From Bologna to Athens: the political economy of reforms in Europe

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Abstract
In the mid-1990s, liberalization of the capital and financial services markets was seen as the flagship of structural reforms within the EU. This remained relatively uncontroversial until the outbreak of the 2008 global financial crisis, which seriously undermined confidence in financial capital and "free markets", making the European public skeptical of austerity measures based on the liberalization project. Yet the swiftly engineered shift in attention from the abuses of unregulated markets to the sovereign debt crisis changed the agenda, and paved the way for the completion of the original plan, bolstered by anti-inflationary and pro-market measures. Though capable of yielding short-term profits for northern European capital, this approach has seriously undermined the continent's already weakened social model. In what follows I shall focus on the transition from the aggressive market-oriented integrating strategy inaugurated in Bologna and Lisbon in the late 20th century to the new pro-market policies adopted following the crisis, which have widened and deepened the gap between Eurozone member states. I shall also focus on a less self-evident parameter of recent developments: the prevalence of technocratic solutions, and the retreat of political processes and elective bodies in the formulation and implementation of economic policy in Europe.

1. Introduction: what happened to the Europe of knowledge?

The debate over the growing need for the European Union (EU) to adjust to an increasingly cut-throat, globalizing world is neither original nor new. Discussion on the issue began in the late 1990s, when 29 European Ministers of Education met in Bologna to proclaim the creation of "a Europe of knowledge […] capable of giving its citizens the necessary competences to face the challenges of the new millennium". The Bologna Declaration emphasized "the importance of education and educational co-operation in the development and strengthening of stable, peaceful and democratic societies". The explicit aim of making European universities "acquire a world-wide degree of attraction equal to our extraordinary cultural and scientific traditions" reflected a discussion on the contribution of American culture and universities to the USA's position as the world's dominant power throughout the second half of the twentieth century. Given the intimate relationship between education and culture, moving faster towards more competitive education systems was thought to be a decisive step towards European preponderance, inasmuch as "the vitality and efficiency of any civilization can be measured by the appeal that its culture has for other countries". Higher education was destined to be the workshop in which the future world dominance of Europe would be forged.[1]

Official European texts of the time stressed the belief that raising performance in education would also have a positive impact on "employment, health, social inclusion and active

[1] The Bologna Declaration of 19 June 1999, http://www.ond.vlaanderen.be/hogeronderwijs/bologna/documents/MDC/BOLOGNA_DECLARATION1.pdf.

citizenship".[2] However, in view of the "strong national nature" of European educational systems, policy intervention should encourage "the comparison of performance in education across Europe" and "greater transparency in the recognition of qualifications and periods of study and training". The inexorable question was how these targets could be attained against a background of restrictive fiscal policies. Indeed, due to budgetary constraints, over-optimistic forecasts and weak economic growth, it proved impossible to fulfill earlier lofty promises to increase per capita investment in human resources, reduce school failure and drop-out, and raise the share of graduates in mathematics, science and technology. The same was true of the proportional increase of women interested in science and technology disciplines, and higher public investment in education. Public expenditure to GDP ratio in the EU trended upwards from 1970 (30.7%) to 1995 (45.7%). The strengthening of fiscal discipline associated with the Maastricht Treaty (1992) and the Stability and Growth Pact (1997) bear the lion's share of responsibility for the reversal of this trend during the 2000s. In 2006, Euro area public expenditures were 3.5% of GDP lower than in 1996.[3]

Late 20th century EU documents look on the United States and Japan as Europe's leading competitors. Spending on research and development (R&D) testified to the widening gap between the EU and other growing industrial economies. Particularly as regards business-funded R&D, the continent's investment deficit was greater towards Japan, which devoted 3% of its GDP to R&D in 2000, compared to 2.7% for the United States. However, after a long period of economic stagnation in the 1990s and in view of "the problems of the Japanese financial system, which […] obscured the benefits of its high R&D intensity", Japan lost its role model status in EU texts to China and South Korea.[4]

Funding of higher education institutions in Europe has traditionally relied on the public sector. In 2000, EU public expenditure on education as a proportion of GDP was comparable to that of USA and higher than that of Japan. Available data for 2008-2014 shows an increase in the "innovation divide" within Europe: at one end of the spectrum, public funding for universities rose steadily in countries such as Norway, Sweden, Germany, Austria, Belgium, Denmark and Poland. At the other end, countries in Southern and Eastern Europe (Greece, Hungary and Latvia) implemented swingeing cuts often exceeding 40%.[5] However, one key factor in the post-Bologna reforms was increased private sector involvement in higher education funding. Indeed, in 2004 private investment in educational institutions in the EU was only a quarter of that in the USA (0.6% vs. 2.2% of GDP) and half of that in Japan (1.2%). Increased private investment in R&D, adult education and vocational training was considered crucial to bridging the gap. Universities were called upon to become more sensitive to their varied consumers' demands, so as to generate income from commercial activities. This trend towards marketization has led to an increase in private expenditure as a proportion of higher education funding, even if against a backdrop of dwindling public funding per student in many European countries.[6]

[2] Council of the European Union (CEU), Brussels, 3 March 2004, 6905/4. "Education & Training 2010. The Success of the Lisbon Strategy Hinges on Urgent Reforms", in http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%206905%202004%20INIT.

[3] Ulrike Mandl, Adriaan Dierx and Fabienne Ilzkovitz, "The effectiveness and efficiency of public spending", *Economic Papers* 301, European Commission, February 2008, p. 9-10, in http://ec.europa.eu/economy_finance/publications/publication11902_en.pdf.

[4] Commission of the European Communities. Brussels 11.9.2002. "More research for Europe. Towards 3% of GDP", in http://ec.europa.eu/research/era/pdf/com3percent_en.pdf.

[5] Inga Ulnicane, "Austerity, impact and divided Europe of Knowledge", 25 Apr. 2016, in http://era.ideasoneurope.eu/2016/04/25/austerity-impact-divided-europe-knowledge/.

