February 15th 2013

THE EURO crisis:
Undetected by conventional economics,
favoured by nationally focused polity.

Robert BOYER, Institute of the America

Revised draft prepared for the Special Issue on the "Prospects for the Euro-zone" Cambridge Journal of Economics, 2013

The author thanks the anonymous referees for their useful and constructive comments. The remaining imperfections are the sole responsibility of the author.

THE EURO CRISIS:
Undetected by conventional economics, favoured by nationally focused polity.

.

Robert BOYER, Institute of the America

Abstract

An interpretation of both the initial success of the launching of the euro and of the painful muddling through since the bursting out of the Greek sovereign debt crisis. It points out that two interrelated processes interact and deliver a quite complex idiosyncratic systemic crisis. First of all, the victory of new classical macroeconomics has diffused the belief that market economies were structurally stable, money was neutral, financial markets were efficient, the only culpit being public finance. The diagnosis of the Euro crisis was thus erroneous.

The second perverse process takes place in the political arena. Monetary integration has been used by many governments as a justification for the liberalisation reforms that were opposed by various social groups within the domestic democratic arena. At the European level, most governments have only been defending their national interests whereas a weaker European Commission and a rather modest European Parliament had lost most of their expertise and legitimacy in defending a community and supranational aggiornamento of European institutions in line with the ambition of the Euro. The way out of the crisis calls for an emerging leadership of one key collective actors in order to bring back some coherence into the institutional setting of the Euro-zone.

JEL : B52 – E42 – E65 – F36 – F55 – N44

Keywords: European integration – Euro crisis 2010-2012 – Institutional economics – Political economy of the Euro – New classical macroeconomics.

INTRODUCTION

The tenth anniversary of the Euro was celebrated on January 2010,: after an uncertain start, had not the European Union benefited from the shield of the Euro by contrast with the large volatility of intra European exchange rate of the past, in spite of the severity of the worst world crisis since the 1930s? In the summer 2012, European authorities and leaders of the Euro-zone stated that the Euro was an irreversible and the achievement of half century of European integration. On the other side, in the US and UK, many experts anticipated the collapse not only of Greece but of the whole Euro-zone. They have a strong argument: any monetary union calls for a form or another of fiscal and hence political federalism, such a bold step in the pooling of national sovereignty is problematic since most Europeans are not ready to surrender it.

The present article aims at overcoming this rather simple dichotomy (full federalism or death of the Euro). It explains both the rise and fall in the hope generated by the common currency via a brief retrospective and institutional analysis of the events that lead to the present crisis. Mainstream economists do like quite parsimonious, mono causal factors explanations: lax public spending and welfare in the context of global competition. By contrast, it is argued here that the current turmoil is so deep that outcomes are unpredictable because they are at the junction of different processes affecting the evolution of macro theory, the nature of the political game at the national and European levels and finally the inner forces that shape the international finance after its liberalisation and cross-border development.

Within the now standard Real Business Cycle (RCB) and Dynamic Stochastic General Equilibrium (DSGE) macroeconomic models and mathematical financial theory, the present double dip recession had an infinitely small probability to happen. This prognosis was embedded into the models used by the Central Banks, Ministries of Finance and financiers. It is an invitation to survey the debates that took place in the preparatory phase of the Euro in the 90s (I).

Dissenting analyses have been developed and they were able to anticipate some, if not all, possible unbalances generated by the shift from the European Monetary System to an irreversible system of fixed exchange rates and a common currency. Similarly, a survey of the origins of the Rome Treaty and subsequent development hints that new European public goods, such as financial stability, or a modicum of solidarity were necessary for the long run viability of the Euro. In a sense, many of the flaws in the Euro that have now become strait forward for most observers were pointed out by a minority of analysts very early at the end of the 90s (II).

Both the founding fathers of the European integration but also contemporary mainstream economists share a functionalist theory of economic institution building. Basically, politicians have only specific role: to help implementing the reforms required for generating a better economic efficiency Pareto improving. This restricted economist's vision of polity has hidden the complex web of social groups and national interests that may sustain or not a transfer of sovereignty to supranational entities. A better understanding of the political logics at stake helps in analyzing the trajectory of the Euro since 2000 (III).

The interplay of these two processes, intellectual and political might explain why high frequency meetings of the European Councils from March 2010 to June 2012 have been unable to find out a quick fix to such major unbalances generated by the Euro. One of the key actors – Finance, European Central Bank (ECB), European Commission…or citizens, have to take the lead and impose a form of coherence into a complex, multilayered institutional reconfiguration of the relationships between Member-States, the European Union and the world economy. There is not only a high road / low road bifurcation since many other reconfigurations can be imagined and this history in the making will probably explore still different paths. This is the central message of the conclusion.

SECTION I - THE NEGLECTED INTELLECTUAL ORIGINS OF THE EURO-ZONE CRISIS

The first theoretical reference is of course the theory of Optimal Currency Areas (OCA) elaborated a long time ago (Mundell, 1961) and revisited during the phase of discussions about the benefits and constraints associated with the creation of a common European currency. Four features make more likely the viability of a currency union, thus as the ability to enjoy from an efficient economic policy in term of stabilization of economic activity: labour and capital mobility across the region, price and wage flexibility, automatic fiscal transfer mechanisms to regions, nations or sectors adversely affected, and relatively well synchronised business cycles. Clearly, all these requisites were not fulfilled in the European Union of the 60s: very low cross-national mobility of labour but increasing geographical diversification of capital portfolios, significant nominal wage rigidity and very limited redistributive impact of the European Structural Funds. Furthermore the UK and continental Europe do not display the same timing in their business cycles.

While most experts involved in the discussions about the opportunity of the Euro recognized a basic fact: in its current configuration, the European Union was not an OCA. Nevertheless, a majority of experts thought that the launching of the Euro would trigger a wave of structural adjustments towards the fulfilment of most of the conditions of OCA. The centre of the debate then moved from international monetary theory to the macroeconomics of activity stabilization.

1. New classical macroeconomics at odds with the major issues about the Euro

The launching of the Euro coincides with the loss of influence of the Keynesian paradigm and the rise of RBC models. They assume that business cycles can be explained by exogenous shocks hitting a pure Walrasian economy where all markets adjust perfectly. This academic school has progressively gained influence in economic policy discussions, especially when many influent Central Banks have been using this approach in the evaluation of their monetary policy. The European Central Bank has thus been developing the second generation of these models under the name of DSGE models (Smets and Wouters, 2002). This was presented as a definitive move towards a fully scientific approach to previously highly ideological discussions about monetary and fiscal policy.

Without overestimating the influence of macroeconomists upon the fate of the Euro, this conversion to pre-Keynesian conceptions has contributed to the misunderstanding of many issues at stake.

----- Insert Table 1 -----

The contrast between the key features of the Euro-zone and the core hypotheses of the DSGE models is striking.

First of all, the neutrality of money is central and does not help to explain the recurring bubbles generated by the low interest rates set by the Central Bank (CB). Furthermore, the CB is the only financial entity that issues fiat money, in the absence of any commercial bank or financial market. The control of money supply to maintain low inflation rate is supposed to capture the essence of monetary stability. Financial stability is implicitly and automatically fulfilled by monetary stability. One imagines the disarray of these experts facing the diffusion of the subprime crisis to Europe, the fall of state markets revealing the financial fragility of many banks. In this context, the monetary policy loses its efficiency because the channel of credit is broken (Draghi, 2012).

