure of Scientific Revolutions* (Chicago: University of Chicago Press, 1962), 24, 66–7.

address certain particular questions is not in doubt. Anxious to shroud itself in the aura of science, however, European integration scholarship conflates the particularity of its instrumentalism with general knowledge about the EU. It thereby constitutes itself as an *orthodoxy* that is unduly intolerant towards forms of research on the EU that do not conform. Hence, there are important questions and issues pertaining to the EU that fall outside the borders of admissibility as defined by the code of European integration orthodoxy, and which it cannot address. These could be called 'blind-spots'. It is the argument of this article that the generative mechanisms and emergent forces of the financial crisis are located exactly at such a blind-spot of European integration orthodoxy. To invoke Puchala's oft-cited metaphor about the blind and elephants,<sup>8</sup> one could say that the financial crisis points to a central part of the proverbial beast – perhaps the trunk – that European integration orthodoxy does not touch at all.

Concerning the second aim of the article, I suggest that a more productive *heterodoxy* can be discerned from post-Keynesian, post-Marxist and neo-Weberian political economy. These approaches have the distinct advantage over the European integration orthodoxy that they conceive production, power and hence a significant element of arbitrariness as *co-constitutive of 'integration' itself*. Hence, they are better placed to discern the arbitrary elements that generated the financial crisis, with attendant implications for the Eurozone. It should be stressed that my intent is not to replace one orthodoxy with another. A focus on the financial crisis, which is the special remit of this article, leads one rather naturally to a focus on political economy. That is not to suggest that the heterodox recasting of EU scholarship should be confined to political economy if it is to capture the complexities of power and subjectivity that are entailed in the dynamics of the EU.<sup>9</sup> Indeed, the 'broad church' of heterodox IR that developed after the end of the Cold War would be no bad role model to follow. Nor is it to suggest that current European integration scholarship should be generally abandoned. As stated, European integration adequately addresses *some* pertinent questions about the EU. Furthermore, a heterodox sensibility opens the prospects for recasting aspects of European integration scholarship. I will conclude this article by indicating how this might be done with respect to the understanding of the financial crisis. The institutionalist turn<sup>10</sup> provides opportunities for such recasting; it is a turn that contemporary integration theory shares with post-Keynesian, neo-Weberian and post-Marxist political economy.<sup>11</sup>

- 
8. Donald Puchala, 'Of Blind Men, Elephants and International Integration', *Journal of Common Market Studies* 10, no. 3 (1971): 267–84.
  9. For an excellent comprehensive survey of works in the liminal realm of EU studies that apart from political economy includes works in cultural studies on identity and Foucauldian works on 'governmentality', see Ian Manners, 'Another Europe Is Possible: Critical Perspectives on EU Politics', in *Handbook of European Union Politics*, eds Knud-Erik Jørgensen, Mark Pollack and Ben Rosamond (London: Sage, 2006), 77–95.
  10. For example, James March and Johan Olsen, 'The New Institutionalism: Organized Factors in Political Life', *American Political Science Review* 78 (1984): 734–49; Peter Hall and Rosemary Taylor, 'Political Science and the Three New Institutionalisms', *Political Studies* 44, no. 4 (1996): 936–57.
  11. For example, Ha-Joon Chang, 'Breaking the Mould: An Institutional Political Economy Alternative to Neo-Liberal Theory of the Market and the State', *Cambridge Journal of Economics* 26, no. 5 (2002): 539–59; Michel Aglietta, 'Capitalism at the Turn of the Century: Regulation Theory and the Challenge of Social Change', *New Left Review* (old series) 232 (1998): 41–90.

After specifying my understanding of European integration orthodoxy, the article critiques orthodox treatments of the Economic and Monetary Union (EMU) and the Single Market in financial services and points to the aforementioned blind-spots. The final section presents openings to a heterodox recasting.

## Orthodoxy, Heterodoxy and European Integration

The terms orthodoxy and heterodoxy are derived from the concept of *doxa*. Doxa refers to unconscious, taken-for-granted and habitual assumptions of the world that define the universe of possible discourse in a social meaning system. Related to the concept of *habitus*, doxa determines what resonates and what is recognisable or 'sensible'. Orthodoxy arises when these assumptions are questioned by heterodox challenges to this universality and taken-for-grantedness (heterodoxy is defined simply by way of these terms of negation). In such situations, orthodoxy defends *doxa* by postulating the taken-for-granted assumptions as 'reified abstractions', which deem heterodox challenges as inadmissible and nonsensical. As such, doxa and orthodoxy are intimately wound up in the tendency of social orders to naturalise their own arbitrariness.<sup>12</sup>

Thomas Kuhn can be invoked to defend the proposition that orthodoxy does not only exist in traditional societies or in religious world views, but also – as Bourdieu insisted – in the social-scientific field.<sup>13</sup> While, according to the scientific method, all hypothetical proposition should in principle be subject to falsification, as Kuhn's work on paradigms suggest, this is not the case. The tension between the scientific postulate of general invariance and the principle of verification through observation is well known: all cases of an instance cannot be observed. Science can respond to this tension in three ways.<sup>14</sup> It can give up on the pretension of general science and seek to produce more local knowledge for certain purposes (instrumentalism). Inductivism – the slow development towards generalisation from the building blocks of observed relations – offers an alternative route towards scientific generalisation. But it is liable to empiricist traps, especially the difficulty of establishing correlations as causation. As such it is vulnerable to the charge of relying on assumptions that never are explicated.<sup>15</sup> Hence, the hypothetico-deductive method has become the preferred 'solution'. It departs from axiomatic postulations of general cause–effect relations at the level of abstract theory from which one generates falsifiable hypotheses and infers general causality from observations. The falsification principle is supposed to correct for the obviously problematic starting point of a priori assumptions. But it is this, then, that it never entirely does according to Kuhn, especially since it is not even possible to describe the world scientifically without resort to certain

---

12. Pierre Bourdieu, *Outline of a Theory of Practice* (Cambridge: Cambridge University Press, 1977), 164.

13. Kuhn, *The Structure of Scientific Revolutions*.

14. Ingvar Johansson and Sven-Erik Liedman, *Positivism & Marxism* (Gothenburg: Daidalos, 1993), 19–24.

15. A famous example of this is Kenneth Waltz's defence of his anarchy-model by way of critique of Karl Deutsch. See his 'Laws and Theories', in *Neorealism and its Critics*, ed. Robert Keohane (New York: Columbia University Press, 1986), 27–41.

concepts. As a result, the structure of scientific reasoning remains trapped in certain foundational a priori assumptions – or reified abstractions – that mediate between empirical research and causal claims in a complex reality.

For Kuhn, these foundational a priori assumptions operate at a deeper level than any particular theory. Invoking Wittgenstein, he argues that they are basic and central codes that are prior to any theoretical rule, and they set the terms, or ‘language game’, of acceptable scientific debate *between competing* theories. These codes can be traced to foundational works. But in the phase of scientific refinement (or normalisation), the codes are internalised by scientists at the level of the unconscious and are no longer subject to conscious reflection.<sup>16</sup>

While it might be one step too far to suggest that EU scholarship constitutes a Kuhnian scientific paradigm, it is justified to suggest that EU scholarship has orthodox codes. As Rosamond’s sociology of knowledge of the field suggests, social-scientific knowledge production on the EU has not developed simply as a natural-rational response to external events. While not denying that European integration scholarship constitutes a progressive research programme that has developed in response to such events, Rosamond shows that the *particularity* of these responses is due to a ‘disciplinary politics’ internal to European integration scholarship itself. This disciplinary politics is power-laden and determines what counts as legitimate research and how it should be conducted.<sup>17</sup> Taking this cue from Rosamond, and relating Kuhn to Bourdieu, it can be argued that the orthodox codes of this disciplinary politics shape the habitus of the scientific field and set the terms for what is considered to be serious debate. As such, they prescribe the rules of performance in institutions through which one may project symbolic power of scientific knowledge.<sup>18</sup> Crucially, Kuhn suggests that these central codes become successful because they answer questions that are considered ‘acute’.<sup>19</sup> Acute for whom, one might ask.

In this vein, Alan Milward and Viebeke Sørensen trace the origins of the success of European integration orthodoxy to its appeal to American Atlanticist grand strategy after World War II.<sup>20</sup> It was concerned with consolidating the transatlantic alliance by rendering it organic and enduring through the reconstruction of Europe in the image of America’s particular variant of modernisation. This Atlanticist concept permeated the European Commission, where it has remained ideologically central in no little measure because of the importance assigned to this bureaucracy in the process. Foundational works such as those of Karl Deutsch and Ernst Haas on the politics of integration<sup>21</sup> and

16. Kuhn, *The Structure of Scientific Revolutions*, 24, 46–7.

17. Ben Rosamond, ‘European Integration and the Social Science of EU Studies: The Disciplinary Politics of a Subfield’, *International Affairs* 83, no. 1 (2007): 231–52.

18. Pierre Bourdieu, *Language and Symbolic Power* (Cambridge: Polity Press, 1991), 8.

19. Kuhn, *The Structure of Scientific Revolutions*, 23.

20. Alan Milward and Viebeke Sørensen, ‘Interdependence or Integration? A National Choice’, in *The Frontier of National Sovereignty: History and Theory 1945–1992*, eds Alan Milward, Ruggero Ranieri, Frances M.B. Lynch, Federico Romero and Viebeke Sørensen (London: Routledge, 1993), 1–32. See also Kees van der Pijl, *Vordenker der Weltpolitiek* (Opladen: Leske & Budrich, 1996), 263–90.

21. Karl Deutsch et al., *Political Community and the North Atlantic Area: International Organization in the Light of Historical Experience* (Princeton, NJ: Princeton University Press); Ernst Haas, *The Uniting of Europe: Political, Economic and Social Forces*, 2nd edn (Stanford, CA: Stanford University Press, 1968).