[6] CEU, Brussels, 3 March 2004, 6905/4, ibid, p. 16-17. Ben Jongbloed, *Funding Higher Education: A View Across Europe,* European Center for Strategic Management of Universities, 2010, p. 16, 26 in

Taking into account the above restrictive framework, there was one area in which intervention by the EU was relatively successful, namely in "the creation of […] a skilled and adaptable labour force on more open and more accessible European labour markets".[7] This aimed to tackle the high levels of unemployment, poverty and temporary and precarious employment in the EU. Indeed, the issue of joblessness lay at the core of European educational policy texts throughout the 2000s, with particular emphasis being placed on young people, women and the long-term unemployed. The outlook was not bright, however, given the sluggish growth rates in several EU countries. In February 2005 the Council of EU pointed out that "some 33 million people in the EU are not in active employment", that "Europe's workforce is ageing, and 32% of the working age population (78 million) is low skilled", while available forecasts suggested a sharp decline in demand for low skilled workers by 2020 and tougher international competition for highly skilled labour.[8]

In this context it is remarkable that EU texts admitted (albeit indirectly at times) that the de-industrialization of Europe would continue as the 21st century moved forward, and that very little could or should be done at the intergovernmental level to prevent it. What rendered the development of higher education more critical than ever before was the prediction that the Union's manufacturing base would continue to shrink over the decades to come, and that future growth and social welfare would thus increasingly rely on knowledge-intensive industries and services.[9] Indeed, coupled with an increase in the share of service-related jobs in total employment, the shift in demand from low to high skilled workers rendered general access to European education systems all the more essential in the war on unemployment. Simultaneously, however, increased poverty and inequality in Europe clearly worked in the opposite direction. Even prior to the global financial crisis, political leaders took the view that they should not interfere in the markets to stand up for whatever part of the EU's manufacturing base had fallen behind in international competition.[10]

According to early 21st century EU reports and texts, Europe should aim to recruit, train, and bring its best brains together, while also fielding leading minds from other regions, in order to make the real differences needed to remain competitive. The continent's competitive advantage should be based on a well-educated, innovative and trained labor force, rather than on a productive model based on low wages, or on the availability of cheap energy and

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http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.586.7996&rep=rep1&type=pdf. Kiira Kärkkäinen, *Emergence of Private Higher Education Funding Within the OECD area*, OCDE, September 2006, p. 7, in https://www.oecd.org/education/skills-beyond-school/38621229.pdf.

[7] Action Plan for skills and mobility, 13.2.2002, in http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=URISERV:c11056&from=EL.

[8] Council Recommendation on the implementation of member states' employment policies. Brussels 6.9.2000, in http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2000:0549:FIN:EN:PDF. Council of the EU, Brussels, 21 February 2005. Press Release. 2639th Council meeting for Education, Youth and Culture, in http://europa.eu/rapid/press-release_PRES-05-20_en.htm?locale=en. Opinion of the European Economic and Social Committee on the 'Post-secondary vocational education and training as an attractive alternative to higher education' (own-initiative opinion), 6.3.2012, in http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52012IE0147).

[9] Commission of the European Communities. Brussels 20.4.2005. "Mobilising the brainpower of Europe: enabling universities to make their full contribution to the Lisbon Strategy", in http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52005DC0152&from=EL.

[10] Official Journal of the European Union. C318/113, 23.12.2009, "Opinion of the European Economic and Social Committee on the "Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions on An EU Strategy for Youth-Investing and Empowering a renewed open method of coordination to address youth challenges and opportunities", p. 5, in http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2009:318:0113:0120:EN:PDF. "Mobilising the brainpower of Europe", *ibid*.

raw materials, as is the case in many African, Asian and Latin American countries.[11] Yet the years since the onset of the 2008 crisis have seen a gradual watering down of the once firmly held belief that Europe could never hope to win the competitive race against other regions as regards cheap labor, but that it could maintain a competitive edge in knowledge and innovation.

2. East Asian development, and the lessons we have not learned from the past

The debate over the sources of East Asian growth and the measures adopted in response to the "Asian crisis" of 1996-1998 are by no means irrelevant to approaches taken to the current crisis. Some of the fundamental problems inherent in simplistic analysis of such complex phenomena as economic development can be seen in the absence from the so-called European "bailout package" of clauses relating not only to recessionary policies, but also to a development agenda, in the belief that the latter is simply a product of free trade, free-markets and private sector stimulus. Mainstream economists attributed the East Asian economic miracle[12] to its opening up to markets, competition and capital, and to the fact that the countries concerned devised and implemented economic policies free of the pressures exerted by politics and business; and those same people then went on to blame the 1996 crisis on East Asian deviation from free market principles. Indeed, the term crony capitalism was extensively used in many simplistic western studies attempting to account for the Southeast Asian crisis of 1996-98.[13] One measure of just how shallow analyses can be is the failure to mention the existence in many East Asian countries of non-conventional economic regimes combining atypical ownership rights, protectionist trade policies and intensified market regulation. The absence of fundamental questions about the role of the state and the dissemination of foreign capital and technology is similarly evident in current approaches to the Euro crisis.

The issue of technology transfer from one country to another is not, for example, dependent on the absence of barriers to trade, or on ensuring the most business-friendly regulatory environment. It is noteworthy that when attempting to account for development processes in different parts of the globe, undue emphasis on specific reference values such as the ease of doing business yields at best inconsistent results for the world's fastest growing economies such as China and India, and also reflects an anti-regulatory bias. In this sense, a former senior OECD officer commented that with regard to ease of doing business rankings, "Basically, countries that have no labor regulation whatsoever get the best marks".[14] Another

[11] "Mobilising the brainpower of Europe", *ibid*.
[12] Indicative of European admiration for these "spectacular" growth rates, which were, for China, "above 7% in 14 consecutive years", were many communications from the Commission of the European Communities. See for example "Brussels. 11.3.2005, COM (2005) final, "A Community civil aviation policy towards the People's Republic of China -strengthening co-operation and opening markets", in http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2005:0078:FIN:EN:PDF.
[13] See for example: "Implications of recent Asian developments for community banking. Remarks by Chairman Alan Greenspan Before the Annual Convention of the Independent Bankers Association of America", Honolulu, Hawaii, March 3, 1998, in https://www.federalreserve.gov/boarddocs/speeches/1998/19980303.htm. Walden Bello, "Asian Financial Crisis: The Movie", in http://www.focusweb.org/publications/1998/Asian%20Financial%20Crisis-The%20Movie.htm. Eddy Lee, "The Debate on the Causes of the Asian Crisis: Crony Capitalism Versus International System Failure", *International Politics and Society*, vol. 2, 1999, p. 162-167.
[14] "Ranking countries on 'ease of doing business' should be stopped - World Bank", 25 June 2013, in https://www.rt.com/business/doing-business-ranking-wb-204/. "China wants to end World Bank business rankings", 7 May, 2013, in https://www.rt.com/business/rating-china-world-bank-951/.

example of the inadequacy of pro-market theories in accounting for economic growth is to be found in the deposition to the U.S. House Science Committee by Robert D. Atkinson, president of a research and educational institute for technological innovation, in December 2012. Discussing the impact of international technology transfer on the USA economy, he focused not only on the fact that Asian nations as a group surpassed the United States in R&D investment for the first time in 2008, but also that U.S. firms are required to share proprietary secrets and open R&D labs with domestic firms in China and other East Asian countries, as a precondition for gaining market access for their products and services. He insisted that China is in a position to implement this effective policy of "forced technology transfer" because it is not a market-oriented liberal democracy, and because its economy is large and powerful enough to resist the pressures of multinational corporations.[15]