Since wage and price are fully flexible, the unemployment is voluntary in the sense that it is the outcome of a trade off between work and leisure. Such a pattern is difficult to reconcile with the observation of millions of European willing to work at the ongoing wage but unable to have access to jobs, both in the epoch of introduction of the Euro and after 2010, the bursting out of sovereign debt crisis and its contagion to the banks. Clearly, the euro-zone is facing a wave of involuntary employment, in line with the gap between capacity of production and effective demand. If full-employment were prevailing, austerity policies would boost private demand…but the opposite has been observed since 2010. Nevertheless, surprisingly, leading economists and politicians continue to trust and follow a failed representation of the Euro-zone. This does help in overcoming the euro crisis (Artus, 2012a).

A third misrepresentation relates to the existence of generic mechanisms: that are common to all the members of the Euro-zone and this hypothesis entitles to run a common monetary policy with success. This postulate the homogeneity of macroeconomic adjustments for each national economy is crucial. Quite on the contrary since 2000, quite diverging evolutions have been observed and this has enhanced the initial heterogeneity of national "regulation" modes. Therefore the EU level models lose their relevance, especially concerning the transmission of monetary policy: a very low interest rate does not convert into buoyant credit when the banks of some members of the Euro-zone are near bankruptcy. More precisely, the complementarity of an innovation and export led growth in Northern Europe with a domestic demand led configuration in Southern Europe falsifies the hypothesis of a common European model. Alas the diffusion of austerity policies (Boyer, 2012) prolongs the "same size for all" illusion that has been so detrimental to past International Monetary Funds adjustment programs in Asia and Latin America.

2. A polarization over the relative frequency of symmetric and asymmetric shocks

In the late 90s, the debates among the leading experts have focused upon the fourth condition for an OCA, i.e. the distribution of shocks between generic symmetric and idiosyncratic asymmetric ones. If the perturbations originate in the world economy and technological advances, the centralization of monetary policy is justified, whereas the irreversibility of internal exchange rate prevents the repetition of the previous European crises, such as the dramatic 1993's episode. If, on the contrary, the perturbations are mainly idiosyncratic – national public finance crisis, adverse evolution of national competitiveness, major domestic social conflict – the centralization of monetary policy does not add more to the efficiency of the European policy mix or even worse it will prevent the past mobilisation of both national fiscal and monetary instruments.

The adoption of the new classical macroeconomic paradigm had two consequences that have turned to be detrimental to the realism of the *ex ante* assessment of the viability of the Euro. Firstly, the emphasis upon the primacy of rational expectations leads to the anticipation that the irreversibility of the Euro will create a European business cycle, generated by the progressive synchronization of national economic activities. This is a drastic simplification of the various and scattered mechanisms that shape firms' investment decisions, household consumption and credit allocated by banks, not to mention the political processes that make possible…or not the structural reforms in public spending, taxation and welfare. In order to sustain the long term competitiveness in a regime of fixed exchange rate, the primacy of symmetric shocks was not a credible guess informed by past observations but a risky bet about the unfolding of major transformations in response to the new epoch opened by the Euro.

The second and major failing of this polarization upon the exogeneity of productivity shocks was precisely to neglect the endogeneity of the economic transformations generated by the Euro: the members of the Euro-zone more heterogeneous in terms of international specialization, labour market institutions, welfare organization and financing, priorities in public spending, financial markets and so on. Given these endogenous evolution of national "régulation" modes, the same monetary policy might well have quite different impact. Just to give an example, according the national regime concerning the financing of housing, the same low interest rate may generate a dangerous speculative bubble in Spain and Ireland, but not in Germany. When these bubbles burst out, the ECB is facing an unexpected dilemma: continue to focus exclusively on a low inflation policy – as measured by the aggregate European consumer price index – or address more directly the issue of financial stability, and adopt a "unorthodox" monetary policy of "quantitative easing".

The intellectual framework based on the new macroeconomic orthodoxy appears today largely obsolete… but it continues to inspire, by default, the current austerity policies.

3. Governments as servants of economic rationality: they had to comply with the reforms required by the irreversibility of Euro membership.

There is another consequence of Rational Expectations Hypothesis (REH): all actors, private ad public, had to develop strategies coherent with the commitments formalized in the Amsterdam Treaty. This was not too problematic for large firms that deployed their activity in response to the removal of exchange rate risk within the Euro-zone. Similarly, the banks have extended their branches across the members of the Euro and diversified their portfolio buying foreign public bonds and securities, they would not have acquired before the launching the Euro. These two moves were in conformity with the prognosis based on REH.

It is not so for households living in economies that had weak currencies: the brutal decline of nominal and ultimately real interest rates induced many of them to run larger and increasing debt in order to buy houses and durable goods on an unprecedented scale. The soring housing prices were fuelled by this easy access to credit and the related speculative bubbles were welcome since they fed the profit of banks, created jobs in the construction sector and even filled the coffers of the State, some of them experiencing public finance surplus (Spain) at the eve of the world crisis. Convinced that the financial markets were efficient and that no public authority was able to detect a speculative bubble in real time, leading analysts and economists praised these national experiences as a promising evidence of the benefits of the Euro and financial liberalisation. This hype was general, as evidenced by the reference to the Irish trigger or Iceland's miracles (Mishkin and Ebbertsson, 2006; Portes and Baldinsson, 2007), considered as promising models to be emulated.

But the more severe flaw was the rationality attributed to public authorities: having accepted the pooling of monetary sovereignty, they had to undertake all the reforms necessary to workout a viable policy mix and foster the building of a national growth regime compatible with their irrevocable adhesion to the Euro. This meant that politicians had to take all the decisions required in the light a pure economic rationality, with the hope that a better efficiency could generate the resources to satisfy all other demands from citizens about taxation, public goods, welfare, and job creation. In other words, the political domain had to become mainly the locus where the policies necessary to the success of the Euro are implemented.

This complete determination of the polity by the economy does not fit with the observation that the political arena deals with the accumulation of power over a given territory, whereas the economy is a matter of wealth accumulation, and this process tends to cross national political borders (Théret, 1992). If this duality is taken into account, the adhesion to the Euro makes apparent major differences in national political alliances and economic policy styles. In societies where an industrial compromise prevails, the European treaties push forward the existing public policies centred upon competitiveness. In other societies, the European integration might well help a "clientelist" strategy of politicians, quite alien to the concern for the long term viability of the national mode of development. If Northern Europe explores the first path, Southern Europe the second, this makes intelligible the oppositions and misunderstandings that permeate during the numerous European Council summits and that took place since the Greek crisis.

Rescuing the Euro is not a pure technocratic game played in Brussels, but the outcome of specific political struggles in each member-State of the Euro-zone.

4. The benign neglect for dissenting but probably more relevant theories and analyses

The rather wide consensus over the viability of the Euro-zone has been reached by excluding alternative approaches that, in retrospect, had pointed quite rightly some, but of course not all, of the structural weaknesses of the Amsterdam and subsequent European treaties (table 2).