Jacob Viner and Bela Balassa on the economics of integration,<sup>22</sup> themselves based respectively on pluralist systems theory<sup>23</sup> and the neoclassical synthesis,<sup>24</sup> addressed acute questions for this grand strategy and lent it intellectual credibility.

It is worthwhile to reflect on the particular meaning of 'integration' in this context, wound up with this modernisation project of 'modified liberalism'. It rested on a particular managerial-administrative conception of rationality, defined as 'conscious and systematic application of legitimate controls on conduct' aimed not at supplanting the market, but at complementing it in complex industrial society by addressing externalities that had become too salient to ignore in the 1930s. Questions are raised about whether a 'visible hand' of management can be maintained within the strict confines of administration understood as 'formal adaptation of means to ends' without degenerating into the arbitrary exercise of state power.<sup>25</sup> For modified liberalism, the solution lies in the very social differentiation and *integration* studied by sociologists: a rationally organised economy and society generates a complex set of checks and balances that prevents particular ideologies, special interests and protracted social conflicts from dominating in public life. This conception resonates with neoclassical economics and Haas's neo-functional vision of a European state-system that is dissolving through spillover into an overarching polity or multi-level entity: social and political integration has to follow economic integration to maintain order (social equilibrium as opposed to merely economic equilibrium) in a process whereby politics is simultaneously functionally differentiated, integrated and 'supranationalised'.

Two closely interrelated attributes of the basic and enduring code of European integration orthodoxy can be discerned from the foundational works. The first may be referred to as the *disciplinary split*, which, in contrast to IR in general, has made European integration scholarship reticent towards political economy. Classical political economy, which enjoyed a century-long golden age following the publication of Adam Smith's *The Wealth of Nations*, had rested on a unified conception of social science where production and power were seen as co-constitutive in and by social relations. Classical liberal, mercantilist and Marxist political economists had in different ways adopted such a unified conception to explore the foundations of production and distribution of surplus, required to make civilisation materially possible. However, with the disciplinary split in the late 19th century into sociology and economics, the social sciences fragmented. Neoclassical economics severed the link between production and power by summarily abandoning conundrums of value theory and their attendant concerns with classes and surplus. Identifying its concern rather with opportunity costs of 'individuals' and the allocation of scarce resources, economics restricted its view to exchange relations between 'households' and 'firms' abstracted from social structure. Sociology, by contrast, abstracted

22. Jacob Viner, *The Customs Union Issue* (New York: Carnegie Endowment for International Peace, 1950); Bela Balassa, *The Theory of Economic Integration* (London: Allen & Unwin, 1962).

23. For example, David Easton, *The Political System: An Inquiry into the State of Political Science* (New York: Alan A. Knopf, 1953); Talcott Parsons, *The Social System* (London: Routledge & KeganPaul, 1951).

24. For example, John Hicks, 'Mr. Keynes and the "Classics": A Suggested Interpretation', *Econometrica* 5, no. 2 (1937): 147–59.

25. Theodore Lowi, *The End of Liberalism* (New York: W.W. Norton, 1979), 21.

social relations from both production and power. It came to refer to something that existed in the interaction between individuals whose social existence as such was taken for granted, in contradistinction to economic and political relations. The *density* of these interactions determined the degree of orderliness, that is, 'integration', of society and the potential for 'social consensus'. Political science was defined in narrow terms as 'power in government' – an abstraction that displaced social and economic relations to 'the environment' without asking how the 'environment' constrains 'government'.<sup>26</sup>

Continuing to hold on to this disciplinary split, European integration orthodoxy is based on a division of labour between the 'economics' of integration and the 'political sociology' of integration. Drawing in particular on international trade theory, the first postulates a priori that free-market price formation results in Pareto-optimal integration (equilibrium) between supply and demand. Taking this at face value, political sociology reduces the question of integration to one of the density of interaction required to ensure the prevalence of administrative-managerial rationality, as required to ensure social and political equilibrium.

This was a central thread of thought to Robert Cox, who in his critique of neo-functionalism came very close to the mark indeed in specifying the second attribute of the orthodox code, intimately related to the first. It is the product of an amalgam of what he calls the 'natural-rational' approach of liberal idealism and the 'positivist evolutionary' approach of functionalist systems theory. This amalgam postulates a reified-abstract *telos*, where it is assumed a priori that 'economic integration' (the realm of economics) and 'social and political integration' (the realm of political sociology) are expressions of the 'rational' and 'general' potentials that inhere in human nature. These can be distinguished from the arbitrary irrational special interests and the realm of power politics that were associated with the old European (inter-)state system, and which pose the external constraint to the realisation of this potential.<sup>27</sup> The central question *shared by all theories* of the European integration orthodoxy becomes one of whether it is warranted to be 'optimistic' or 'pessimistic' about the prospects of the integration process transcending such old-European (inter-)state politics. Hence, Stanley Hoffman's emblematic 'realist' and 'pessimistic' critique of neo-functionalism did not challenge the terms of the question as he gloomily observed the resurgence of nationalism in Gaullist guise after the Empty Chair Crisis.<sup>28</sup> It is not difficult to see how subsequent debates between 'supranationalists'<sup>29</sup> and 'intergovernmentalists'<sup>30</sup> on the causes and consequences of

26. Eric Wolf, *Europe and the People without History* (Berkeley, CA: University of California Press, 1997), 8–10.

27. Robert Cox, 'On Thinking about Future World Order', *World Politics* 28, no. 2 (1976): 177–81.

28. Stanley Hoffman, 'Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe', *Daedalus* 95 (1966): 862–3, 872–3, 889–901.

29. For example, Wayne Sandholtz and John Zysman, '1992: Recasting the European Bargain', *World Politics* 42, no. 1 (1989): 95–128; Anne-Marie Burley and Walter Mattli, 'Europe before the Court: A Political Theory of Legal Integration', *International Organization* 47, no. 1 (1993): 41–76; Walter Mattli and Anne-Marie Slaughter, 'Law and Politics in the European Union: A Reply to Garrett', *International Organization* 49, no. 1 (1995): 183–90; Nicholas Jabko, 'In the Name of the Market: How the European Commission Paved the Way for Monetary Union', *Journal of European Public Policy* 6, no. 3 (1999): 475–95; Neil Fliegstein and Alec Stone-Sweet, 'Constructing Politics and Markets: An Institutional Account of European Integration', *American Journal of Sociology* 105, no. 5 (2002): 1206–43.



the Single Market plot onto the register of this debate, framed as they are by the regime theory of 'complex interdependence', which itself sought a middle position.<sup>31</sup> 'Political science' theories of 'multilevel governance' that are supposed to break the mould of IR are strikingly caught up in the same terms of debate, based as they are on the aforementioned conventional systems theory, and as such only bring the idea of a 'middle position' between the 'pessimists' and 'optimists' to its ultimate conclusion.<sup>32</sup> Indeed, for Hix, the extent to which the EU can be considered a fully fledged liberal democratic polity hinges on a conception of social cleavages that resonates extremely well with Cox's characterisation of the natural-rational/positivist evolutionary amalgam.<sup>33</sup> European social cleavages are reduced to one between 'utilitarian-rational' transnationalists supporting European integration and 'emotional-affective' nationalists constraining it.<sup>34</sup> Similarly, contrary to what one might suppose, most constructivist scholarship does not challenge this basic code either, as questions of subjectivity tend to be reduced to more or less dense socialisation phenomena that were present in Haas's original work. These are *engrenege* that pertains to the cementing of transnational elite consensus and *politicisation* that pertains to the transfer of mass loyalty and legitimate representative politics to the EU level.<sup>35</sup>

- 
30. For example, Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht* (London: UCL Press, 1998), 'A New Statecraft? Supranational Entrepreneurs and International Cooperation', *International Organization* 53, no. 2 (1999): 267–306; Geoffrey Garrett, 'The Politics of Legal Integration in the European Union', *International Organization* 49, no. 1 (1995): 171–81.
31. Robert Keohane and Joseph Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little Brown, 1977) and Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, NJ: Princeton University Press, 1984).
32. For example, Gary Marks, Liesbet Hooghe and Kermit Blank, 'European Integration from the 1980s: State Centric v. Multilevel Governance', *Journal of Common Market Studies* 34, no. 3 (1996): 341–78; Simon Hix, *The Political System of the European Union* (Basingstoke: Macmillan, 1999); Alberto Alesina, Ignazio Angeloni and Ludger Schuknecht, 'What Does the European Union Do?', *Public Choice* 123, nos 3/4 (2005): 275–319.
33. This is in contrast to the richer conception of social cleavages in comparative European political sociology, based on class, religion, language and most recently gender, see inter alia Peter Mair, ed., *The West European Party Politics* (Oxford: Oxford University Press, 1990); Kees van Kersbergen, *Social Capitalism: A Study of Christian Democracy and the Welfare State* (London: Routledge, 1995); and Gosta Esping-Andersen, *The Social Foundations of Postindustrial Economies* (Oxford: Oxford University Press, 1999).
34. Simon Hix, *The Political System of the European Union*, 138–54.
35. For example, Thomas Risse-Kappen, 'Exploring the Nature of the Beast: International Relations Theory and Comparative Policy Analysis Meet the European Union', *Journal of Common Market Studies* 34, no. 1 (1996): 53–80; Thomas Risse, Daniela Engelmann-Martin, Hans-Joachim Knopf and Klaus Roscher, 'To Euro or Not to Euro? The EMU and Identity Politics in the European Union', *European Journal of International Relations* 5, no. 2 (1999): 147–87, 'Neofunctionalism, European Identity, and the Puzzles of European Integration', *Journal of European Public Policy* 12, no. 2 (2005): 291–311; Martin Marcussen, 'The Dynamics of EMU Ideas', *Cooperation & Conflict* 34, no. 4 (1999): 383–411; Jeffrey Checkel, "'Going Native" in Europe? Theorizing Social Interaction in European Institutions', *Comparative Political Studies* 36, nos 1/2 (2003): 209–31; Michael Zürn and Jeffrey Checkel, 'Getting Socialized to Build Bridges: Constructivism and Rationalism, Europe and the Nation State', *International Organization* 59, no. 4 (2005): 1045–79; Ernst Haas, 'Does Constructivism Subsume Neo-functionalism?', in *The Social Construction of Europe*, eds Thomas Christensen, Knud-Erik Jørgensen and Antje Wiener (London: Sage, 2001), 22–31; Ernst Haas and Peter Haas, 'Pragmatic Constructivism and the Study of International Institutions', *Millennium: Journal of International Studies* 31, no. 3 (2002): 573–601.