In South Korea, which experienced unprecedented rates of economic growth from the 1960s onwards, boosted by inflows of economic aid, technology and direct investment by the USA and Japan, the state organized firms into giant multisectoral business groups (*chaebol*) and "through its tight control of central banks and investment decisions […] determined when and where firms would enter new markets".[16] However, the state was active not only in providing various types of economic stimulus ["preferential access to credit, capital, and technology licenses"] and a protected domestic market, but also in imposing the requisite discipline: enterprises whose export capacities were restricted by low productivity levels and could not compete internationally were frozen out of credit markets and faced an unfavorable economic environment.[17]

Presenting the experience of economic growth in several East Asian countries (South Korea, Taiwan, India, China), Ricardo Hausmann and Dani Rodrik (2003) stressed that the development process did not originate from the supply of a comprehensive technological blueprint with the purpose of constructing turnkey plants identical to those of Great Britain, Germany, or the USA.[18] Technology transfers usually fail in the absence of "tacit knowledge", which should allow for the adaptation of imported technologies to the environment and specific circumstances into which they are introduced. Successful industrialization and the adoption of foreign technology call for the discovery of a fairly restricted high intensive sector in the economy whose effectiveness and suitability for a specific country are "uncertain and unpredictable". The pattern of specialization characterizing many economies is the outcome of a specific kind of learning which is of value to society but yields modest private profits. When the ease of market entry reduces the benefits of innovation given that business profits from investments lie behind social gains and the motives to discover new products or production processes are lacking, the end result is underinvestment and a flagging economy. Under these circumstances a laissez-faire policy leads to inadequate supply of innovation and governments will have to provide leadership and direction over the private sector so as to "encourage entrepreneurship and […] increase the expected payoff to innovation".[19]

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[15] Robert D. Atkinson President and Founder Information Technology and Innovation Foundation (ITIF) Hearing on "The Impact of International Technology Transfer on American Research and Development" Before the House Science Committee Subcommittee on Investigations and Oversight, U.S. House of Representatives, December 5, 2012, in
http://www2.itif.org/2012-international-tech-transfer-testimony.pdf.
[16] Kim Dong-Won and Stuart W. Leslie, "Winning Markets or Winning Nobel Prizes? Kaist and the Challenges of Late Industrialization", *Osiris*, vol. 13, 1998, p. 155-156.
[17] Ricardo Hausmann, Dani Rodrik, «Economic development as self-discovery», *Journal of Development Economics*, vol. 72, 2003, p 630-631.
[18] Ricardo Hausmann, Dani Rodrik, *Ibid*., p. 624-625.
[19] Ricardo Hausmann, Dani Rodrik, *Ibid*., p. 605, 607, 629.

The unwillingness to draw the necessary lessons from the 1996 crisis in such a way as to prevent the abuses subsequently seen in both the United States and Europe closely resembles the ostrich approach now being taken towards the Eurozone debt crisis. A good measure of this intransigence and the absence of disinterestedness shown by allegedly politically neutral institutions such as independent central banks was manifest in the testimony given by Alan Greenspan to the US House of Representatives' Committee on Banking and Financial Services in the aftermath of the Asian crisis. Greenspan, then Chairman of the Federal Reserve and architect of deregulation in the US banking industry, reaffirmed that it would not have been appropriate to apply the 1936 Commodity Exchange Act to financial derivatives "in order to […] deter market manipulation and protecting investors", because "unlike commodities, whose supply is limited to a particular growing season and finite carryover, the markets for financial instruments […] are deep and, as a consequence, are extremely difficult to manipulate". Greenspan saw "no reason to question the underlying stability of the OTC [over-the-counter derivatives] markets, or the overall effectiveness of private market discipline". He was also confident that "these instruments provide extensive protection against undue asset concentration risk" and that they "add significant value to our financial structure, both here in the United States and internationally".[20]

Seven years later, before Greenspan lost the epithet "maestro" to the distinctly less flattering yet more appropriate sobriquet "Mr. Bubble", he declared that in case of a fall in house prices "nationwide banking and widespread securitization of mortgages makes it less likely that financial intermediation would be impaired", and reassured the public that "the use […] of more sophisticated approaches to measuring and managing risk are key factors underpinning the greater resilience of our largest financial institutions".[21] On October 23 2008, faced by an imminent crash of the financial system, he was ready to admit the collapse of "the whole intellectual edifice" which was behind the "modern risk management paradigm". However, there was no question of this having been the error of a single man or a single organization; to his mind the fault lay with a whole generation which entrusted "vast risk management and pricing systems […] combining the best insights of mathematicians and finance experts [and] supported by major advances in computer and communications technology".[22] Consequently, the errors of financial institutions and of regulatory authorities were pardonable. There were not the errors of a man or a firm, but of science and humanity themselves. Reasonably enough, such blunders should be forgiven and financial institutions should be supported. But the ordinary people who had placed their trust in financial institutions and regulatory authorities, with devastating results for their employment and property, were guilty as charge. For them, virtue and forgiveness could only be won through austerity, insecurity and privatization.

[20] Alan Greenspan, "The Regulation of OTC derivatives. Testimony of Chairman Alan Greenspan Before the Committee on Banking and Financial Services, U.S. House of Representatives, July 24, 1998", in http://www.federalreserve.gov/boarddocs/testimony/1998/19980724.htm.
[21] Quoted in Stephen Bell and Andrew Hindmoor, *Masters of the Universe, Slaves of the Market*, Cambridge, Mass. and London, 2015, p. 191-192.
[22] *The Wall Street Journal*, Oct. 23, 2008, "Greenspan Testimony on Sources of Financial Crisis", in http://blogs.wsj.com/economics/2008/10/23/greenspan-testimony-on-sources-of-financial-crisis/.
Edmund L. Andrews, "Greenspan Concedes Error on Regulation", *The New York Times*, Oct. 23, 2008, in http://www.nytimes.com/2008/10/24/business/economy/24panel.html?_r=2.