---- Insert Table 2 ------

- Imagining that the Euro-zone would constitute a Walrasian economy where adjustments take place via a complete flexibility of price and wage ignores that oligopolistic pricing is the rule in leading final goods production and that nominal wage rigidity is a common feature. Similarly, households can optimize over time their consumption only if they have access to credit on perfect markets. Therefore the Ricardian equivalence principle, that states that private agents will counterbalance any public finance decision, is not an accurate representation of the majority of European economies. This brings back the Keynesian argument: all the European Treaties have a structural bias towards lower growth than under the previous European Monetary System regime. Somehow the most recent DGSE models for the Euro-zone recognize that their simulations become more accurate if "non-Ricardian households in the form of rule-of-thumb consumers" are introduced (Coenen & Al., 2012). This is a hidden tribute to the Keynesian consumption function, where current income is the key factor in the formation of effective demand.

- Nevertheless the prognosis derived from the Keynesian textbook model concerning the negative impact of the Euro and the Stability and Growth Pact (SGP) on economic activity has turned out as erroneous for the period 2000 to 2008. This period is better captured by post-Keynesian analyses about the impact of financial liberalisation and innovation upon the recurrence of financial bubbles (Minsky, 1986). Clearly the Euro was a major financial innovation with few precedents to compare with. In any case, the typical pattern of liberalized markets has been observed once more: after a wait-and-see period, the Euro has been perceived as successful since the control of inflation at a low level has allowed a decline in interest rates. The dynamism of consumption and housing market has fuelled a wave of optimism and generated a bubble in a significant part of the Euro-zone. The subsequent period 2008-2012 follows the pattern of the previous bubbles: the loss of confidence of financiers and the poor reactivity of European authorities trigger a double dip recession. After all, Keynes and Minsky were right: credit money is not neutral and by transforming the domestic financial systems, the Euro has shown the irrelevance of the Walrasian approach to macroeconomics.

- The neo-Schumpeterian approach, too, has not been taken seriously in discussions upon the consequences of the Euro. First, it shows that productivity increases are not exogenous but derive from the explicit strategy of firms in order to capture oligopolistic profits. Furthermore product and organisational innovations are also key ingredients in structural competitiveness of national economies. Second, neo-Schumpeterian economists have argued that Europe was affected not only by exchange rate and financial volatility but also suffered from lagging in the adoption principles of a Knowledge Based Economy (KBE). This explained the slow growth of the old continent and made the sustainability of generous welfare systems problematic (Rodrigues, 2002). The Lisbon agenda intended to correct this weakness in European Systems of Research and Innovation. By the way, the Keynesian and neo-Schumpeterian diagnoses of the impact of the Euro are more complementary than contradictory: their time or horizon is different and they agree that RD expenditures are pro-cyclical, hence reactive to the nature of macroeconomic stabilization policy. Thus a long lasting conservative monetary and fiscal policy reduces productive capacity formation, innovation, in such a way that the long term growth is lower (Dosi, 2011).
  This synthesis becomes more and more pertinent as the muddling through the Euro-zone crisis lasts. On one side, the perseverance in maintaining austerity policies depress demand and this falsifies the crowding out effect typical of public spending put forward by the new classical theory (Boyer, 2012). On the other side, a depressed productive investment does reduce potential growth and makes the sustainability of public finance of the weakest economies more uncertain. This vicious circle cannot find any easy and convincing explanation within the ongoing macroeconomic paradigm.

- Finally, the new economic geography (Krugman & al., 1999) was able to provide an interesting prognosis, against the convergence hypothesis implicit too most European strategies and the new classical macroeconomics. Given the importance of increasing returns to scale, typical in most contemporary sectors, and the agglomeration effects that foster innovation, the stabilization of internal exchange rates had the likely consequences of polarizing economic activity around the already competitive regions, the more so, the more overvalued had been the domestic currency when it was converted into Euros. This is precisely what the evolutions from 2000 to 2012 have pointed out: the North of Europe has maintained a strong manufacturing export basis, whereas the South has specialized in domestic services (Artus, 2011a). The common currency has created the polarization of trade surplus in the North versus trade deficit in the South and such unbalances cannot be corrected by a purely financial strategy.

To summarize, the turmoil in the Euro-zone is also a matter of inadequate economic theorizing.

5. Early warnings about the difficulties in implementing the Excessive Deficit Procedure

Under the pressure of Germany, the negotiators of the Amsterdam Treaty (1997) were highly conscious that the shield provided by the Euro could induce a free rider strategy in terms of national public finance. The articles 99 and 104 institute a 3 % limit for the public deficit / GDP and a maximum total debt / GDP of 60 %. The related Stability Growth Pact (SGP) is the basis for a multilateral surveillance mechanism and a special. Excessive Deficit Procedure to enforce it via the payment of penalties for Member-States that do not comply with.

Was this formulation of the SGP the more relevant? A lively debate took place and challenged it but, finally, it did not change the articles of the treaty. The opponents to SGP had many relevant arguments and most of them turned out to be right and they justified the successive reforms decided in the direction of a softening of the interpretation of the rules on march 2005 (Boyer, 2006), and on the contrary, their strengthening, on October 2011: finally ir was necessary to take into account other macroeconomic structural macroeconomic disequilibria, such as the loss of competitiveness or the excess credit.

---Insert Table 3---

- Public finance specialists and macroeconomists pointed out the ad hoc selection of the threshold of 3 % and 60 % respectively for public deficit and total public debt. This was built upon an *ad hoc* specification of the general formula taking into account all the parameters that enter into the assessment of a public finance programme: the interest rate, the growth rate and the initial stock of debt / GDP. Clearly, the current deficit criteria is too generous in good times but too severe in case of a severe recession: a better criteria would have been the structural deficit, corrected of cyclical fluctuations, and this would imply a clear counter-cyclical public finance management, at odds with the excessive permissive nature of SGP in boom periods. If the objective was to prevent the default on public debt, then only the total debt criteria is relevant and the rise of the interest on the refinancing of the State could be an early indicator for unsustainable public finance. Last but not least, economic rationality would imply forbiding to finance current public expenditures by the emission of Treasury bonds but to allow a deficit equivalent to public investment, analyzed as a contribution to future growth.

- On their side, statisticians have measured the frequency in the breaking of the 3 % and 60 % thresholds before the march to the Euro and they found it rather high. Therefore the compliance with the SGP implied a significant alteration in the handling of public finance, and such an adaptation was up to the strategy of national governments in response to their acceptance of the European treaties.

- Basically, political economy approaches stresses that politicians respond to the demands of various social groups and the conjunction of these pressures over the direction of public spending and the distribution of the tax burden sets the position of national public finance along with the level of economic activity. By nature, these expenditures display a lot of inertia since they result from past institutional compromises (Delorme, André, 1983) and the activation of a series of entitlements is the legacy of these past social and political compromises. Some societies have developed a political organisation that allows the periodic renegotiation of these institutional compromises, when the economy is facing major unbalances, such as unemployment, external and/or public deficits. Nordic countries and Germany belong to this category and thus their adaptation to the Euro is a priori easier since quite all private organisations and national institutions take into account the preservation and development of the competitiveness of the economy. By contrast, other member-States used to be less involved in world trade and to be more conflict prone; in such a configuration, public spending and tax concessions might become the typical method for softening distributional struggles and postponing the solution to macroeconomic unbalances to better times, via a permanent increase of public debt. Greece, Italy and France belong to this second category. The danger for European stability that represents a large heterogeneity in levels of development and socio-economic regimes was expressed quite early, at the end of the 90s.