## Money and Finance in European Integration Orthodoxy

It is with reference to this code, then, that the European integration orthodoxy has made sense of money and finance in Europe, such as the formation and implication of the EMU and the creation of a single market in financial services.<sup>36</sup> Consequently, this orthodoxy has departed from a priori assumptions that made it unable to see the signs of the developing crisis at the outset.

Following the intellectual division of labour of the disciplinary split and the neoclassical synthesis, the economics of integration has made excessive a priori assumptions about the stability of monetary and financial integration, departing as it does from equilibrium models. As such, the economics of integration offers in large measure highly specialised elaborations on one aspect or the other of the two key neoclassical theories of money and finance, namely the efficient market hypothesis and the theory of sound money. Both of these see integration of financial and money markets as no different from, and as a logical extension of, the Pareto-optimal case for free trade.

This line of reasoning is clear in the Cecchini, Padoa-Schioppa and Sapir Expert Reports, which the European Commission established to provide the intellectual point of reference for, respectively, the 'Europe 1992' Single Market, monetary integration based on 'sound money' (ultimately leading to the Maastricht design of the EMU), and the Financial Services Action Plan (FSAP) of the Lisbon Agenda.<sup>37</sup>

These depart from the analytical model initially developed by Bela Balassa to justify the elimination of tariff and non-tariff barriers (based on the principle of 'mutual recognition') to create an integrated European market. According to these, the economies promised by the Single Market – to be realised inter alia through optimal allocation of factors of production, economies of scale, technological development, competition and learning – would be facilitated by the sturdy macroeconomic framework of a monetary union. The common currency would reduce exchange rate uncertainties and transaction costs. A macroeconomic framework based on maintaining price stability and fiscal balance – as institutionalised by an independent ECB and the GSP – would increase credibility in free and therefore efficient financial markets. Such markets would minimise costs of capital and allocate resources according to their optimal utilisation, especially clearing up lock-in effects in existing industries and providing resources for high-tech investments.<sup>38</sup> Lower rates of interest and transaction costs, in a context of increased competition, would provide higher rates of welfare-generating investments and innovation. These would be further induced by the liberalisation of labour markets, welfare systems and taxation regimes that in part would be the result of the discipline exerted by

36. Ninety-five articles (or 13%) were on the EMU and 27 (or 3.7%) were on financial services and its governance in the *Journal of Common Market Studies* between 1993 and 2009.

37. European Commission, *Europe 1992: The Overall Challenge*, SEC 88 (524) Final, 13 April (Brussels: The Commission of the European Communities, 1988); Tomasso Padoa-Schioppa *et al.*, *Efficiency, Stability and Equity: A Strategy for the Evolution of the Economic System of the European Community* (Oxford: Oxford University Press, 1987); André Sapir *et al.*, *An Agenda for a Growing Europe: The Sapir Report* (Oxford: Oxford University Press, 2004).

38. For example, Philipp Hartmann, Angela Maddaloni and Simone Manganelli, 'The Euro Area Financial System: Structure, Integration and Policy Initiatives', ECB Working Paper 230 (2003): 7.

the strict macroeconomic regime and in part induced by Lisbon Process Best Practice (the Open Method of Coordination). The outcome, as stated in the Lisbon Agenda, would be a more flexible and mobile labour force, which can be better deployed with the new investments. The overall result would be faster growth, better profitability, more employment and in time higher wages. The United States is explicitly seen as the role model with its flexible labour markets and highly capitalised and sophisticated 'deep' and liquid financial markets, which are seen as explaining the growing 'productivity gap' between the US and Europe.

Of course, the economics of integration currently insists that it is possible and desirable to accommodate the financial crisis in a much more parsimonious way within its framework rather than through the wholesale heterodox recasting that I suggest here. Indeed, while it may be conceded that their attention was primarily elsewhere, it may even be claimed that the relevant warnings were there all along.<sup>39</sup> Such analysis departs from a neoclassical macroeconomic (neo-Keynesian) workhorse model, where the assumption of spontaneous compulsion of the market towards balance and equilibrium is relaxed because of 'sticky' prices in rigid oligopolistic markets and imperfect information in the short run. It focuses its attention on the influx of monetary and financial resources that followed when the monetary union eliminated exchange rate risks, especially into member states in the European periphery, where stability culture was less entrenched than in the Eurozone core and most notably Germany. The attendant reduction of domestic savings and widening of indebtedness and current account deficits should have been, according to this school of thought, countered with much more stringent and precautionary fiscal policy and possibly ECB monetary policy. A prominent advocate of this view is the former Research Director of the ECB and current Minister of Finance of Portugal, Vitor Gaspar, and it provides intellectual context to the emphasis of current crisis management on the reassertion of fiscal austerity norms.<sup>40</sup>

But the extent to which such arguments are compelling is very limited, and indeed disturbingly symptomatic of paradigm-paralysis in light of potentially catastrophic developments. Firstly, it does not account for the marginal status of these elements in the overall analysis. Even in 2008, the Pareto-optimal macroeconomic effects of EMU are stressed.<sup>41</sup>

---

39. This was the claim of one anonymous reviewer of this article.

40. Inter alia Carsten Detken, Vitor Gaspar and Bernhard Winkler, 'On Prosperity and Posterity: The Need for Fiscal Discipline in a Monetary Union', ECB Working Paper 420 (2004); Gabriel Fagan and Vitor Gaspar, 'Adjusting to the Euro', ECB Working Paper 716 (2007); Vitor Gaspar, Frank Smets and David Vestin, 'Is Time Ripe for Price Level Stability?', ECB Working Paper 818 (2007). See also Pierre-Olivier Gourinchas, 'Comments on "Current Account Deficits in the Euro Area: The End of the Feldstein-Horioka Puzzle" by Olivier Blanchard and Francesco Giavazzi', mimeo (2002). Available at: [http://socrates.berkeley.edu/~pog/academic/blanchard\\_giavazzi.pdf](http://socrates.berkeley.edu/~pog/academic/blanchard_giavazzi.pdf) (accessed 14 February 2012); Erik Jones, 'Liberalized Capital Markets, State Autonomy, and European Monetary Union', *European Journal of Political Research* 42, no. 2 (2003): 197–222, 219. Joshua Aizenman and Reuven Glick, 'Pegged Exchange Rate Regimes – A Trap?', NBER Working Paper 11652 (2005), which focuses on the European Monetary System (EMS) and the Argentinian Currency Board, is also of tendentious relevance.

41. Gabriel Fagan and Vitor Gaspar, 'Macroeconomic Adjustment to Monetary Union', ECB Working Paper 946 (2008).

Secondly, indebtedness and current account deficits are seen exclusively as short-term adjustment problems caused by the regime shift to monetary union. Thirdly, the fact that the financial resources are going to consumption rather than high-tech investments in supposedly more efficient financial services markets is noted but no attempt is made to explain it. The two latter points do not address the fact that the financial crisis started as a massive misallocation of investments in the highly developed monetary and financial market systems of the United States, which, qua the Sapir Report, was the role model to be emulated. Of course, it could be argued that the root of the problem resided in overly expansionary macroeconomic policies in the US as well as in the PIIGS. But then one must entertain the possibility that it was this much more expansionary policy that explains the output and productivity gap between the US and the EU in the first place, and not the supply-side institutional differences of labour and capital markets that the Sapir Report sought to eliminate.<sup>42</sup> Finally, Eurozone economic growth would have been even more anaemic without US expansionary policies and with a tighter fiscal policy stance in the PIIGS prior to the financial crisis.<sup>43</sup>

Optimal currency area theory offers a more promising contribution from neoclassical macroeconomics to understanding aspects of the dynamics of the financial and Eurozone crisis. Optimal currency area theory points to a trade-off between reduced transactions costs in a monetary union and the capacity of states to respond differently to market signals. Factors that may warrant such differential responses include variable composition of key commodities that trigger different macroeconomic effects from world markets, different growth rates and unsynchronised business cycles, different labour market institutions, and lack of mobility of labour and capital. Indeed, only if such signals do not affect countries differently can we talk about an optimal currency area where a monetary union would not be problematic. Optimum currency areas are rarer than one might think. Indeed, the pioneer of the theory found that the United States was not an optimal currency area.<sup>44</sup> However, the US has fiscal federalism and most states have transfer payments that ensure macroeconomic stability. For that reason, some assert that the EMU can only be stable in the long run if it is accompanied with a sturdy fiscal federalism, including transfer payments through a sizeable common European budget.<sup>45</sup> Paul de Grauwe is one of the few eminent voices who issued warnings about the stability of the Eurozone from such a perspective.<sup>46</sup> Indeed, the differential growth rates between

42. Colin Crouch, 'Privatised Keynesianism: An Unacknowledged Policy Regime', *British Journal of Politics and International Relations* 11, no. 3 (2009): 382–99.