3. Europe's new microeconomic agenda

By the late 1990s the initial difficulties inherent in the diffusion and commercialization of new technologies, especially in microelectronics, computing and communication, appeared to have been overcome. Indeed, when in March 2000 the Lisbon European Council declared the move towards a Europe of innovation and knowledge, earlier concerns such as those expressed by Robert M. Solow[23] and Paul A. David already seemed irrelevant. Economists took the boom from 2001 onwards as evidence that the global economy had entered into a never-ending era of prosperity.[24] European leaders *lost no time in grasping the lessons to be drawn:* "The sudden arrival and growing importance of information and communication technologies […] call for a radical overhaul of the education system in Europe".[25] At the dawn of the 21st century, the paradigms to be followed in transforming Europe into a dynamic knowledge-based economy originated from the U.S.A. Since the late 1990s America had entered into a period of high growth sustained by information and communication technologies, and an unprecedented expansion of services, banking and internet commerce. "I shall argue that international economic policies have been phenomenally successful to date, and have in many ways changed the contour of the world economy itself, mainly for the better", declared Anne O. Krueger, First Deputy Managing Director of the IMF, in an April 2006 lecture outlining the evolution of the world economy since the closing decades of the 19th century.[26]

Since the onset of the recent crisis, the original optimism of the European politicians who laid down the new economic policy guidelines in Bologna and Lisbon has given way to more modest analyses of EU potentials and dynamics.[27] Assessing the Lisbon Strategy in 2010, the European Commission noted that reforms in labour markets "have helped protect jobs in the downturn and stem the rise in unemployment, while the Euro area proved to be an anchor for

[23] Robert M. Solow, "We'd Better Watch Out", *The New York Times Book Review*, July 12, 1987, p. 36, in http://www.standupeconomist.com/pdf/misc/solow-computer-productivity.pdf. Erik Brynjolfsson, "The Productivity Paradox of Information Technology", *Communication of the ACM*, December 1993, p. 67-77. Jack Triplett, "The Solow productivity paradox: what do computers do to productivity?", *Canadian Journal of Economics*, vol. 32, no. 2, 1999, p. 309-334. Paul A. David and Gavin Wright, "General Purpose Technologies and surges in Productivity: Historical Reflections on the Future of the ICT Revolution", *Discussion Papers in Economic and Social History*, no. 31, September 1999, p. 1-25. Dale Weldau Jorgensen and Kevin J. Stiroh, "Raising the Speed Limit: U.S. Economic Growth in the Information Age", *Brookings Papers on Economic Activity*, no. 1, 2000, p. 125-201. William D. Nordhaus, "Productivity Growth and the New Economy", *Brookings Papers on Economic Activity*, no. 2, 2002, p. 211-265. Dale W. Jorgenson, Mun S. Ho and Kevin J. Stiroh, "A Retrospective Look at the U.S. Productivity Growth Resurgence", *The Journal of Economic Perspectives*, vol. 22, no. 1, Winter 2008, p. 3-24.

[24] *David compared the slow pace in the transformation of industrial process by electric power between 1890-1930 with the slowdown in productivity growth experienced U.S. economy in the 1970s and 1980s.* Paul A. David, «The Dynamo and the Computer: An Historical Perspective on the Modern Productivity Paradox», *The American Economic Review*, vol. 80, no. 2, Papers and Proceedings of the Hundred and Second Annual Meeting of the American Economic Association, May 1990, p. 355-361.

[25] "The Lisbon Special European Council (March 2000): Towards a Europe of Innovation and Knowledge", in http://eur-lex.europa.eu/legal-content/EL/TXT/?uri=URISERV%3Ac10241.

[26] Anne O. Krueger, "The World Economy at the Start of the 21st Century, Remarks by Anne O. Krueger, First Deputy Managing Director, IMF", Annual Gilbert Lecture, Rochester University, New York, April 6, 2006, in https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp040606. For a different view as it concerns the late 20th century, see Albert Berry and John Serieux, "Century (1980-2000)", *DESA Working Paper No. 27*, September 2006, in http://www.un.org/esa/desa/papers/2006/wp27_2006.pdf.

[27] Richard W. Stevenson, "In the Wings: Euro as Potential Rival to the Dollar", *New York Times*, April 28, 1998, in http://www.helenerey.eu/AjaxRequestHandler.ashx?Function=GetSecuredDOC&DOCUrl=App_Data/helenerey_eu/Published-Papers_en-GB/_Documents_2012-13/Euro%20as%20Potential%20Rival%20to%20the%20Dollarnyt.pdf. Dominick Salvatore, "The Euro: Expectations and Performance", *Eastern Economic Journal*, vol. 28, no. 1, Winter 2002, p. 121-136.

macro-economic stability during the crisis".[28] In making such claims, European officials clearly took an upbeat view of the Euro's performance and prospects, in line with that offered by Menzie Chinn and Jeffrey Frankel (2008), rather than the distinctly more sombre view taken by David Fields and Matias Vernengo (2011). In a "Commentary" published in International Finance when the crisis in the American financial system was at its apogee, Chinn and Frankel compared the protracted decline of the pound and the emergence of the dollar as the major international currency with the rapid acceptance of the euro as the number two international currency not long after its debut. The writers concluded that despite the "strong inertial bias in favour of using whatever currency has been the international currency in the past", given the current account deficits of the United States and the size and depth of European financial markets, it was highly plausible that the euro could overtake the dollar as the leading international currency.[29] In contrast, writing at the height of the eurozone debt crisis, Fields and Vernengo thought it "very unlikely that the dollar would be replaced as the key currency by the euro, or any other contender, for a very long period". According to them, the critical element for monetary hegemony was state power rather than market confidence. T*he odds of the euro replacing the dollar as the key world currency were thus lengthened by the fact* that in Europe there was no equivalent to US treasury bills. Added to this, the ECB appeared hidebound by a purely monetarist approach to central banking, and the EU was clearly unwilling to expand aggregate demand.[30]

Nevertheless, in the aforementioned assessment of the Lisbon strategy, the European Commission was frank enough to criticize the inaction of the EU with regard to "critical elements which played a key role in the origin of the crisis, such as robust supervision and systemic risk in financial markets, speculative bubbles especially in housing markets". Echoing, at the same time, the usual blame game against the South of the Eurozone, criticism was voiced against "credit-driven consumerism which, in some Member States, combined with wage increases outpacing productivity gains, fueled high current account deficits". The Commission also expressed dissatisfaction about the suitability of "ambitions endorsed at the highest political level" on the grounds that these "have not always resulted in faster decision making or in avoiding dilution".[31] This seemingly "innocent" observation would have far reaching effects in the planning and implementation of austerity measures towards EU member states under EC/ECB/IMF supported programs (see below).

Key European Union documents refrain from observing which countries or social groups have benefited the most from Europe's monetary union, while glossing over the flaws inherent in the design and structure of the single currency. Instead, they insist on the urgency of broadening and deepening macroeconomic surveillance so as to render Europe capable of standing up to international competition. Proposed policy directions include *wage restraints, budgetary discipline,* deregulation and measures that weaken the economic security and bargaining strength of organized labor.

[28] European Commission. Brussels 2.2.2010. Sec (2010) 114 final. Lisbon Strategy evaluation document, p. 4, in http://ec.europa.eu/europe2020/pdf/lisbon_strategy_evaluation_en.pdf.
[29] Menzie Chinn and Jeffrey Frankel, "Why the Euro Will Rival the Dollar", *International Finance*, vol. 11, no. 1, 2008, p. 49-73.
[30] David Fields and Matias Vernengo, "Hegemonic Currencies during the Crisis: The Dollar versus the Euro in a Capitalist Perspective", *Working Paper no. 666*, Levy Economic Institute, April 2011, p. 1-17, in http://www.levyinstitute.org/pubs/wp_666.pdf. Franziska Richter and Peter Wahl, "The Role of the European Central Bank in the Financial Crash and the Crisis of the Euro-Zone. Report based on a WEED Expert Meeting", *World Economics, Environment & Development*, 2011, p. 1-17, in http://www2.weed-online.org/uploads/ecb_report_final.pdf.
[31] Lisbon Strategy evaluation document, *ibid*., p. 5.