  Nevertheless geopolitical concerns about the need of an inclusive Europe and political hype won over the warning of cold analysts.

SECTION II - AN INSTITUTIONAL AND HISTORICAL ANALYSIS ALLOWED TO ANTICIPATE THE EURO-ZONE CRISIS

It is time to propose an approach which takes on board the mechanisms basically neglected by the conventional theorizing of the Euro within RCB and DSGE models. It is thus possible to correct two of its basic failings.

Firstly the European integration is a programme of supranational institution building in order to monitor competition, provide public goods, and since 2000 decide monetary policy. But this form of constructivism is a priori rejected by the general vision embedded into the new classical macroeconomics: only private actors are able to get the information relevant for their strategy, efficient markets socialize this information and they deliver a stable, and under some condition, an efficient equilibrium. Any active rule, either by the Central Bank or Ministry of Finance, is pernicious since the private sectors know the relation between monetary supply and inflation and anticipate that any today public deficit spending will need tomorrow more taxation: this Ricardian equivalence means the structural inability of public authorities to influence the level of activity. The alternative is thus to consider that markets operate within a given set of institutional forms; their coherence and quality contribute to macroeconomic short term adjustment, i.e. the regulation mode, but also long trends, i.e. the growth regime..

Secondly, the European integration is a long run historical process aiming at the transformation of national economies by the rearrangement of their relations. This is a permanently unbalanced process, since the institutional advances in one area reveal some emerging inconsistencies within the prevailing configuration. This cannot be analyzed as a shift from a stable equilibrium to another, for instance from a regime of internal flexible exchange rate to the Euro. This would mean that the historical process of European integration would stop and converge towards a stationary state: this idealisation is contradicted by the very chronology of recurring crises and advances of the European Union (see figure 1 below).

1. Back to the basic principles about the viability of any economic policy regime

How should a rational economic policy be decided? A school in macroeconomic modelling has proposed a useful framework (Tinbergen, 1952). Basically, macroeconomic activity is largely endogenous, because consumption, investment, exports and imports are related to wages, profits, effective demand, relative prices, i.e. variables set by private agents. But generally, either an involuntary unemployment is observed or an inflationary boom may imperil financial and even social stability. The policy makers can correct these evolutions since they master some instruments such as the taxation rates, public spending, wage norms for the public sector, interest rate and exchange rate. By an adequate move of these instruments, a better macroeconomic equilibrium can be reached. Then the policy maker may try to decide its economic policy according to target variables concerning inflation, unemployment or external trade equilibrium and growth. Here comes the "Tinbergen's rule": the number of instruments must be equal at least to the number of objectives of policy makers.

In the Golden Age, the national State could use rather freely at least four instruments to fulfil these objectives: monetary policy, budget and tax, exchange rate, industrial / innovation policy with the possible complement of an income policy (table 4). With the adoption of flexible exchange rates and the trans-nationalisation of finance, the autonomy of the monetary policy has been limited by the will to limit the evolution and volatility of the exchange rate and public deficits have been put under the scrutiny of financial markets. Frequently, the unemployment rate has been the variable of adjustment and consequently full employment has become more and more difficult to reach, in particular because public authorities have largely lost the full control over exchange rates.

--- Insert Table 4 ----

But with the adoption of the Euro, national authorities lose a second tool: a monetary policy adequate to the national needs. The situation created by the Euro is *radically new*. It is neither the full autonomy of independent national States, nor is it a typically federalist configuration (Dehove, 1997). The responsibility of economic policy is now shared at two levels and *nested* in the sense that neither the *supranational rules* nor the *subsidiarity principle* exert a dominant role. Clearly the *monetary policy* is the full responsibility of the ECB, in charge of maintaining price stability in Europe as a whole. But the credibility of the Euro and specially its exchange rate with respect to the Dollar is significantly affected by the conduct of national budgetary policies. Given the fixed exchange rate system which is irrevocably installed by the Euro between the eleven first members, the Mundell-Fleming's model implies that the *budgetary policy* becomes the only efficient instrument left to national governments in order to control the domestic level of activity (Wyplosz 1997). Therefore each national State may have an incentive to "free ride" upon the collective good produced by the wise budgetary policy followed by other Nation-States. This is the justification for the SGP. But this introduces still another limit in the use of the traditional tools to stabilize each national economy.

Last but not least, there a third loss concerning the autonomy of national policy: on top of the monetary policy and exchange rate, the European Treaty forbids the monetisation of national public debts, which was a device quite central during the Golden Age. Consequently, only the private credit channel is open at the ECB, contrary to the status of other central banks, such as the FED, Bank of England, or Japan. In a sense, Euro-zone member-States emit debts in a currency they can no more be created at the national level. Here is a parallel with emerging countries that have to float their public debt in dollars or other international currency; consequently some Latin-American economists compare the Argentina crisis from 1997-2001 to the evolution of Greece since 2009…There are significant differences in the two crisis. Among them, European authorities have perceived the danger of contagion to larger economies: in violation with the letter of treaties, the ECB has transitorily accepted to buy directly Italian and Spanish Treasury bonds.

2. European Integration is a process of progressive institution building around basic public goods: financial stability should have been the next step after monetary stability.

There is no better example of the underestimation of the consequences institutional break generated by the Euro: the policy-makers have worked for eliminating the previous sources of crisis – i.e. internal exchange rate volatility –, and they even tried to anticipate and overcome some of the most likely fragilities of the new institutional design, for instance by forbidding free rider national fiscal policies. Nevertheless, they seemed to ignore that public mismanagement is not the only factor of financial fragility of the Euro-zone: the private sector and especially the banks might adopt quite risky strategies, such as fuelling a real estate boom, pushing securitization or using huge leverage effects, thus provoking a typical Minskian financial crisis. It is precisely that happened in Spain and Ireland. Back to 1997, the Asian crisis had already shown that very sound public finances were not a protection against massive entries of capital and then their brutal stop. Paradoxically, the cognitive reference of the builders of the Euro was more the German hyperinflation of 1923 or the 80s and 90s Latin American sovereign debt crises that the new risks associated to financial globalisation and its hype effects on the "animal spirits" in the private sector. Again the basic postulate of a "naturally" stable market economy – a convenient

hypothesis for model builders – has hidden the perception of the dangerous path followed by the Euro-zone after 2003. Finally, on October 2011, the European Council has recognized the need for a set of macroeconomic indicators capturing the unbalances generated within the private sector – trade balance, real estate prices, deterioration of competitiveness, excess of credit – , but it was a too late.
In retrospect, in the mid-2000s, the European policy makers had convinced themselves that the European Union has finally reached its purpose and that no new initiative was necessary (figure 1).

--- Insert Figure 1---

The founding fathers had the project to prevent the repetition of the two world wars that had meant the self destruction and afterwards the decline of the old continent. Peace was the primary public good to be searched for: if it was impossible to get it by a Europe of the Defence, the other road was the organization of orderly economic relations between Germany, France and all other nations involved in these recurring conflicts. But a common market supposed rules of the game in order to maintain fair competition: it was, elevated to the statute of basic European public good justifying a progressive and patient extension of European level competences (Boyer, Dehove, 2004).