43. It is indeed untenable to maintain that, with the exception of Greece (and even Greece's public savings increased during the first years of EMU membership), the crisis was caused by public indebtedness. Spain and Ireland, for instance, ran fiscal surpluses of over 2% of GDP prior to the outbreak of the financial crisis.

44. Robert Mundell, 'A Theory of Optimal Currency Areas', *American Economic Review* 51 (1961): 657–75.

45. This was the conclusion of the MacDougall Report when the European Commission (EC) considered monetary union in the 1970s. See *Report of the Study Group on the Role of Public Finance in European Integration, Volume I* (Brussels: European Commission, 1977).

46. Paul de Grauwe, 'What Have We Learnt about Monetary Integration since the Maastricht Treaty?', *Journal of Common Market Studies* 44, no. 4 (2006): 711–30. His best-selling textbook is more circumspect, and gives equal weight to endogenous optimum currency area theory as per below, for example, *Economics of Monetary Union*, 5th edn (Oxford: Oxford University Press, 2003).

northern and southern members of the Eurozone, driven by the financial bubble, could be seen as an optimal currency area problem par excellence as it eventually caused a huge 'asymmetric shock'. However, the vast majority of economists drew on trade, sound money and efficient market theory to dismiss such fears because it was argued, as per the a priori equilibrium theory discussed above, that financial integration and monetary union were 'endogenously' making the Eurozone an optimal currency area.<sup>47</sup> Furthermore, as the term asymmetric *shock* suggests, the determinants of the financial crisis as such is not part of optimal currency area theory. It can only treat it as an exogenous *deus ex machina*.

Political sociology of monetary and financial integration in Europe defers to the economics of integration with regard to economic growth and stability, and then abstracts its object of analysis altogether from economic dynamics to concern itself with the density of socio-political relations at different levels of the Euro-polity. Unremarkably then, there is little evidence of ability or interest in addressing questions that pertain to the build-up, breakout and development of the financial crisis. Moravcsik, for instance, argued that the credible commitments of Maastricht agreements had made the EU 'institutionally stable'.<sup>48</sup>

The few knowledgeable analyses on the matter at hand subscribe to a very thin 'states and markets' conception of political economy. Rather than seeking an integral analysis of production and power, this variant of political economy maintains the disciplinary split and then simply treats economics and politics as externally interactive realms. As such the market equilibrium bias is retained, leading to complacent conclusions. The states and markets approach departs from a workhorse neo-Keynesian macroeconomic model to derive political implications from wedges created by sticky oligopolistic prices and imperfect short-run information. These create spaces in which interest-maximising political actors, such as states and interest groups, can act and affect outcomes. Just as in the case of the political sociology approach in general, the question becomes one of whether it is warranted to be optimistic that the density of the webs of interdependence are sufficiently strong to credibly maintain Pareto-optimal commitments and hence political harmony.

47. Michael Artis and Wenda Zhang, 'International Business Cycles and the ERM: Is there a European Business Cycle', *International Journal of Finance and Economics* 2, no. 1 (1997): 1–16; Jeffrey Frankel and Andrew Rose, 'The Endogeneity of the Optimum Currency Area Criteria', *The Economic Journal* 108, no. 449 (1998): 1009–25; Jeffrey Frankel and Andrew Rose, 'An Estimate of the Effect of Common Currencies on Trade and Income', *The Quarterly Journal of Economics* 117, no. 2 (2002): 437–66; Andrew Rose and Eric van Wincoop, 'National Money as a Barrier to International Trade: The Real Case for Currency Union', *American Economic Review* 91, no. 2 (2001): 386–90; Ivo Arnold and Casper de Vries, 'Endogenous Financial Structure and the Transmission of ECB Policy', Tinbergen Institute Discussion Papers 99-021/2 (1999); Ignazio Angeloni and Michael Ehrmann, 'Monetary Policy Transmission in the Euro Area: Any Changes after EMU', ECB Working Paper 240 (2003). Notably Robert Mundell himself is on record as being optimistic about the prospects of EMU. This is based on a rather straightforward managerial assumption of Haasian spillover: 'the process of monetary union will itself be a catalyst for closer political union', see 'The Euro and the Stability of the International Monetary System', paper presented at a conference sponsored jointly by the Luxembourg Institute for European and International Studies and the Pierre Werner Foundation, 3–4 December 1998: 7.

48. Andrew Moravcsik, 'What Can We Learn from the Collapse of the European Constitutional Project?', *Politische Vierteljahresschrift* 47, no. 2 (2006): 219–41.

The conclusions remained affirmative even after the outbreak of the financial crisis. Enderlein and Verdun have drawn on endogenous optimum currency area theory and an old favourite concept from neo-functionalism – spillover – to remarkably conclude that ‘negative scenarios of the future of the EMU [did not] predict ... what really happened’.<sup>49</sup> In stark contrast to developments at the time of publication, they continued to assert that bond markets integration was reducing debt-servicing costs, and they suggested that ‘actual empirical studies’ showed that welfare state expenditure was increasing in the Eurozone engendering social cohesion.<sup>50</sup> In the midst of escalating crisis, Enderlein and Verdun viewed the EMU as a success. The only threats they find on the horizon are the usual suspects of integration orthodoxy, namely ‘opportunistic domestic motives’. But ultimately the Franco-German commitment to the EMU is seen as too sturdy to allow any derailing.<sup>51</sup> According to Erik Jones, there was little need to worry about such domestic groups either, because of the strength of the ‘hyper-pluralist’ diversity of the Maastricht EMU design. Because of the opacity of costs and benefits, which would be understood through the institutional logic of the EMU in any case, it would be hard to pin distributive conflicts on the common currency and hence, for the good, it would become depoliticised. One must surely consider the protests in Greece at the time of writing as only the most vivid piece of evidence that this argument was wrong in its conclusion that ‘the likelihood that groups within Europe will either recognise EMU as the source of their economic difficulties or will mobilise against EMU as a first-best means of redress is very small.’<sup>52</sup>

To be fair, these authors at least acknowledge that the EMU is wound up in a force-field of transnational power and we can at least begin to discern moves away from a priori assumptions that integration as such inherently expresses rationality-in-general. Jones recognises that the EMU was motivated in part to minimise constraints on European policymakers in global financial markets, where the US dollar is the key currency.<sup>53</sup>

---

49. Henrik Enderlein and Amy Verdun, ‘EMU’s Teenage Challenge: What Have We Learned and Can We Predict from Political Science’, *Journal of European Public Policy* 16, no. 4 (2009): 492.

50. *Ibid.*, 496. With regard to the latter point, they commit the fallacy that is well known in welfare state research to conflate actual expenditure with welfare state standards. There is no better empirical database than that of the Institute of Social Research in Stockholm and it demonstrates unequivocally that effective welfare entitlements have been retrenched in Europe. Walter Korpi, ‘Welfare State Regress in Western Europe: Politics, Institutions, Globalization and Regionalization’, *Annual Review of Sociology* 29 (2003): 589–609. This is corrosive of the so-called ‘equivalence principle’ of incomes replacement, which is crucial to the logic of appropriateness in Christian Democratic welfare settlements. See Alan Cafruny and Magnus Ryner, ‘Monetary Union and the Transatlantic and Social Dimensions of Europe’s Crisis’, *New Political Economy* 12, no. 2 (2007): 141–65. Even Martin Rhodes’ rather upbeat assessment of the positive effect of the euro on the welfare state concedes that increased expenditure is due to automatic stabilisers paying out unemployment insurance and disintegration of the nuclear family as a reproductive unit, which requires higher expenditure on childcare. See his ‘Why EMU Is – Or May Be – Good for European Welfare States’, in *European States and the Euro*, ed. Kenneth Dyson (Oxford: Oxford University Press, 2002), 312–13.

51. Tal Sadeh and Amy Verdun, ‘Explaining Europe’s Monetary Union: A Survey of the Literature’, *International Studies Review* 11, no. 2 (2009): 277–301.

52. Erik Jones, *The Politics of Economic and Monetary Union* (Lanham, MD: Rowman & Littlefield, 2002), 12.

53. *Ibid.*, 121–81; Jones, ‘Liberalized Capital Markets’, 211–18.

While he does not take this argument far, it is the starting point of one of the few international political economy pieces in mainstream European integration outlets that begins to identify the problems wound up with the financial crisis. Like Jones, Benjamin Cohen sees the EMU as a mechanism to adjust to the vagaries of US policy priorities and to mitigate European sensitivity and vulnerability.<sup>54</sup> Cohen's argument also rests on an analytical framework derived from the aforementioned wedges identified by the workhorse neo-Keynesian macroeconomic model, and argues that states are endowed with differential power resources to delay and deflect balance of payment adjustments.<sup>55</sup> He argues that EMU has made the EU as a whole less vulnerable to the US deflection of adjustment externalities. But in the absence of a fully integrated bond market, the lack of anything equivalent to the US Treasury Bill, political fragmentation in the fiscal policy field and an 'anti-growth bias' in its institutional set-up, the euro is no serious contender to US hegemony in the monetary and financial field.<sup>56</sup> The question is, though, whether the euro offers enough of an alternative vehicle for investment to deprive the US of power to delay and deflect. Invoking hegemonic stability theory with its root in the work of Kindleberger, Cohen's argument suggests that this could be a profound source of instability in the world economy. This is a potentially appropriate context in which to consider the weak regime of international financial and monetary management, characterised by US passivity and unilateralism, in which the financial crisis emerged. It is also a potentially appropriate context in which to consider the inability of the US to avoid the contagion of the financial crisis and the difficulties of managing it, especially considering that the surplus pools now reside in potential geopolitical rivals to the US, such as China.<sup>57</sup>

On the other hand, also, Cohen's analysis ultimately rests on a neoclassical economic conception. Consequently, he is sanguine about the merits and stability of the international monetary regime.<sup>58</sup> He has very little to say about the generative mechanisms and destabilising dynamics behind the crisis, including those within Europe itself. More can be discerned from two of the other exceptions in mainstream integration sources, namely