Christian Thimann's article "The Microeconomic Dimensions of the Eurozone Crisis and Why European Politics Cannot Solve Them" (2015) is a good example of a text focused on the above objectives.[32] The fact that Thimann served as a top monetary policy adviser to the ECB president[33] perhaps accounts for the fact that both Mario Draghi and Jean-Claude Tricet are "privileged commentators" on the article. In approaching the Eurozone crisis, Thimann concentrates on factors not directly associated with the global crisis, financial architecture or European economic fundamentals. At the core of his analysis lies the conviction that serious interventions in the labor market are the only way to trigger a satisfactory response to the competitiveness problem besetting the weaker economies in the Eurozone. He maintains that in Spain and Greece, competitive gains and improvements in current account balances have occurred through labor shedding, import contraction and export growth. Yet increasing competitiveness by reducing jobs leads to misleading results. A credible analysis should include competitiveness based "in terms of real GDP per potential worker (that is, employment plus unemployed)".[34]

Thimann summarily switches from the "cost of capital" as a factor contributing to the reduced productivity of the peripheral eurozone countries, to the cost of the social security system and other "disincentives for investment" at the heart of the structural adjustment programmes drawn up by European creditors. He contends that "competitiveness comparisons usually focus on developments in wages and labor productivity, as cross-country differences in the cost of capital are relatively muted across developed countries".[35] Yet this is a specious claim, given that such differences are at present far greater than those justifiable in a common currency area. In early 2014, Phil Pew, former senior ECB monetary policy official and now chief European economist at Goldman Sachs warned that "if we have to live with the current level of [credit market] fragmentation, the viability of monetary union will eventually be called into question".[36]

Such a degree of fragmentation dramatically restricts private credit flows to the Eurozone periphery. A prime example of this is to be seen in investment in renewable energy, one of the fastest growing sectors in the global economy, and a highly capital-intensive one: according to the findings of the EU-funded "DiaCore project", carried out by a consortium of researchers, in 2014 "the average weighted cost of capital for an onshore wind project "ranged from 3.5% in Germany to 12% in Greece".[37] Obviously, "generic country risk" and "sudden policy change risk" partly account for the fact that "it is vastly more expensive to undertake" such projects in certain EU countries than in others. However, if we take into

[32] Christian Thimann, "The Microeconomic Dimensions of the Eurozone Crisis and Why European Politics Cannot Solve Them", *The Journal of Economic Perspectives*, vol. 29, no. 3, Summer 2015, p. 141-163.
[33] Jeff Black, "Top Draghi Adviser Thimann to Leave ECB After 15 Years", September 30, 2013 in http://www.bloomberg.com/news/articles/2013-09-30/top-draghi-adviser-thimann-to-leave-ecb-after-15-years.
[34] Thimann, *ibid.*, p. 146-147.
[35] Thimann, *ibid.*, p. 144.
[36] Ralph Atkins, "ECB modestly successful in tempering eurozone rates divergence. Companies in weakest economies face much higher borrowing costs", *Financial Times*, January 1, 2014, in https://www.ft.com/content/46cc0602-6bd0-11e3-a216-00144feabdc0. *Capital Market Union: Integration of Capital Markets in the European Union*, September 2015, p. 9, in https://www.pwc.com/gx/en/banking-capital-markets/pdf/cmu-report-sept-2015.pdf
[37] Sonja van Renssen, "Cost of capital for renewables varies hugely across EU", February 10, 2016, in http://www.energypost.eu/cost-capital-renewables-varies-hugely-across-eu/. "Mapping the cost of capital for renewable energy investments in the EU", 10.2.2016, in http://www.ecofys.com/en/press/mapping-the-cost-of-capital-for-renewable-energy-investments-in-the-eu/. David de Jager, "Cost of Capital for Onshore Wind in EU", *Webinar Leonardo Energy & Ecofys*, 11.2.2016, p. 1-37 in http://www.leonardo-energy.org/sites/leonardo-energy/files/documents-and-links/cost_of_capital_-_ecofys.pdf.

account the size and importance of the banking sector in financing the real economy in Greece, the high cost of capital creates a competitive disadvantage at least as significant as that attributed to high wages in relation to productivity, or to the relatively high cost of employer social security contributions. Even before the crisis, various sources highlighted the fact that Greek banking profitability was supported by high spreads between the rate earned on loans and that charged on deposits. A 2006 study estimated that in the previous year "net interest margins stood at 3.5%, significantly above the EU-12 average of 1.3%."[38] In addition, banks in Greece levy more billing fees than in the rest of the Europe, and even e-banking services have suffered from high rate charges.[39] Invoking market forces as a way of reducing wages or social-security contributions while turning a blind eye to the high interest margin of Greek banks[40] reveals a contradictory approach towards competition: it is taken to be healthy when rendering markets more flexible and reducing the share of labour in national income, but deleterious when it triggers a redistribution of income away from wages to profits. A non-competitive market is thus only injurious where profits suffer.

According to the Bank of Greece, the main reason for high lending rates in Greece "is that securities issued or guaranteed by the Greek state are not accepted as collateral by the Eurosystem in its regular open market operations", even if the ECB provides access for Greek banks to the emergency liquidity assistance (ELA).[41] This reluctance to help a struggling Eurozone economy with unprecedented rates of unemployment in recovering from a devastating chronic recession is the result of well calculated economic blackmail: only with a full implementation of labour market reforms, reductions in salaries, pensions and minimum wage, etc. will the ECB, EC and IMF show any willingness to ease the state of financial suffocation artificially imposed on Greece. One piece of evidence indicative of the way the so-called institutions work is the transcript of a teleconference between Poul Thomsen, head of the IMF's European Department, and Delia Velculescu, IMF mission chief for Greece, released on April 2, 2016, according to which IMF officials planned to provoke a "credit event" in the country in order to force the government to "accept our [IMF] views", which at that juncture included pension cuts and budget savings worth 2.5% of Greek GDP.[42]

4. The moral hazard problem and the "delinquent countries"

If EU texts at the close of the 20th century prioritized the fight against social exclusion and promoted a non-punitive approach towards poverty or academic failure and school drop-out,