But the process has to be re-launched with the rise of exchange rate volatility and its impact over the fairness of the competition on the Single Market. After a long period of experimentation, a growing fraction of European elites has been convinced that a common currency was necessary to continue to benefit from the deepening of inter-European trade. Quite anybody was conscious that it could be a jump into a radically new configuration. It was the merit and the strength of German representatives to propose to extent the approach of ordoliberalism to the relations between Brussels and national entities: the viability of a monetary integration, without fiscal solidarity and political union, could be warranted by the respect of a set common rules in order to prevent any opportunist national behaviour that could bankrupt the Euro-zone. This was the victory of German conceptions for organizing the European Union, but not at all a transposition of the German federalism, since an institutionalized redistributive system, equivalent to the one created among länder, was not proposed at the European level.

This genuine "prudential federalism" was supposed to make unnecessary fiscal, financial and political federalism. But when unanticipated sources of fragility appeared, what to do? Quid if the rules are not followed by all? Should policy makers accept a financial meltdown just to better enforce the rules that have been violated and thus prevent moral hazard to generate another crisis? But will the European Union still exist? European had to recognize painfully that is an an evidence for North Americans analysts: it is difficult to defend the Euro in the absence of a Lender of Last Resort, with a tiny and balanced European budget and no clear political leadership.

The dangerous path followed from March 2010 to July 2012 shows that financial stability was the next public good required in order to preserve the cohesion of the EU…But it was quite late. So late that now the next step is a form of fiscal federalism, however limited, Just in order to guarantee the European Stability Mechanism and the European Financial entity in charge of the management of the direct bailing out of some ailing European banks.

3. Significant transformations in "regulation" modes, especially difficult for some poorly internationalised economies.

These last remarks point out an underestimated consequence of the Euro: it was not only implying a change in the economic policy mix, between monetary and fiscal tools, but also a drastic change in the institutional architecture of most national economies.

If one adopts the conceptual framework of "regulation" theory, the viability of any socioeconomic regime is up to the short term and long run compatibility, or even better, complementarity, of five institutional forms: the monetary regime, the wage labour nexus, the nature of competition, the integration into the world economy and finally the links between the State and the economy (Boyer and Saillard, 2000). De facto, the process of European integration has progressively altered quite all these institutional forms (table 5).

---- Insert Table 5---

The monetary regime has shifted from a large national autonomy in the Golden Age to policies largely constrained by international financial movements. When the members of the Euro-zone accepted to pool their monetary sovereignty and create a supranational and independent ECB, their national monetary vanishes, even for Germany. In theoretical terms the monetary regime becomes hierarchically superior and for sure exterior to national specific arrangements, at odds with the past Keynesian configuration where it was subordinated to support the basic capital – labour institutionalized national compromise. This inversion of the institutional hierarchy means that this past compromise was no more viable and actually, the wage nexus has experienced many transformations: dis-indexing of nominal wage with respect to inflation and productivity, decentralization and individualisation of labour contracts, recurring reforms in the organization and financing of welfare. These pressures upon the redesign of post WWII domestic order were especially strong, in response also the fact that the previous oligopolistic competition at the domestic level has been challenged by the globalisation of production, the emergence of fast industrializing economies, and the loss of control by public authorities over industrial dynamics. The overcapacity in the production of manufactured goods at the world level destabilises most European economies, either because domestic capital delocalize employment in search for long term competitiveness or because massive imports trigger a massive dis-industrialization in the weakest market economies.

In the past, periodic devaluations of the domestic currency could stop these adverse evolutions but this degree of freedom progressively vanished with financial liberalization: basically the exchange rate tend to equalize the rate of return of financial capital across nations, thus generating cumulative unbalances in external trade balances. The situation becomes still more difficult with the Euro: the European currency may appreciate with respect to the dollar, even if exporting sectors and nations become uncompetitive. The only solution left is that conventional theories call "internal devaluation", i.e. reduction of indirect taxes, social contributions and finally wages. But the macroeconomic impact is quite different from typical devaluations.

The post WWII socioeconomic order is thus over, but the new institutional architecture where monetary stability and competition are leading the macroeconomic adjustments is far from self regulating: unemployment becomes an adjustment variable, which hinders the domestic demand and stirs up social conflicts and potentially political turmoil when years of austerity policies only convert a recession into a depression and exacerbate the feeling of unfairness among a large fraction of public opinion, as it has been observed in Greece from 2008 to 2012.

Lastly, the second adjusting variable is public deficit and debt that remains moderate in the economies structurally competitive, but stubbornly large for those unable to cope with the standards of the world economy. In this case, the issue at stake is not simply the restoration of a "correct" policy mix but the reconstruction of a socio-political order compatible simultaneously with the requirements of the Euro-zone and the pressing social demands of citizens. Does a viable compromise exist and can it be negotiated facing the impatience of international finance and the reluctant solidarity of the healthier members of the Euro?

4. The long legacy of a North/South divide in productive capacity and competitiveness

Clearly, the different societies have reacted quite differently to the pressures associated to their Europeanization, and this might be the source of a future grand divide within the European Union.

- On one side, small open economies such as Finland or Netherlands had a long experience in designing and managing domestic institutions that foster their competitiveness and successful integration into the world economy. An open social dialogue, the dynamism of entrepreneurs and the political stability are the key ingredients of these "negotiated capitalism" and their export and innovation led growth (Pedersen, 2008; Fellman and *Al.*, 2008). For them, joining the Euro is not *a priori* so difficult since large continuities prevail with their post-world war II trajectories, even if Denmark and Sweden have decided not to join the Euro. In these economies collective bargaining takes into account the objective of competitiveness, governments put the emphasis upon education, training and innovation, and social partners have agreed to turn welfare into an asset in world competition by well designed and patient reforms. In some cases, the reforms are anticipatory and not triggered only by a dramatic and unexpected crisis. Germany, a medium size economy, has developed its own configuration in order to cope with the requirements and the evolutions of the international economy. The complementarity between the high skills of the workers and the quality of exported goods is the outcome of a genuine organisation of the educative and innovation systems (Streeck, 1991; 1997). On top of this long term institutional competitive advantage, the wage moderation associated to the higher unemployment triggered by German reunification has been completed by significant welfare reforms. These two features and the leading role of German conceptions in the design of the European treaties explain a significant part of the divergence with respect to France, Italy or Spain. Still more, German actors do not think that deficit spending can solve major macroeconomic unbalances, since the role of public policy is to shape stable expectations within the private sector and foster entrepreneurship.

- On the other side, most medium sized or less industrialized economies use to rely more on the monitoring of the domestic market, industrial relations are more conflicting than prone to durable compromises, Schumpeterian entrepreneurs are more the exception than the rule, recurring political instability makes the coherence and continuity of economic policy quite difficult. In the past, Southern European countries recurrently solved their macroeconomic unbalances by inflation and currency devaluation. When they join the Euro, this degree of freedom vanishes. And consequently, all unsolved macroeconomic disequilibria – high youth unemployment, excessive specialization in the services, obsolescence of past industrial specialization, lagging innovation, tax evasion, inadequate welfare system – are translated into a large and permanent public deficit. For these configurations, joining the Euro implies a complete redesign of most domestic institutions. The impossibility to devaluate means either the implementation a permanent income policy, or the use of unemployment as a painful disciplinary device or a fast upgrading of industrial specialization…but these are long term strategies that deliver their benefits only after one or two decades of efforts. Furthermore, the small tax base and limited size of the export sector make quite difficult a strategy of investment in RD and infrastructure when they are not financed by European Structural Funds. The impossibility to monetize the domestic public deficit implies that the governments have to convince international finance that they can reimburse by generating both a trade and public surplus. In some cases, such as Greece, this is an impossible task given the legacy of the pre-euro configuration.