- 
54. Benjamin Cohen, 'Global Currency Rivalry: Can the Euro Ever Challenge the Dollar?', *Journal of Common Market Studies* 41, no. 4 (2003): 575–95. See also Randall Henning, 'Systemic Conflict and Regional Monetary Integration: The Case of Europe', *International Organization* 52, no. 3 (1998): 537–73; 'The Exchange Rate Weapon and Macroeconomic Conflict', in *International Monetary Power*, ed. David Andrews (Ithaca, NY: Cornell University Press, 2006), 117–38.
  55. Benjamin Cohen, 'The Macrofoundation of Monetary Power', in *International Monetary Power*, ed. David Andrews (Ithaca, NY: Cornell University Press, 2006), 31–50.
  56. Cohen, 'Global Currency Rivalry'; Benjamin Cohen, 'Dollar Dominance, Euro Aspirations: Recipe for Discord?', *Journal of Common Market Studies* 47, no. 4 (2009): 741–66; Benjamin Cohen, 'Enlargement and the International Role of the Euro', *Review of International Political Economy* 14, no. 5 (2007): 746–33.
  57. Cohen, 'Dollar Dominance', 759–63; See also Jonathan Kirshner, 'Dollar Primacy and American Power: What's at Stake?', *Review of International Political Economy* 15, no. 3 (2008): 418–38; Eric Helleiner, 'Political Determinants of International Currencies: What Future for the US Dollar?', *Review of International Political Economy* 15, no. 3 (2008): 354–78; Miguel Otero-Iglesias, 'The (In-)tangible Euro Challenge to the Dollar: Insights from the Financial Elites in Brazil and China', *Cambridge Review of International Affairs* 25 (2012) forthcoming.
  58. Benjamin Cohen, 'The International Monetary System: Diffusion and Ambiguity', *International Affairs* 84, no. 3 (2008): 455–70.

a piece of Jean Dermine on bank mergers that followed in the wake of the FSAP<sup>59</sup> and one by Antoine Rebérioux on corporate governance.<sup>60</sup> Dermine issued warnings that the mergers could be a source of financial instability, raising questions about bank supervision and regulation. Rebérioux raised questions about the complementarity of the reforms behind these mergers and the institutions of corporate governance in Europe.

## Heterodox Openings

It may not be a coincidence that both of these authors are active in France, since, according to Milward and Sørensen, this is the centre of an intellectual alternative to European integration orthodoxy.<sup>61</sup> According to them, there was a distinctive European policy concept in the post-World War II period, which coexisted with Atlanticist grand strategy but which also offered an alternative to it. From this perspective, European 'integration' was not about dissolving nation states through the supposedly equilibrating force of markets and managerial pluralism. It was rather about 'rescuing' the state and recasting it towards new social purposes after a war where the very being of European states as functional units were in question. US assistance and the transferring of certain functions to the Community level played an important and even enduring role in this regard. However, such transfers were also circumscribed and were pursued only to the extent that it was possible to maintain the priority of the national interest. This was a successful enterprise, since West European states in many respects became *more* powerful than they had ever been. They embarked on 'unprecedented programmes of intervention in economic and social life with the express purpose of shaping and controlling their national destinies. Concepts such as "the mixed economy" and "the welfare state" reflect the recognition of this historical reality'.<sup>62</sup> This conjures up the image of 'social settlement' between different classes and social groups, which is quite different from the image of equilibrium that besets the European integration orthodoxy.

Heterodox tendencies emerged against this backdrop, and have formed a liminal realm where works of relevance to the EU have been produced for some time. Two French industrialist-intellectuals, writing in the social-mercantilist tradition, have been important catalysts in this regard. Being convinced that the common and single market was necessary for economies of scale, they were nevertheless concerned with the design of the common and single market and its effects on the capacity of Europe being able to extract relative gains in the form of high value added products and production processes as required to maintain positive-sum social bargains between labour and capital.<sup>63</sup> They

59. Jean Dermine, 'Bank Mergers in Europe: The Public Policy Issues', *Journal of Common Market Studies* 38 no. 3 (2000): 409–25. See also Daniel Mügge, *Widen the Market, Narrow the Competition: Banker Interests and the Making of a European Capital Market* (Colchester: ECPR Press, 2010).

60. Antoine Rebérioux, 'European Style Corporate Governance at the Crossroads', *Journal of Common Market Studies* 40, no. 1 (2002): 111–34.

61. Milward and Sørensen, 'Interdependence or Integration?', 4.

62. *Ibid.*, 5.

63. Jean-Jacques Servan-Schreiber, *The American Challenge* (New York: Atheneum, 1969); Michel Albert, *Capitalism against Capitalism* (Oxford: Wiley Blackwell, 1993).



gave impetus to the literature on ‘models’ or ‘varieties’ of capitalism, which contra neoclassical equilibrium asserts a distinct economic rationale of European (or ‘Rhenish’) economic institutions based on corporatist coordination, monopolistic ‘voice-based’ financial relationships between banks and firms, producing social stability in the context of a long-term time horizon in the service of technological change, which creates ‘fruits of progress’ that can be distributed. This in turn provoked an alter-ego literature by neo-Marxists, who engaged with Albert and above all Servan-Shreiber.<sup>64</sup>

### *Finance-led Accumulation and its Crisis*

These tendencies, as well as anti-neoclassical and non-equilibrium-based post-Keynesianism, are brought together in the so-called Parisian regulation school.<sup>65</sup> With post-Keynesianism and Marxism, the regulation school sees capitalist market relations as inherently unstable and even contradictory, because of the constitutive properties in the power relation between the factors of production of capital and labour. Marx famously suggested that capitalism inherently tends towards overaccumulation. On the one hand, capitalists act on the basis of the profit motive that requires the expansion of markets, but, on the other, surplus augmentation depends on the containment of wages, which in the last instance holds back the expansion of consumption and final demand relative to the accumulation of capital. When the total mass of capital cannot be profitably deployed, this generates crisis tendencies. To be sure, technological change can contain this, but intensified competition will generate uneven effects that compound general crisis tendencies. Drawing on the position advocated by Joan Robinson and Piero Sraffa in the Cambridge capital controversy, post-Keynesians agree that capitalist dynamics cannot be separated from power relations between capital and labour (indeed, the very measurement of capital cannot be abstracted from them), and market dynamics as such are prone to generate under-consumption.<sup>66</sup>

Regulation theory agrees that such a general generative mechanism inheres in capitalism. However, it can never be fully actualised because the homogenising force of market exchange (or commodification) cannot be fully actualised. Concrete capitalism is dependent on ‘necessary impurities’ which are not subject to market exchange, such as family relations and hierarchical formations in production units such as corporations. That means, as the varieties of capitalism literature stresses, that capitalism depends on the heterogeneous embedding of institutions, which relate commodification to these necessary impurities:<sup>67</sup>

64. Ernest Mandel, ‘International Capitalism and “Supra-Nationality”’, in *The Socialist Register 1967*, eds Ralf Miliband and John Saville (London: Merlin Press, 1967), 27–41; Nicos Poulantzas, ‘Internationalisation of Capitalist Relations and the Nation State’, *Economy and Society* 2, no. 1 (1974): 145–79.

65. Alain Lipietz, ‘Rebel Sons: The Regulation School’, *French Politics and Society* 5 (1987): 3–17.

66. For example, Joan Robinson, *Economic Heresies: Some Old Fashioned Questions in Economic Theory* (New York: Basic Books, 1973).

67. Geoffrey Hodgson, ‘Variety of Capitalism, Variety of Economic Theory’, *Review of International Political Economy* 3, no. 3 (1996): 380–433.

In a world in which information is an issue and in which externalities are laden with significance, there is no such thing as general equilibrium or perfect competition. Nor is there any reason why maximum competition should be the best possible form of relationship between economic agents, for competition in these contexts entails the adoption of behavioural strategies, the effects of which could be socially and even individually disadvantageous. This is the environment in which the problems of regulation arise. Regulation theory is concerned with heterogeneous economic processes in which necessity and contingency, the constraint of the past and the creation of the new are intertwined. It deals with the processes that emerge, are reproduced then wither away under the effects of the unequal development inherent in capitalism.<sup>68</sup>

On the basis of this theoretical synthesis that does not presuppose a priori the stability of capitalist markets but rather tries to explain the particular institutional configurations that may stabilise them, regulation theory developed a concrete, historical-conjunctural analysis of the post-war 'Fordist' phase of capitalism. Phases of capitalism are characterised by particular 'regimes of capital accumulation', defined by specific production technologies that enable particular 'solutions' to the contradictions of capitalism. Semi-automation and mechanics, applied through the conveyor belt, provided the Fordist basis for productivity growth, enabling the expanded reproduction of capital. At the same time, this highly scale-dependent system solved its 'realisation problem', or avoided overaccumulation, through the *ex ante* integration of mass consumption with mass production. Particularly important was a historic compromise between capitalist managers and labour, allowing collective bargaining in exchange for acquiescence to managerial change at the workplace, even if this implied an increased tempo and deskilling of work. Pioneered in the United States in the 1920s, Fordism was 'exported' to Western Europe as part and parcel of US post-war hegemony and it was adapted with institutional variations in European mixed market economy welfare states after 1945. Here, Atlanticism and European integration played a significant role. In order to stabilise, regimes of accumulation require enabling institutional frameworks or 'modes of regulation'. Keynesian demand management, welfare state expansion, collective bargaining regimes and practices designed to deepen and extend consumer market relations such as advertisement were essential components of the Fordist mode of regulation. All of these practices served to integrate mass production and mass consumption. In short, all the practices and developments associated with modified liberalism, including European integration, balanced the requisites of openness for the expansion of mass production and national closure required for interventionist economic policy. From such a perspective, the Treaty of Rome, facilitating the creation of a Common Market compatible with economies of scale, and the 1965 Luxembourg Compromise that confirmed policy discretion by interventionist nation states, were two sides of the same coin.