[38] Gikas A. Hardouvelis, "The Greek Banking System in 2006: Comparative Performance", *Greek Banking Review*, November 2006, p. 21.
[39] "Greek banks charge higher commission for cards payment than in other EU countries", in http://www.keeptalkinggreece.com/2015/12/21/greek-banks-charge-higher-commission-for-cards-payments-than-in-other-eu-countries/.
[40] Eleni Dendrinou-Louri, "Assessing the performance and regulation of the Greek banking system", speech at the conference *The Future of banking in Greece: Redefining the business of financial services to drive growth and expansion in 2009 and beyond*, Athens 21 January 2010, p. 2 in https://www.bis.org/review/r100222e.pdf.
[41] The Bank of Greece Interim Report on Monetary Policy 2015, 04/12/2015, in http://www.bankofgreece.gr/Pages/el/Bank/News/PressReleases/DispItem.aspx?Item_ID=5136&List_ID=1af869f3-57fb-4de6-b9ae-bdfd83c66c95.
[42] Tyler Durden, "Wikileaks Reveals IMF Plan to Cause a Credit Event in Greece and Destabilize Europe", April 2, 2016, in http://www.zerohedge.com/news/2016-04-02/wikileaks-reveals-imf-plan-cause-credit-event-greece-and-destabilize-europe. Marcus Walker and Nektaria Stamouli, "Leaked Call Shows Continued Strains Between Greece and its Creditors", *The Wall Street Journal*, 2 April, 2016 in http://www.wsj.com/articles/leaked-call-shows-continued-strains-between-greece-and-its-creditors-1459617458. "19 March 2016 IMF Teleconference on Greece. Wikileaks release: April, 2nd 2016", in https://wikileaks.org/imf-internal-20160319/transcript/IMF%20Anticipates%20Greek%20Disaster.pdf.

an entirely different spirit prevailed in post-crisis critiques of individuals who lost their jobs, or of countries that lost access to financial markets. Creditors warned that assistance towards such individuals or countries would only come under strict conditionality clauses, which included unsustainable primary budget surpluses for many years to come. This recipe is based on a tendency in economic literature to confirm both a negative relationship between public debt and economic growth, especially when the debt to GDP ratio exceeds a certain threshold, and a positive one between high government debt and corruption.[43] The level of government debt had become a fetish, and the lesson to be drawn from this alleged causal relationship between public debt and growth is that money should be a scarce resource controlled not by governments, but by "independent", disinterested and purportedly socially neutral institutions such as central banks. Money should only be lent under binding terms, in order to protect society from speculation, peculation and inflation.[44]

As they are unable to re-finance their debts by raising funds on the bond market, the smaller Eurozone countries have been subject to enhanced economic surveillance and, mutatis mutandis, have been treated like subprime mortgage holders in the USA. Subprime lending was available to people in the lowest income brackets, such as African Americans, Hispanics, women of color, single mothers etc. These borrowers were forced to pay interest averaging between $85.000 and $186.000 more than standard mortgage borrowers. One feature typical of the racial and gender discrimination bias inherent in such lending was the fact that in 2005, African American women were 256% more likely to receive a subprime mortgage than white men.[45] Furthermore, according to a 2005 analysis of federal home lending data, African Americans, American Indians/Alaska Natives, Pacific Islanders and Hispanics relied more on

[43] See in this respect: Carmen M. Reinhart and Kenneth S. Rogoff, "Growth in a Time of Debt", *American Economic Review: Papers & Proceedings*, vol. 100, no. 2, May 2010, p. 573-578. Carmen M. Reinhart, Kenneth S. Rogoff and Miguel A. Savastano, "Debt Intolerance», *Brookings Papers on Economic Activity*, no 1, 2003, p. 1-62. Carmen M. Reinhart, Kenneth S. Rogoff, "Too Much Debt Means the Economy Cant' Grow", *Bloombergview*, July 14, 2011, in http://www.bloombergview.com/articles/2011-07-14/too-much-debt-means-economy-can-t-grow-commentary-by-reinhart-and-rogoff. Maksym Ivanyna, Alex Moumouras and Peter Rangazas, "Corruption, Public Debt, and Economic Growth", March 2015, p. 1-38, in https://msu.edu/~ivanynam/research/corr_debt/Ivanyna_Mourmouras_Rangazas_Corruption_Public_Debt_2015.pdf.
For a counter argument: Thomas Herndon, Michael Ash and Robert Pollin, "Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff", *Political Economy Research Institute. Working Paper Series,* no. 322, April 2013, p. 1-25. Markus Eberhardt and Andrea F. Presbitero, "This Time They're Different: Heterogeneity and Nonlinearity in the Relationship between Debt and Growth", *CFCM Working Paper 13/10*, October 18, 2013, p. 1-54. Paul Krugman, "How the Case for Austerity Has Crumbled", *The New York Review of Books*, June 6, 2013, in http://www.nybooks.com/articles/archives/2013/jun/06/how-case-austerity-has-crumbled/?pagination=false. Mehdi Monadjemi and John Lodewijks, "Sovereign Debt and Economic Growth in the Euro Zone", *International Research Journal of Applied Finance*, vol. 5, no. 12, December 2014, p. 1343-1352. Ugo Panizza and Andrea F. Presbitero, "Public Debt and Economic Growth in Advanced Economies: A Survey", *Swiss Society of Economics and Statistics*, vol. 149, no. 2, 2013, p. 175-204.
[43] Carmen M. Reinhart and Kenneth S. Rogoff, "Growth in a time of debt", *NBER Working Paper Series*, January 2010, p. 2, in http://www.nber.org/papers/w15639.pdf.
[44] Timothy A. Canova, "The Role of Central Banks in Global Austerity", *Indiana Journal of Global Legal Studies*, vol. 22, no. 2, Summer 2015, p. 665-696.
[45] James Heintz and Radhika Balakrishnan, "Debt, Power, and Crisis: Social Stratification and the Inequitable Governance of Financial Market", *American Quarterly*, vol. 64, no. 3, September 2012, p. 394-395. Emily Badger, "The Dramatic Racial Bias of Subprime Lending During the Housing Boom", August 16, 2013, in http://www.citylab.com/housing/2013/08/blacks-really-were-targeted-bogus-loans-during-housing-boom/6559/.

subprime loans than whites; borrowers of colour in almost all income brackets were three times more likely to be offered subprime lending than their white counterparts.[46]
This unequal treatment based on racial-ethnic income disparities facilitated the attribution of blame to characteristics supposedly "innate" to blacks and Hispanics, such as laziness, unreliability, violent tendencies, heavy welfare dependence or unintelligence when accounting for the high share of non-performing loans in the subprime market.[47] Just as the borrowers in question were held responsible for unfortunate choices based on a poor assessment of risks and future income, so the most vulnerable citizens in the Eurozone's pariah states were accused of lacking a work ethic, enjoying welfare benefits unimaginable to other Europeans, etc. Therefore, depriving them of fundamental social and economic rights and goods was considered an appropriate punishment for their misconduct, volatility and lack of predictability.