The present analysis concludes that the North/South divide might be one of the major threats upon the current configuration of the Euro-zone. Whereas the interest rates have converged (graph 1), the trade balance have diverged after the launching of the Euro (graph 2) and some Southern European economies have experienced permanent and large deficits (graph 3).

--- Insert Graphs 1 – 2 and 3 —

Three main characteristics explain why the crisis takes different profile and severity within the same Euro-zone: the quality of State organization and government handling of the crisis, the degree of structural competitiveness and the ability to control and monitor finance.

- Northern economies (Netherland, Finland, Germany) enjoy a good fit with the evolution of the world economy with an effective and reactive State and relative, even imperfect, control over finance. They thrive relatively well in terms of external surplus (graph 2), ability to reduce their public deficit (graph 3) and thus they can comply with the EU and Euro-zone rules rather easily. They ask to their partners to do so and they are the benchmark of most European policies.

- Unfortunately, Southern economies do not belong to the same configuration since suffer from a structural lack of competitiveness (graph 2), a limited ability of the State to intervene efficiently in order to curb down public deficit (graph 3) and some of them have suffered from real estate speculative bubbles generated by financial liberalization. Given the persisting public deficits and the deterioration of their trade balances, it is very difficult from them, to stick to the adjustment programs negotiated with the EU and IMF.

The heterogeneity of the Euro-zone is still larger when one takes into account three hybrid configurations: France is the intermediate case between North and South, Greek is an exceptional case of clear and largely irreversible insolvency and Ireland is a failed individual tiger perverted by a careless financial liberalisation but with a large capacity to rebound back to a viable export led regime.

To sum up, a historical and institutional approach makes intelligible the present euro crisis, far away from mono-causal, simplistic and normative interpretations.

SECTION III - A BENIGN NEGLECT FOR THE POLITICAL LEGITIMACY OF THE EURO WITHIN DEMOCRATIC SOCIETIES

It is time to deal with the political perception of the Euro by the various national public opinions and social groups and to question the political status of the Euro: a simple technical device or a definite step towards a federalist Europe? The problem is precisely that no consensus had been built before the launching of the Euro and then the sovereign debt crisis puts at the forefront the relationship between economic rationality and polity, and the dilemma between a technocratic supra-nationality as a way out of the present uncertainty and the assertion of democratic rights. Again a brief retrospective might help a clearer analysis of the issues at stake.

1. From the start, a polarisation of the perception of the Euro by various social groups

By reducing transaction costs, removing the uncertainty about exchange rate volatility and preventing inflation to erode competitiveness, the Euro was assumed to bring an overall improvement in the welfare of the citizens. The existence of powerful mechanisms of redistribution between possible losers and a majority of winners – via taxation, welfare transfers – was considered sufficient to alleviate the opposition of the fraction of the population that could be hurt by a fiercer competition and the restructuring of firms and jobs.

The public opinion surveys made during the preparation of the Euro actually show globally a positive appraisal of the common currency. For instance in France on April 1997, 70 % of the population had a positive evaluation of its likely consequence and with the exception of GreatBritain, a majority of Europe expressed positive expectations (Sondoscope, 1997 and Table 8 infra). But the distribution of opinions is not uniform at all across socioeconomic groups within the same nation (table 6).

---- Insert Table 6---

Large firms anticipated few and transitory difficulties and actually their transnational operations were largely facilitated since the Euro allowed them to redeploy their production sites according their respective performance and, for some products, in order to be closer to the demand.

This feeling is not shared by small and medium size enterprises (MSE) and retailers, since they generally are less export led than linked to domestic and local markets. Contrary to their German counterpart, French MSE, especially subcontractors, have suffered from the pressure on their costs exerted by the large internationalized firms. This difference of perceptions is reflected in the statements of the respective business organisations of these two categories about the Euro.

Young people did not expect too many problems and they were right in imagining that the Euro could help to their mobility since most of them, but not all, had acquired the education and competence for a more open competition. At the opposite, low skilled, low income groups were expecting long lasting problems in their adaptation – or lack of – to the epochal change of Euro. They were largely right since the internationalisation and the Europeanization makes them to compete with workers earning lower wages and devoid of any extensive welfare. Finally the most pessimists were the old citizens because since they feared a negative impact upon the generosity of their pensions, the dis-indexing of them from current wage and ultimately consumer price.

The potential sources of destabilisation of the past social compromise and equilibrium were thus clearly diagnosed by quite all the actors and this was the source for early political oppositions under the banner of national sovereignty defence, that governments had cope with.

2. Enter or not the Euro: the nature of the political process matters

The favourite method of economists is to make an overall analysis within their favourite highly synthetic model. Thus the proponents of the Euro conclude that it is enhancing national welfare and they then lobby the civil servants and policy makers in order to convince them to adopt their vision and finally decide joining the Euro. If they perceive opposition from a fraction of the society, they propose a pedagogical effort to diffuse their solution, because they say it is informed by a rigorous and scientific analysis far away from the ideologies and political passionate debates. From the start, in many countries, the Euro has suffered from a democratic gap in terms of legitimacy but this was not inevitable: some societies are more democratic than others and this feature has had definite consequences. For instance, after intensive, pluralist and decentralized debates, the Swedish government decided not to join the Euro since some gains were certain but minor, whereas some adverse and highly uncertain consequences might have been quite detrimental to Swedish social cohesion and ability to decide autonomously.

In the expert report preliminary to Swedish government decision (Calmfors, 1997), at least 14 different criteria were analyzed and for each of them the assessment was quite balanced with no aggregate monetary evaluations because they could not capture the complexity of the changes to be expected for the Swedish society. A reducted democratic sphere of deliberation was pointed out as a cost that might be incommensurable with a larger influence of Sweden within the EU. Lastly, the report focused upon the large uncertainty of the consequences of the Euro, with acute problems in case of failure (table 7, infra). The British government too decided that it was not in the interest of the country to join the Euro…but eleven other governments made the opposite choice.

Where does this opposition come from? Basically, the intricacies of each national political system have played a role, because it is the sphere where different interests, visions and strategies are fighting to set the final decision. Political scientists have the task to disentangle the contribution of a complex web of those economic, social and political processes but they are far from agreeing upon common conclusions. Nevertheless the median voter hypothesis appears here as a drastic and probably misleading fiction (figure 2).

---- Insert Figure 2---

Europe displays a large variety of electoral and political systems and this characteristic had a specific role, on top of the pure economic and institutional differences previously mentioned : Parliamentarian versus more presidential regimes, proportional or majority electoral systems, possible or compulsory appeal to referendum, frequency of elections and the average length of governments are factors to be taken into account. The French case is a good illustration of this complexity: in 2005 a referendum on the adhesion to the Euro was called and gave a clear majority of NO. Nevertheless, the government decided to present a slightly amended treaty to the Parliament and the treaty instituting the Euro was approved.