According to regulation theory, the crises of the Bretton Woods system and European integration in the 1960s and 1970s expressed a deeper crisis in Fordism. By the late 1960s, Fordism had reached its frontier of productivity expansion as the scope

---

68. Aglietta, 'Capitalism at the Turn of the Century', 44.

for conveyor-belt rationalisation was exhausted. Productivity growth declined and price-setting, macroeconomic policy and raw material price increases resulted in stagflation as the attention of policymakers increasingly shifted to price stability. Disintegrative conflicts over economic management in Europe and across the Atlantic reflected a disjuncture between accumulation regimes and regulation modes in crisis, and uncertainties with how one might deal with these.<sup>69</sup> Nevertheless, this crisis opened up new economic possibilities deriving from computer-based cybernetic automation and information technologies. Regulation theorists do not subscribe to a determinist reading of this situation. In principle, a variety of 'post-Fordist' strategies designed to break down information bottlenecks and deploy cybernetic general purpose machines in order to adjust production to demand without productivity losses were possible. Following the variety of capitalism literature, regulation theory argues that diversified quality production on the basis of social-democratic, labour-inclusive, co-determination practices provided the basis of a viable post-Fordist future.<sup>70</sup> However, the particular mode of regulation that was promoted by a Single Market based on negative integration and a monetarist EMU biased developments in favour of a neoliberal post-Fordism.<sup>71</sup>

On the basis of this, regulation theory offers a sustained account capable of making sense of the financial crisis. In production, despite advanced technological change, neo-liberal post-Fordism returned to a more classical capitalist mode of exploitation as profitability became based on the containment of wage costs and ex post market determination of wages. Overaccumulation is an inherent problem in such a situation. The lack of ex ante integration of consumption renders problematic the profitable deployment of accumulated capital. But it is exactly here that modern financial markets, centred on the US and to an extent the UK, came to serve a crucial function for capital accumulation over the last two decades. Financial intermediation facilitated expansion of demand among the middle classes and corporations through an extension of credit, underwritten by the increased exchange value of assets, such as real estate and shares, through what David Harvey has called 'temporal displacement'.<sup>72</sup> The breakdown of information bottlenecks, facilitated by technological change, has been used to innovate financial services in the direction of ever-more sophisticated structures of hedging and spread-betting through derivatives and other forms of securitisation. However, this system is not

---

69. Michel Aglietta, 'World Capitalism in the Eighties', *New Left Review* 136 (old series): 1–41.

70. Compare Wolfgang Streeck, *Social Institutions and Economic Performance* (London: Sage, 1992) and Danielle Leborgne and Alain Lipietz, 'New Technologies, New Modes of Regulation: Some Spatial Implications', *Environment and Planning D* 6, no. 3 (1988): 263–80.

71. Alain Lipietz, 'The Debt Problem, European Integration and the New Phase of World Crisis', *New Left Review* 178 (old series) (1989): 37–49; John Grahl and Paul Teague, 'The Cost of Neo-Liberal Europe', *New Left Review* 174 (old series) (1989); John Grahl and Paul Teague, *1992 – The Big Market: The Future of the European Community* (London: Lawrence and Wishart, 1990); Robert Boyer, 'The Impact of the Single Market on Labour and Employment: A Discussion of Macroeconomic Approaches in Light of Research in Labour Economics', *Labour and Society* 15, no. 2 (1990): 109–42; Robert Boyer, 'The Unanticipated Fallout of European Monetary Union: The Political and Institutional Deficits of the Euro', in *After the Euro*, ed. Colin Crouch (Oxford: Oxford University Press, 2000), 24–88.

72. David Harvey, *The Condition of Postmodernity* (Oxford: Blackwell, 1990), 182–97.

without its contradictions. In its efforts to boost stock values of their shares in the here and now, corporations tend to undermine their capacities to engage in research and development, technological innovation and productivity growth, and ultimately wage-earners with flexible wages and precarious jobs provide a slim foundation for sustainable consumption.<sup>73</sup> When financial capital sought profitable deployment in ever-more risky subprime segments of the market, the bubble burst in 2007, putting the future of this accumulation regime in question.

Engelbert Stockhammer has analysed the concrete situation leading up to the financial crisis in Europe, drawing on data from the Commission's own database. Writing just before the outbreak of the crisis, Stockhammer argued that the EMU and Single Market in financial services were central to a mode of regulation that helped constitute a financed European accumulation regime that, like the American one, was fragile but that, unlike the American one, also suffered from mediocre growth performance. As expected in an economy where securitisation makes loans readily accessible, just like in America, household savings rates decreased. But in contrast to the US, the European consumption propensity did not increase (except in Greece). Stockhammer attributes this to two counteracting tendencies, namely rapidly falling wage to profit shares and retrenchment in pay-as-you-go state pension provisions.<sup>74</sup>

In a separate study, he and his collaborators provide more systematic evidence that wage moderation contracts output and does not stimulate employment. It is also demonstrated that, individually, member states nevertheless have strong incentives to contain growth to protect the balance of payments, resulting in a prisoner's dilemma collective action problem, which contains the expansion of aggregate demand.<sup>75</sup> Just as in the US, investment rates did not increase either despite increased profitability, which is quite consistent with the argument that increased mobility of financial capital puts a premium on so-called 'shareholder value'. This leads to demands for higher returns on investments in the form of higher asset-yields ratios in the here and now, prompting a change of management strategy from 'retain and reinvest' to 'downsize and redistribute'.<sup>76</sup> Europe's aggregate current account of international payments with the rest of the world was broadly in balance, and did not much effect growth either way. But Stockhammer et al. found evidence of uneven development and serious internal imbalances between

- 
73. Michel Aglietta, 'Shareholder Value and Corporate Governance: Some Tricky Questions', *Economy and Society* 29, no. 1 (2000): 146–59; Michel Aglietta and Régis Breton, 'Financial Systems, Corporate Control and Capital Accumulation', *Economy and Society* 30, no. 4 (2001): 433–66; Michel Aglietta and Antoine Rebérioux, *Corporate Governance Adrift: A Critique of Shareholder Value* (Cheltenham: Edward Elgar, 2005); Matthew Watson, 'Investigating the Potentially Contradictory Microfoundations of Financialization', *Economy and Society* 38, no. 2 (2009): 255–77. For an insightful analysis for the implication in Europe's eastern periphery, see Or Raviv, 'Chasing the Dragon East: Exploring the Frontiers of Western European Finance', *Contemporary Politics* 14, no. 3 (2008): 297–314.
74. Engelbert Stockhammer, 'Some Stylized Facts on the Finance-Dominated Accumulation Regime', *Competition and Change* 12, no. 2 (2008): 184–202.
75. Engelbert Stockhammer, Özlem Onaran and Stefan Ederer, 'Functional Income Distribution and Aggregate Demand in the Euro Area', *Cambridge Journal of Economics* 33, no. 1 (2009): 155–6.
76. John Grahl, 'Globalized Finance: The Challenge to the Euro', *New Left Review* 8 (new series) (2001): 23–47.

member states. After a decade of EMU, this problem was compounded by massively diverging relative unit labour costs, caused by a 20% internal devaluation by Germany as represented by its 'Agenda 2010' labour market and welfare reforms. Since German core inflation is close to zero, the only route of adjustment on the current account that was available to these countries (save a productivity growth miracle) would be highly destabilising deflationary policies. Internal payments balances have therefore been dependent on highly volatile flows on the capital account.

While the common currency kept the sort of turbulence associated with the ERM crisis at bay in the first decade of EMU, Stockhammer presciently warned about the dangers entailed in the diverging unit labour costs and current account balances. In short, the mode of regulation that was instituted for the European economy after the crisis of Fordism was above all inspired by neoliberalism, which encouraged highly mobile financial flows on the assumption that reduced transaction costs would spur on the information technology revolution.<sup>77</sup> Contrary to the American situation, and in accordance with Boyer's warnings a decade and a half prior, the intended expansionary impulses did not materialise and did not generate a dynamic accumulation regime based on virtuous relations between productivity growth and aggregate demand.<sup>78</sup> But the imbrication of global finance in Europe's socio-economic relationships nevertheless meant that Europe shared the vulnerabilities of finance-led growth with the US. Stockhammer's only puzzle was that this configuration had not displayed the instabilities that one would have expected.<sup>79</sup>

For him, there were two possible explanations: either residual state mechanisms from the Fordist Keynesian era still acted as automatic stabilisers in Europe;<sup>80</sup> or there was a major crisis around the corner. Indeed, the lead-time between him writing those lines and the actual publication date would 'resolve' his problem since it coincided with the outbreak of the financial crisis.

### *A Marxist–Weberian Synthesis?*

Regulation theory, then, is a fruitful synthesis of the Marxist, post-Keynesian and variety of capitalism literatures. As such, its concept of finance-led accumulation offers a compelling account of the causes of the financial crisis and its implications for the EU. But despite its emphasis on regulatory practices and historical contingency, regulation theory has difficulties in fully accounting for the power-laden processes through which the constellation of accumulation regimes and regulation modes are forged and replaced.<sup>81</sup>

77. See also John Grahl, 'The Subordination of European Finance', *Competition and Change* 15, no. 1 (2011): 31–47.

78. Boyer, 'The Impact of the Single Market'. See also Alan Cafruny and Magnus Ryner, *Europe at Bay: In the Shadow of US Hegemony* (Boulder, CO: Lynne Rienner, 2007), 43–72.