When the US financial crisis threatened the stability of the European banking system, very few politicians and mass media outlets warned the public that the rescue packages granted to the major banks, to the tune of 1.7 trillion euro, would be an unmanageable burden on the credibility of states with high debts and deficits. But when the discussion centered on financing the public sector, debt ratios and deficits stood at the core of an international campaign against the "pariah states" of Southern Europe. With the complicity of credit rating agencies,[48] which were instrumental in triggering the financial crisis, southern Eurozone countries were threatened with a permanent ban from international capital markets if they failed to submit to supervision unworthy of a sovereign state, or if they rejected the institutionalization of austerity through the Fiscal Compact and various recessionary economic adjustment programmes.

One mindset indicative of the above trend is that displayed by Charles Wyplosz, a well known French economist and consultant to the European Commission and international organizations. In March 2011, Wyplosz noted that a future system of Eurobonds should actively consider the "moral hazard aspect" of the Eurozone debt crisis, which markets are more than aware of. In this respect, the higher interest rates paid by countries "perceived as fiscally unsound act as a powerful incentive to restoring budgetary discipline". According to Wyplosz, the mutualisation of all national government debt under the Eurobond proposal would mean each Eurozone Member State agreeing to share responsibility for debt servicing throughout the entire bloc, while at the same time determining its own separate sovereign fiscal policy. However, such an arrangement would not sufficiently address the issue of moral hazard, which can be reduced to the following question: "Why should any government exercise restraint when it knows that others will pay for its own excesses?" As a solution to this problem, he suggested that fiscally unsound countries should face disciplinary proceedings reminiscent of criminal law. The existence of [excessive] deficit in the Eurozone ought to be viewed as a crime against the Euro. Countries which persistently commit such "crimes" ["delinquent countries" as Wyplosz terms them] should be monitored and placed under surveillance just like juvenile offenders. To prevent abuses, the issuing of Eurobonds

[46] "The State of Opportunity in America. A report on the nation's progress toward protecting and expanding opportunity for all", *The Opportunity Agenda* (2005), p. 31-32, in http://www.issuelab.org/resources/144/144.pdf.
[47] Devah Pager and Hana Shepherd, "The Sociology of Discrimination: Racial Discrimination in Employment, Housing, Credit, and Consumer Markets", *Annual Review of Sociology*, vol. 34, no. 1, January 2008, p. 181-209.
[48] See in this respect Standard & Poor's decision to downgrade Greece in April 2010 in the midst of rather sensitive negotiations between Greece, European Commission and IMF for a financial assistance package. John Ryan, *Working Paper FG*, 1, 2012/Nr. 01, January 2012, p. 11-14, in https://www.swp-berlin.org/fileadmin/contents/products/arbeitspapiere/The_Negative_Impact_of_Credit_Rating_Agencies_KS.pdf.

should ex-post address the moral hazard problem created when irresponsible states gain access to cheap lending. “Thus” he concluded “solidarity comes along with some reduction in fiscal policy sovereignty”.[49]

5. Austerity as a new form of technocracy

The targets set in the context of the Lisbon Strategy underscored the close interdependence of Member States’ economies, as well as the fact that “the action (or inaction) of one Member State could have significant consequences for the EU as a whole”.[50] The need for action at the EU level in response to the debt crisis would also be an indication of the inherent links in the European economy after decades of deepening its internal market.[51] In actual fact, however, joint action focused on inhibiting the threat Greek debt posed to European banks, rather than on easing the draconian lending conditions imposed on the troubled eurozone economies. I shall refrain from examining the widely visible effects of these choices, such as the rise of the far right in Europe, and focus instead on a less self-evident parameter: the prevalence of technocratic solutions, and the retreat of political processes and elective bodies in the formulation and implementation of economic policy in Europe.

On April 26-27, 2016, when Germany and the IMF insisted that €3.6 billion ex ante austerity measures for Greece be implemented in case of divergence from fiscal targets set by the memorandum, that is if the primary surplus for 2018 equal to 3.5% of GDP were not achieved, disagreements between the Greek government and the “institutions” concerning the constitutional legality and political expediency of ex ante implementation of contingency cuts brought the negotiations to a halt. In order to break the deadlock, the Greek government demanded a full meeting of European leaders, i.e. a “political negotiation” at the highest level. This strategy was rejected by the institutions on the grounds that it would be unacceptable to circumvent the Eurozone finance ministers, and above all, the “technical teams” from the IMF, the European Commission and the ECB.[52]

A second instance of technocratic supremacy unfolded in December 2016, when the Greek government announced a Christmas bonus for low-income pensioners and the suspension of VAT increases on the islands then sheltering thousands of refugees. The Greek authorities maintained that the funds to cover these initiatives came out of the surplus Greece had managed to achieve, that it did not threaten fiscal targets, and that it was “up to the Greek government to distribute expenditure in the way it sees most fit and socially correct”.[53] In contrast, the “institutions” considered the one-off payout of 600 million euro to pensioners as a unilateral decision violating the agreement between Greece and its creditors, and as a

[49] Charles Wyplosz, “Notes”, in *Eurobonds: Concepts and Implications. Compilation of Notes for the Monetary Dialogue*, Directorate General for Internal Policies. Policy Department A: Economic and Scientific Policies, March 2011, p. 7-10, in http://www.europarl.europa.eu/document/activities/cont/201201/20120130ATT36516/20120130ATT36516EN.pdf.
[50] European Commission. Brussels 2.2.2010, *ibid,* p. 2.
[51] Yiannis Kokkinakis, “Greek Banking Expansion in South Eastern Europe and its Role in the Post-2009 Recession”, *International Journal of Economic and Financial Issues*, vol. 6, no. 3, 2016, p. 1072-1080.
[52] Helena Smith, “Tusk rejects Tsipras request for EU summit on Greece bailout”, *The Guardian*, 27 April 2016, in https://www.theguardian.com/world/2016/apr/27/tusk-rejects-tsipras-request-eu-summit-greece-bailout.
[53] Helena Smith, “Greece under fire over Christmas bonus for low-income pensioners”, *The Guardian*, Friday 9 Dec. 2016, in https://www.theguardian.com/world/2016/dec/09/greece-under-fire-over-christmas-bonus-for-low-income-pensioners.

leveraging tool the ESM suspended short-term debt relief deal for Greece. The Greek Prime Minister sought a political solution on a three-day trip to Brussels and Berlin, where he was told point blank that such decisions lay in the hands of institutions and the Eurogroup.[54] In order to break the deadlock, the Eurogroup demanded an official letter giving assurances over the provisional nature of the measure.