All these differences in the political systems (table 7) still play a significant role in 2012, in the middle of a major systemic Euro-zone crisis. In Germany, every agreement in Brussels on the financial funds for bailing out other governments or banks has to pass through the domestic political and legal (the German Constitutional Count) system, but in France it is automatically translated into the French system, without Parliamentary control. In this long and chaotic process (look at the succession of governments in Greece), international finance takes the lead by imposing huge spreads for the public debts of governments that are unable to work out a credible strategy. Clearly, polity matters in response to the same challenges addressed by the leading role of finance in the unfolding of the Euro crisis.

---- Insert Table 7---

3. Resilience of the Euro versus a renationalisation of economic policies? A permanent threat

If one accepts the core argument presented until now, the Euro is not failing because any constructivism is bound to fail but because the crisis is the consequence of various flaws in the design of its governance, that could have been prevented and can probably still be corrected, if the relief provided by the unambiguous and full support of the European Central Bank to the Euro announced by Mario Draghi on July 26th, 2012 is used to build the required European procedures and institutions, for instance in the direction of a common financial supervision and responsibility. The jury is still out: will private actors and especially financiers be convinced that a genuine European federalism is in the process of making or will any bad news trigger a domino effect towards a more or less complete renationalisation of economic policies (figure 3)?

---Insert Figure 3---

Many reasons might explain this polarization of a wide variety of interests upon only two options. Firstly, the nostalgia of the Golden Age is still present: many actors dream to come back to a period when wage increases had the wonderful consequence of higher employment, less public deficit while preserving the dynamism of investment. If austerity measures fail, their opposite should succeed! Let us return to the past socio-economic regime. Clearly, this assumes a complete reversibility of two decades of internationalisation, rise of finance, productive paradigm shift and transformation of European societies. Secondly, if the European Union has not been able to implement democratic principles in Brussels and Frankfort, public opinion is entitled to ask for a return to the control by citizens of the government and until now, the Nation-State is the only territory where polity is organized and democracy can be exerted, however imperfectly. The enforcement of drastic adjustment programmes, run jointly by the European Commission, the ECB and IMF, feed the feeling that a form of technocratic logic has replaced democratic principles.

Thirdly, the fact than the EU has been based upon the corner stone of unfettered competition and its relentless extension from manufacturing to services, labour and finance, calls for a return to more cooperative strategies: if they are blocked at the European level, the nation, the region or local communities can favour them. Fourthly, facing the limits of the generalisation of export-led growth and financialisation, anti-globalisation movements may convince a growing fraction of public opinion to abandon unfettered free trade. Given the deadlock in negotiating a more regulated and fairer international system, the renationalisation of European economies is a tempting option, presented both by extreme right and leftist political parties. The impressive recovery of Argentina after its default and complete U turn of its economic policy (Boyer and Neffa, 2007) is thus more and more frequently mentioned as a way out of the Greek present tragedy. Nevertheless, the size and the competitiveness of the exporting sector is far inferior in Greece and immediate contagion effects make a lot of difference between Argentina in 2001 and Greece in 2013.

By contrast the appeal of European institutions is quite low and this plays a role in the nature of the likely bifurcation of European integration: a high road out of the crisis…or the collapse of the very ideal of Europe?

4. Europeanization as a modernisation process and a burgeoning of European procedures in order to legitimize possibly unpopular domestic reforms

Joining the European Community and then Union has been a powerful instrument for organizing the transition to democracy of many Southern nation-States and speeding up the modernisation of public infrastructures, domestic regulations and more generally productive organisations of the firms and improving the life standards of a majority of the population. This was the Golden days of Europe but this period seems over and the relation between member States and European entities is no more a positive sum game. With the long term slow growth, past social rights are more and more difficult to finance and sustain, whereas the welfare systems as such enjoy a strong support from the population.

In such a context, in the domestic arena politicians may argue that drastic reforms are imposed by the EU directives, they are not responsible for. Actually, they indirectly and directly gave their approbation to these decisions, generally taken by unanimity. This ambiguous argument might help once or twice, but it cannot become a general principle for legitimating reforms that are disapproved by a majority of the population.

The invention of the Open Method of Coordination (OMC) (Rodrigues, 2002) has introduced a new tool, built upon the pooling of national reforms in the light of common objectives in terms of welfare, labour institutions reforms, innovation policy, and finally of gender and fairness issues. By the its voluntary nature, this benchmarking exercise is far from having succeeded in reconciling productive modernisation and remodelling of welfare but it had the merit to respect the subsidiarity principle: frequently, the bargaining at the domestic level has blocked unpopular and probably inefficient reforms.

In any case, the efficacy of the traditional instruments – directives – have been eroded and the new ones-OMC- have not overcome the distance between the framing of issues in Brussels and reality of economic and social processes operating at the grass root level. This is a major fragility for the whole EU and of course the Euro.

5. From a community approach led by the European Commission to intergovernmental bargaining within the European Council

Within the entities that form the European governance – for simplicity sake European Court of Justice, however important, has not been introduced here – the Euro has been associated with a shift in their respective power.

First, the creation of the ECB has weakened the power of the European Commission concerning the conduct of the economic policy: money is a federal responsibility and the ECB exerts it quite lonely, given its formal complete independence from any other administrative or political entity. By contrast fiscal policy remains a national attribute and thus the European Commission is only the enforcer of competition, the guardian of the SGP and the coordinator of medium term national programmes.

Secondly, in spite the reform that has extended the power of the European Parliament, its role remains quite limited indeed. Its interventions in the Euro crisis are nearly invisible. Therefore the leadership in response to the Greek crisis and its progressive diffusion to Portugal, Ireland, Spain, Italy has been taken by the European Council that had to meet more and more frequently in order to try to stop the downward spiral, in response to each of the speculative attack on national sovereign debts.

This was better than the long silence of the European Commission and the inability to take initiatives by the Parliament but this has meant the absence of a central actor defending a community approach. A clear leadership was replaced by a series of laborious bargaining at the intergovernmental level that led to quite shaky and unconvincing compromises, late decisions and a permanent underestimation of the severity of the problems ahead. Still quite all the national public debt and banking crises are dealt as liquidity crises – hence the call for an intervention of ECB – whereas points out the risk of diffusion of solvency issues starting from the Greek government and Spanish banks...

The inability to reform the SGP in the direction of an effective control over lax public finances is a good example of the pernicious impact of inter-governmentalism: the governments were exempting each other from complying with the enforcement of sanctions and the European Commission was unable to prevent this dangerous shift (Boyer, 2006). A significant part of the Euro crisis originates from this specific distribution of power within the (complex) European governance. But conversely, the June 2012 and February 2013 European Councils have exacerbated the previous unbalances in the bargaining power of the various members of the European Union. The fiscal compact, i.e. the golden rule for public finance management was largely imposed by Germany and the reduction of the European budget for 2014-2020 was largely the outcome of the alliance between Germany and UK against the interest and will of Southern Europe. The spirit of community put forward by the founding favours seems to have gone with the Euro crisis.