79. Stockhammer, 'Some Stylized Facts', 197–8.

80. Though, on their erosion, see Deborah Mabbett and Waltraud Schelkle, 'Bringing Macroeconomics Back into the Political Economy of Reform: The Lisbon Agenda and the "Fiscal Philosophy" of the EMU', *Journal of Common Market Studies* 45, no. 1 (2007): 81–103.

81. Bob Jessop, 'Regulation Theories in Retrospect and Prospect', *Economy and Society* 19, no. 2 (1990): 153–216.

While it can account for the contradictory and unstable foundations of the Single Market that was entailed in attempting to copy American 'success', it only goes so far in explaining the power-laden processes that constituted Europe's floundering finance-led accumulation regime and Europe's power-position in the global political economy. However, neo-Weberian works, deploying Michael Mann's concept of 'infrastructural power' and post-Marxist works that have recast the debate between Mandel and Poulantzas in neo-Gramscian terms, have come to remarkably similar conclusions on this score that complement regulation theory. Together, these strands of research illustrate the fruitfulness of a more heterodox sensibility in the production of knowledge about the EU.

One important contribution is by the so-called 'Amsterdam School'. It has accounted for how the mobilisation of capitalist elite unity at a European level was crucial in forging a coherent neoliberal 'accumulation strategy', which was critical in forging the finance-led accumulation regime. This body of work emphasises the importance of Europe-level 'private planning bodies', notably the European Roundtable of Industrialists, which inter alia resolved differences and conflicts between different functional and national 'fractions' of capital and exerted strategic leadership over the direction and content of especially the 'Europe 1992' and Lisbon projects.<sup>82</sup> This direction and content was one that adjusted to, rather than challenged, neoliberal norms emanating from what is referred to as the Anglo-Saxon heartland.<sup>83</sup> But, while sharing the neo-Gramscian approach with the Amsterdam School, Macartney's analysis of the FSAP cautions against giving the impression of a transnational European capitalist class that has transcended the nation-state level even within the financial sector. Granted, 'Atlantic' (British), 'Gallic' (French) and 'Rhenish' (German) financial interests were united in their support for the FSAP. But important differences remain that reflect the state tradition from which they emerge. Atlantic finance is cautious in its support even of competition-facilitating regulation, such as of price-transparency, being concerned about the competitive advantage of the City of London. To various degrees, Gallic and Rhenish capital have ambitions to retain strategic linkages to lenders also within a post-FSAP world, which has given them advantages over competitors from the state sector within their domestic markets.<sup>84</sup>

This prompts the question of how one should conceptualise the complex relationship between capital and the state in the European political economy. One interpretation follows the cue of Mandel, who argued that the lateral pressure of the 'capitalist laws of motion' of expanded reproduction and uneven development would eventually generate a coherent European bloc with the capacity and disposition to rival the American bloc.<sup>85</sup>

---

82. Bastiaan van Apeldoorn, *Transnational Capitalism and the Struggle over European Integration* (London: Routledge, 2002); Bastiaan van Apeldoorn, Jan Drahokoupil and Laura Horn, eds, *Contradictions and Limits of Neoliberal European Governance* (Basingstoke: Palgrave Macmillan, 2009); Otto Holman, 'Asymmetrical Regulation and Multidimensional Governance in the European Union', *Review of International Political Economy* 11, no. 4 (2004): 714–35.

83. Kees van der Pijl, 'A Lockean Europe?', *New Left Review* 37 (new series) (2006): 9–39.

84. Huw Macartney, 'Variegated Neoliberalism: Transnationally Oriented Fractions of Capital in EU Financial Market Regulation', *Review of International Studies* 35, no. 2 (2009): 451–80.

85. Mandel, 'International Capital and "Supra-nationality"'.

This interpretation suggests that within a transatlantic neoliberal consensus, there has been a distinct European amalgamation of capital, which challenges the dominance of American capital within inter-capitalist competition. But amalgamation has not gone so far as having eliminated national divisions, and German groupings are dominant. Those making this argument point, firstly, to increasingly coherent European networks of strategic ownership and interlocking directorships that no longer are disarticulated by dominant American groupings as in the past. German insurance company Allianz, and to a lesser extent Deutsche Bank, are at the centre of this amalgamation. In the course of the 2000s, these groupings also started to make inroads into the Russian energy sector as well as into the transatlantic arena from a position of strength. Because of the central importance played by export-oriented high value added capital goods in this cluster, it is relatively immune to upwards pressure on the euro and rather indifferent to expansion of the European consumer market.<sup>86</sup> Secondly, it is argued that Europe's finance-led accumulation regime is not merely a carbon-copy of the American one. It has its own dynamic, reflecting European specificities. It is not based, as in America, on the integration of the European household sector into the financial system, which has been uneven, 'sluggish and in some cases very limited'.<sup>87</sup> Rather, Europe's banks have had to rely more on international sources of supply for operational assets. Three-quarters of cross-border bank loans to emerging markets were from European sources in 2008. European banks are also major financiers of the US 'twin deficits', representing a long-term transfer of ownership of US assets to Europe. Finally, because of their extensive retail distribution networks, Rhenish universal banks remain the dominant actors in European finance notwithstanding the increased importance of securitisation and capital markets.<sup>88</sup>

Such an interpretation has its merits. It is certainly consistent with key trends in European financial crisis management. A monetary union that puts a premium on price stability is consistent with the preferences of German-centred, high value added and export-oriented capital. The same is the case with the very stringent conditionalities under which the PIIGS will be expected to service their debts and return to solvency in exchange for credit extensions underwritten by the EFSF and ESM. These steps are notable in their lack of concern for generating effective demand and the optimal currency area problems, which are of minor importance for the dominant capital fraction. It seems that the primary motive is to save the assets of the exposed banks while avoiding as much as possible any concessions on fiscal federalism.<sup>89</sup> The implied rivalry with

---

86. Kees van der Pijl, Otto Holman and Or Raviv, 'The Resurgence of German Capital in Europe: EU Integration and the Restructuring of Atlantic Networks of Interlocking Directorates after 1991', *Review of International Political Economy* 18, no. 3 (2011): 384–408.

87. Or Raviv, 'Speculating on Convergence: The Western European Finance-Led Growth Regime and the New European Periphery', PhD thesis, Department of International Relations, University of Sussex, 2011, 104.

88. *Ibid.*, 112–18.

89. Alan Cafruny and Magnus Ryner, 'The Global Financial Crisis and the European Union: The Irrelevance of Integration Theory and the Pertinence of Critical Political Economy', in *Globalisation and European Integration: Critical Approaches to Regional Order and International Relations*, eds Petros Nousios, Henk Overbeek and Andreas Tsolakos (London: Routledge, 2012), 46.

the US also has ominous implications for the prospects of forging transatlantic unity in crisis management.

But a 'European challenge' to American hegemony cannot be based on the economic interest of business groupings alone, however powerful. As argued by van der Pijl, Holman and Raviv themselves, the strategy pursued by these dominant interests constitutes a 'partial dislocation' not only from the German social formation, but also the EU as a whole.<sup>90</sup> This is in marked contrast to the institutional complementarities between financialisation, corporate governance and everyday retail investments and the social accords that underpin the American state.<sup>91</sup> This lends credence to arguments that take inspiration from Poulantzas, who argued that while European capitalist groupings may pursue distinct competitiveness strategies, their subordinate integration in strategic sectors (such as the financial sector) where American groupings have the lead would not only result in their political subordination to the American power bloc. It would also increase political crisis tendencies in Europe because of the difficulties to pursue economic policies in the interest of capitalist groupings that were partially dislocated from Europe while at the same time satisfying the terms of legitimacy of European societies.<sup>92</sup> This argument is also consistent with crisis management. But crucially, it adds a way of making sense of the preceding decade of slow European growth coinciding with the restoration of European capitalist profitability, the retrenchment of European welfare states and the progressive erosion of mass legitimacy that manifests itself in the corroded base of Europe's erstwhile hegemonic Christian and Social Democratic parties. This has bred increasingly parochial nationalist and populist politics, which has not been conducive for generating a coherent European social hegemony capable of resolving the crisis.<sup>93</sup>

This dovetails with the neo-Weberian conclusions of Leonard Seabrooke.<sup>94</sup> He draws on Michael Mann's concept of 'infrastructural power', which, in contrast to the European integration orthodoxy, has the decisive advantage of making power constitutive of the process of integration of populations into the modern state apparatus. With infrastructural power, Mann maintains that the state quintessentially exercises power through society, as it provides services that are central to the division of labour, promotes literacy and supports communication and transport.<sup>95</sup> Seabrooke makes two essential contributions

90. van der Pijl et al., 'The Resurgence of German Capital in Europe'.

91. Matthew Watson, 'Embedding the "New Economy" in Europe: A Study of the Institutional Specificities of Knowledge-Based Growth', *Economy and Society* 30, no. 4 (2001): 504–23; Leo Panitch and Martijn Konings, eds, *American Empire and the Political Economy of Global Finance* (Basingstoke: Palgrave Macmillan, 2008).

92. Poulantzas, 'Internationalization of Capitalist Relations and the Nation State'.

93. Cafruny and Ryner, *Europe at Bay*. See also Martijn Konings, 'European Finance in the American Mirror: Financial Change and the Reconfiguration of Competitiveness', *Contemporary Politics* 14, no. 3 (2008): 253–75 and Hans-Jürgen Bieling, 'EMU, Financial Integration and Global Economic Governance', *Review of International Political Economy* 13, no. 3 (2006): 420–8.

94. Leonard Seabrooke, *US Power in International Finance: The Victory of Dividends* (Basingstoke: Palgrave Macmillan, 2001); Leonard Seabrooke, 'Everyday Legitimacy and International Financial Orders: The Social Sources of Imperialism and Hegemony in Global Finance', *New Political Economy* 12, no. 1 (2007): 1–18.