These incidents are indicative of the priorities set by creditors in negotiations over the implementation of austerity measures in Greece. Decision making, responsibility and enforcement are not to be entrusted to politicians, nor should economic policy be the subject of consultation, compromise or scrutiny by political parties, citizens or anyone else affected. Despite the general tendency to appoint non-elected policy experts as finance ministers - because technocrats are more likely to implement unpopular policy reforms-[55], it has even been alleged that the Eurogroup is not the proper forum for such in-depth discussion.[56] This line of argument is used to account for why, in the early 21st century, a broad pension reform failed in Greece. In 2013 Jesús Fernández-Villaverde, Luis Garicano and Tano Santos criticized the pre-2010 pension scheme in Greece for providing the highest "replacement rates" of any OECD country, meaning the level of pensions as a percentage of previous individual earnings at the moment of retirement.[57] However, the authors studiously ignored the fact that a high replacement rate is the only way to ensure that Greek pensioners receive a decent pension, taking into account that even before crisis, salaries in the country were among the lowest in the Eurozone. Moreover, the fact that Greece was the only EU country where the minimum wage decreased after 2010 made the reduction of replacement rates even more painful for prospective pensioners.[58]

Arguing on the same wavelength, Thimann warns that ordinary politicians "are not familiar with intricate structural, regulatory, administrative, or social insurance issues in other countries", and as a result the "increasing shift of policy discussions to the European political level is actually counterproductive". Consultation will require the expertise of specialists, who ignore political cost and act with the sole aim of enhancing the efficiency and effectiveness of reforms. For these reasons, the level of negotiations must be technocratic and not national, political, or European. Emphasis should not be given to the bigger picture contemplated by elected politicians, given their "tendency to move from microeconomic issues to macroeconomic issues". According to these perceptions, consultation over the stability support programmes at European political level shifts the center of discussion from structural reforms "that are essential to getting the economies of the crisis countries on their feet again" to macroeconomic issues such as unemployment or the sustainability of public debt. Elected

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[54] Nasos Koukakis, "Greek PM tries to unlock debt freeze to avoid another crisis", *CNBS*, Sunday 18 Dec. 2016, in http://www.cnbc.com/2016/12/16/greek-pm-tries-to-unlock-debt-freeze-to-avoid-another-crisis.html.

[55] According to a 2013 study appointments of technocrat ministers are associated with lower debt, lower economic growth and lower social spending. Despina Alexiadou and Hakan Gunaydin, "The politics of economic adjustment: technocratic appointments and representation in economically advanced parliamentary democracies", Paper prepared for presentation at the European Political Science Association Conference, Barcelona, June 2013, p. 5, in https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2224835

[56] Thimann, *ibid*.

[57] Jesús Fernàndez-Villaverde, Luis Garicano and Tano Santos, "Political Credit Cycles: The Case of the Eurozone", *The Journal of Economic Perspectives*, vol. 27, no. 3, Summer 2013, p. 159-160.

[58] Elsa Buchanan, "Why Greece is the only EU country where the minimum wage has decreased since 2008", February 26, 2015, in http://www.ibtimes.co.uk/why-greece-only-eu-country-where-minimum-wage-has-decreased-since-2008-1489676. *Pensions at a Glance 2013. OECD and G20 indicators*, OECD 2013, p. 42, in http://www.oecd.org/pensions/public-pensions/OECDPensionsAtAGlance2013.pdf.

politicians have the detrimental tendency to be "sensitive to political issues, including their reputation and chances of reelection" and thus turn direct their attention "from allocation to distribution". [59]

Distributive or expansionary policies have been held to create non "virtue growth". Fernández-Villaverde, Garicano and Santos place too much emphasis on the fact that during a credit bubble agents end up with a distorted image of market fundamentals, and in so far as "rising asset prices hide their mistakes" they are able in the short-run to "extract more rents without the fear of punishment." Conventional analysts are not troubled by the fact that the construction of the Eurozone and financial deregulation contributed to the development of speculative bubbles. The risk of the economy overheating from an unsustainable level of consumption is invoked to invalidate policies of increasing demand and investment, or to justify wage and pension cuts; at the same time, those focusing on structural reforms rarely touch on issues of redistribution, banking regulation, capital flows and markets. Analysts who consider the negative effects of the financial bubble after the introduction of the Euro generally decouple "the bubble" from the four "freedoms", i.e. the free movement of goods, services, labour and capital established by the Maastricht Treaty. They also disassociate abuses of the financial system from the repeal of the Glass Steagall Act, which prohibited banks from selling or underwriting insurance products. And they further disconnect the repeal of the Glass Steagall Act (1999) with USA commitments to conform to Financial Services Agreement deregulation rules, signed in 1997 under the auspices of the World Trade Organization.

Furthermore, those who emphasize the inherent imbalances generated by the establishment of the single currency remain on the fringes of prevailing narratives on the crisis. For example, Matias Vernengo and Esteban Pérez-Caldentey have pointed out that the relative increase in unit labor cost and real exchange appreciations under a regime of stable exchange rates resulted in intraregional trade imbalances in the Eurozone, which could not then be compensated for through devaluation. The lack of a "recycling" mechanism to clear imbalances from surplus to deficit countries forced the peripheral-deficit countries to implement a growth policy via increasing aggregate demand. The freedom of financial flows and enhanced liquidity "provided a false sense of prosperity" and led to private and public debt accumulation. Fiscal imbalances accumulated after 2007 as a result of increasing government expenditure for the support of banks and businesses, and a decline in revenues due to recession and decreasing production and consumption. Austerity measures, which depressed domestic demand, gave the external sector a key role to play in recovering from the crisis. But fiscal contraction would only make sense if the crisis were fiscal in nature, and not a result of internal imbalances inherent in the Euro economic model.[60]

Conclusion

The shift in focus from unregulated financialisation and free market abuses to the sovereign debt crisis paved the way for an even less inclusive and socially equitable model of European integration. The failure of austerity programmes imposed so as to service unsustainable public debts watered down the credibility of the connection between high levels of public debt

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[59] Christian Thimann, *ibid*., p. 158-159.
[60] Esteban Pérez-Caldentey and Matías Vernengo, "The Euro Imbalances and Financial Deregulation: A Post-Keynesian Interpretation of the European Debt Crisis", *Working Paper No. 702*, January 2012, p. 1-37.

and austerity measures. The advocators of restrictive policies in Europe reconsider microeconomic issues, market efficiency, and labor market reforms as the proper ground for the construction of plausible arguments in favor of austerity. The introduction of new type authoritarian structures, disguised as technocratic bodies with at best indirect popular legitimacy, is likely to alienate Europe even further from its people. Such an uneven developmental strategy may well have incalculable consequences for both European societies and the rest of the world.

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SUGGESTED CITATION:
Yiannis Kokkinakis, "From Bologna to Athens: the political economy of reforms in Europe", *real-world economics review*, issue no. 83, 20 March 2018, pp. 147-162, http://www.paecon.net/PAEReview/issue83/Kokkinakis83.pdf