95. Michael Mann, 'The Autonomous Power of the State: Its Origins, Mechanisms and Results', *European Journal of Sociology* 25 (1984): 185–213.



that dovetail with the neo-Poulantzasian analyses as per below. Firstly, notwithstanding its socially determined nature, he provides a way to understand how the state nevertheless does constitute itself as a cohesive agent in and through its mobilisation and projection of infrastructural power. Here, one can by implication contrast the capacities of the US and the EU. Secondly, he makes a contribution that is invaluable because of its sheer forensic empirical detail, which connects the manner in which the American state has mobilised internal infrastructural power to project hegemony globally through financial markets. He stresses the importance of the dominance of US corporations in financial services, the dollar as reserve currency and the process of securitisation. But crucially, he stresses the success of the US to 'enable the majority of their citizens to access credit and build their wealth (and hence) recycle capital through the domestic system and, in doing so, improve their international financial capacity to export and attract capital'.<sup>96</sup> The latter still puts the US apart from the EU. Together, these factors ensured the capacity of the US to shape the preferences of debtors as well as creditors in the world economy, to pursue on the whole expansionary policies in its own interest without the need for internal adjustment – a privilege that the US alone has in the international political economy. I have suggested elsewhere that the problem of Europe's Lisbon Agenda was based on the false assumption that this was a replicable strategy.<sup>97</sup> However, Seabrooke also warned that military unilateralism under Bush II and his economic policy overtly supporting the wealthy at the expense of the lower-middle class may weaken the projection of infrastructural power.<sup>98</sup>

## Conclusions

This article has used the financial crisis as a test case of the European integration orthodoxy to argue that it poses anomalies that are too heavy for it to bear. This does not necessarily imply that the theories of European integration orthodoxy should be abandoned in general, since most likely remain appropriate for the addressing of certain questions. However, my argument does entail a severe indictment of the orthodox stance. It implies that if EU scholarship is to credibly address what surely must currently be the most salient issue of EU politics and economics, how to deal with the crisis of the euro, a more open heterodox stance must be adopted that abandons reified-abstract orthodox assumption and allows consideration of approaches such as synthesis of regulation theory, post-Marxism and neo-Weberian scholarship, as proposed in this article. However, as stressed in the introduction, this plea for heterodoxy does not necessarily imply the assertion of a counter-orthodoxy.

---

96. Seabrooke, 'Everyday Legitimacy', 1. For similar conclusions from a Marxist perspective, see Gérard Duménil and Dominique Lévy, 'The Economics of US Imperialism at the Turn of the 21st Century', *Review of International Political Economy* 11, no. 4 (2004): 657–76.

97. Magnus Ryner, 'An Obituary for the Third Way', *The Political Quarterly* 81, no. 4 (2010): 554–63.

98. Seabrooke, 'Everyday Legitimacy'; Seabrooke's analysis provides a way to recast the international political economy of finance literature based on the neo-Keynesian workhorse model (see nn. 54–58). With regards to US unilateralism, his arguments dovetail well with considerations made on the military determinants of monetary power, see especially Adam Posen, 'Why the Euro Will Not Rival the Dollar', *International Finance* 11, no. 1 (2008): 75–100.

This raises the question: does a richly textured ecosystem of European integration scholarship really have nothing to offer to this heterodoxy? After all, the turn to institutions represented by regulation-theoretical and neo-Weberian scholarship has also been a central feature of EU scholarship. The turn to institutional scholarship in EU studies has been paradoxical. On the one hand, it has facilitated a synthesis of previously ontologically diverse positions, such as realism and liberalism, and rationalism and constructivism, to such an extent that issues have been reduced to mere empirical quibbles.<sup>99</sup> While this might have been beneficial for the particular problematic that the integration orthodoxy seeks to address, it has also furthered the tendency towards normalisation and hence made it more difficult to avoid the blind-spot discussed here.

Nevertheless, there are some promising and notable exceptions. An optimal currency area theory which sobers up in terms of the assumptions it makes about the endogenous effects of financial markets and monetary union clearly has something to offer. Seabrooke's neo-Weberian and therefore statist work offers a frame in which to recast the International Political Economy (IPE) of finance that draws on the neo-Keynesian macroeconomic model. In 1997, Philippe Schmitter made a remarkable contribution to a volume co-edited by regulation theorist Robert Boyer, which suggested how neo-functionalism can be used to inform the varieties of capitalism literature. His conclusion was far from sanguine, as he suggested that in the unlikely event of political spillover, the Rhenish variety of capitalism would corrode.<sup>100</sup>

There are also constructivists that have not narrowed their concerns to *engreene* dynamics and politicisation and that have something to offer. Hay and Rosamond have rightfully critiqued the central role played by globalisation and neoliberalism as a discourse in the forging of EU political economy institutions.<sup>101</sup> Bringing such attention to a certain absence of 'rationality' – or, in Paul Krugman's words, 'magical thinking'<sup>102</sup> – certainly contributes to understanding the arbitrariness of the neoliberal underpinning of the EU's political economy. Similarly, Kenneth Dyson cautiously issued warnings about the ideologically contingent Maastricht design of the EMU, and if this argument had been based on a more sustained reference to regulation theory than a cursory mention, no doubt those warnings could have been formulated more robustly and in that case indeed presciently.<sup>103</sup> All this would be with the caveat, of course, that the financial crisis reveals

- 
99. Joseph Jupille and James Caporaso, 'Institutionalism and the European Union: Beyond International Relations and Comparative Politics', *Annual Review of Political Science* 2 (1999): 429–44, 430–1; Joseph Jupille, James Caporaso and Jeffrey Checkel, 'Integrating Institutions: Rationalism, Constructivism and the Study of the European Union', *Comparative Political Studies* 36, nos 1/2 (2003): 7–40; Mark Pollack, 'Theorizing the European Union: International Organization, Domestic Polity, or Experiment in New Governance?', *Annual Review of Political Science* 8, no. 1 (2005): 357–98, 362–4.
100. Philippe Schmitter, 'The Emerging Europolity and its Impact on National Systems of Production', in *Contemporary Capitalism: The Embeddedness of Institutions*, eds Rogers Hollingsworth and Robert Boyer (Cambridge: Cambridge University Press, 1997), 395–430.
101. Colin Hay and Ben Rosamond, 'Globalization, European Integration and the Discursive Construction of Economic Imperatives', *Journal of European Public Policy* 9, no. 2 (2002): 147–67.
102. Paul Krugman, 'Can Europe Be Saved?', *New York Times Magazine*, 12 January 2011.
103. Kenneth Dyson, *The Politics of the Euro-Zone* (Oxford: Oxford University Press, 2000), 189–91, 251–84.

how such discourses are overdetermined with material interests and how pragmatically these interests can deal with norms when thus compelled.

Perhaps, though, a recast version of Fritz Scharpf's rational choice institutionalism would be the most powerful contribution. True, its utility is limited in terms of understanding why the EU was constructed the way it was with the Single Market project. Also, it may be that, given its role in warning Germany of 'social dumping' from Southern European member states, it added impetus to the Agenda 2010 internal devaluation policies, and made the current compulsion to welfare state retrenchment a self-fulfilling prophecy.<sup>104</sup> Nevertheless, Scharpf draws out all the strengths of rational choice in terms of austere parsimony to capture Europe's basic dilemma through the 'game' of the 'battle of the sexes'. The aftermath of the financial crisis has given additional salience, indeed urgency, to the problem of the joint decision-making trap. Integration on the basis of mutual recognition in the context of finance-led capitalism has now led to a situation where everyone agrees that something needs to be done about 'economic government'. However, neither the game-theoretical model, nor concrete events, give cause for optimism. Recast in neo-Poulantzian terms, state managers representing a capitalist class imbricated in transatlantic circuits have limited capacities to forge consent through a broader social hegemony or, in neo-Weberian terms, to adequately project infrastructural power.

### Acknowledgements

Earlier versions were presented at my keynote speech to the conference 'Globalisation and European Integration: The Nature of the Beast', University of Warwick; the Centre of European Studies, King's College, London; the Department of Business and Politics, Copenhagen Business School; the Department of Political Science, University of Copenhagen; and finally at the 2011 Annual Millennium Conference. Thanks to participants at these events for useful comments, particularly Edward Ashbee, Annika Bergman-Rosamond, Benedikte Brincker, Manuele Citi, Ben Clift, Lene Hansen, Jens Ladefoged Mortensen, Anna Leander, Ian Manners, Thomas Moore, Sine Nørholm Just, Ben Rosamond, Leonard Seabrooke, Simona Talani, Daniela Tepe and Grahame Thompson. Thanks also to Barrie Axford, Alan Cafruny, Otto Holman, Miguel Otero-Iglesias, the *Millennium* editors and two anonymous reviewers. Remaining errors are all mine.

### Author Biography

Magnus Ryner is Professor of International Relations at Oxford Brookes University, UK. His publications include *Europe at Bay: In the Shadow of US Hegemony* (Lynne Rienner, 2007, co-authored with Alan Cafruny); *A Ruined Fortress? Neoliberal Hegemony and Transformation in Europe* (Rowman and Littlefield, 2003, co-edited with Alan Cafruny); and *Capitalist Restructuring, Globalisation and the Third Way: Lessons from the Swedish Model* (Routledge, 2002).

---

104. Fritz Scharpf, 'Negative and Positive Integration in the Political Economy of European Welfare States', in *Governance in the European Union*, eds Gary Marks, Fritz Scharpf, Philippe Schmitter and Wolfgang Streeck (London: Sage, 1996), 15–39. On rational choice and self-fulfilling prophecy, see Colin Hay, 'Theory, Stylized Heuristic or Self-Fulfilling Prophecy? The Status of Rational Choice Theory in Public Administration', *Public Administration* 82, no. 1 (2004): 39–62.