6. The same European Treaties but contrasted national interpretations: why rescue plans recurrently fail

The Germans have had the intellectual and political primacy in the drafting the successive European Treaties since they accepted to abandon the Deutsch Mark only if the new currency was run according to German principles: prevent at any cost an open inflation, forbid the monetisation of any public deficit make the bailing out of one State by another impossible. Since a fully fledged federalism was out of reach, they nevertheless imagined to transpose a part of their ordoliberalism: the Euro would fulfil its role only if *everyone* complied with *all* the rules, *agreed upon* in the Treaties. Here originates a dramatic misunderstanding: for many other members of the Euro-zone, the clauses of the Treaties are to be interpreted in each new context they were not at all a categorical imperative. For German governments, to comply with agreed upon clauses is a moral issue that cannot be discussed or freely amended. Such vision is largely diffused in Northern societies but far less in the South and this cultural / legal divide continues to make quite difficult the rescue plans of the Euro. For German public opinion, a government that has been cheating has no legitimacy for begging the help of the virtuous ones. The subsequent collapse generated by the absence of bailing out may inflict various and sometimes important loses to the other virtuous economies, but this is the cost to be paid to enforce the respect of the rules of the game in the future... if the EU still exists!

These misunderstandings are multifaceted. For the French elite, the ECB should be the instrument for achieving a better policy mix, whereas for German experts and politicians its normative role is exclusively to defend monetary stability. Back in the 90s British and French governments agreed upon the same treaty but their intentions were opposite: on one side, the Single Market was an opportunity to destroy the legacy of domestic State interventionism in order to prepare Europe to world competition. On the other, this was the starting point to construct at the European level the institutions that have become inefficient at home. Similarly, the successive British governments have implemented a workfare and largely privatised social security; by contrast, most continental Europe societies continue to define themselves as welfare capitalisms, even if the slow growth puts at risk the previous generous entitlements. Last but not least, the various tax systems display quite contrasted trade-off between economic efficiency and social solidarity (table 8).

---Insert Table 8 —

Another misunderstanding makes the political bargaining in Europe still more difficult. Back to the end of the 90s, public opinion surveys shown a contrasted configuration: Southern Europeans and French opinion were quite enthusiast about the Euro, but in Northern Europe, especially in Germany, the people feared the Euro (table 9). In retrospect, the first group now experiences major difficulties in sticking to the Euro, whereas the second has been quite successful in using the European Single Market to boost its growth, in contrast with the lack of dynamism of their domestic demand in response to a long period of wage austerity in Germany.

----Insert Table 9----

Here comes a last paradox: a majority of public opinion in the South declares that they want to continue to belong to the Euro, whereas their productive structures and specialisations make the fulfilment with the Euro rules very difficult, if not impossible. In the North (Germany, Finland) the politicians have to fight back against the feelings of their public opinion, strongly opposed to any European solidarity towards the South, in spite of the fact that Germany has finally benefited economically from the rest of Europe, both in the boom and crisis period. Would the German working poor who have emerged from the successive slimming down of welfare benefits, understand a massive support of Southern Europe unemployed? This is another neglected dilemma: some want to belong to the Euro but are unable to cope with its economic consequences, whereas other can thrive economically but are not so eager to be part of the Euro zone.

Of course, a correct diagnosis of the weaknesses of the present European integration is required, but polity matters still more for the future of the Euro.

CONCLUSION

The present article introduced some neglected factors in the analysis of the Euro zone crisis. An erroneous economic theorising, the domestic bias of political intermediation and the power of financial globalisation interact within quite complex processes. They lead to the present turmoil and make impossible any firm prognosis about the way out of the present "muddling through". More precisely, seven conclusions are proposed.

- The conventional wisdom displays a dual interpretation. At the economic level, it states that the Euro crisis is no more than a typical first generation crisis, i.e. the consequence of the incompatibility between a fixed exchange rate, full international capital mobility and an excessive public deficit. This is not false but partial. At the political level, the second frequent assessment points that no money can be viable without the backing of a fully sovereign State and this applies to the Euro-zone crisis, but it has still other and deeper origins that relate to the explosive synergy between three interdependent processes.

- Firstly, the new classical macroeconomics has convinced a majority of economists and politicians that a market economy is structurally stable, without taking into account of the role of credit, nor the impact of financial markets upon expectations. Thus the related economic models, used to assess the impact of the Euro, are built upon hypotheses that make impossible any crisis. A structurally stable macroeconomic equilibrium is only moved by the recurrence of exogenous real shocks, a high powered money is neutral, the expectations of all private and public agents are fully rational, the unemployment is basically involuntary and the bankruptcy of firms and banks is impossible. Actually, it was a rather poor starting point for analysing a complete change in the economic policy mix and the degree of autonomy of national "régulation" modes. Joining the Euro implied the loss of two instruments: monetary and exchange rate policies. They should have been replaced by other instruments such as innovation and industrial policy, social pacts or income policy. Some countries could do so, other did not and they are now in severe crisis.

- Politicians and macroeconomics have down played the heterogeneity of euro-zone Members in terms of productive specialization, economic policy styles, political and legal conceptions. Still more the deepening of the social divide between groups that gain from the euro and those who are fearful to loose from it, imperils the governability of domestic democratic systems by referring to rules negotiated at the European levels that are to be implemented whatever the expression of domestic public opinion. For instance a referendum on the European treaties delivered a No in Ireland and France, but the ratification went through. By contrast to this technocratic approach, some social democratic societies have decided not to join the Euro, precisely because the uncertain balance between gains and losses made the choice an irreversible monetary union quite risky.

- The complexity of the decision process in the EU has been used by governments to follow a modernisation /internationalisation agenda, and when it was blocked by the domestic political process, they have been using public spending and tax reduction that were the rare and easy tools within a restricted scope of economic and social policy instruments. Hence the recurring violation of the Stability and Growth Pact and the permanent rise in the public debt / GDP ratio in the weakest economies that have been unable to reduce the structural unbalances they suffered from since 70s. After the adhesion to the Euro, Public spending and welfare transfers have been used as safety a valve in order to sustain growth and job creation and then after the subprime crisis automatic stabilizers have hollowed public deficits and finally an unconditional support to ailing financial systems has exacerbated public deficits to the extreme for instance in Ireland. It is thus illusory to imagine that a drastic but temporary austerity policy could rapidly overcome unbalances that have been piling up during one or even two decades.

- A third process is involved with genesis and unfolding of the Euro crisis, financial deregulation and globalisation have created major disequilibria. Most governments have been happy to remove away from the political arena unpopular decisions in terms of capital allocation and economic restructuring. Initially they feared that product and labour market liberalisation would imply a slower growth by strengthening the economic constraints, but the innovativeness and internationalisation of finance have removed the inter temporal income constraints for households, firms and States. Furthermore finance has entitled poorly competitive economies to enter the Euro, providing instruments to hide and/or transfer the related risks. By lack of political authority and will to enforce the Excessive Deficit Procedure, the European entities (the Council, the Commission) have been happy to delegate this task to international finance. Hence the irony concerning the sequence of first an extreme permissive finance then a highly overly pessimist appraisal of the viability of the Euro. This pathological pattern, typical of liberalised finance, has turned a local and limited crisis in Greece into the global distrust about the future of the Euro and even of the European Union itself.

- The recurring inability to work out adequate responses to the creeping and then open crisis of the Euro does not derive from any irrationality or lack of political will but from the conflict between incompatible objectives and interests of the complex web of key collective actors: the ECB is tied by past treaties to deliver price stability; within the European Council, intergovernmental negotiations are quite messy and slow due to conflicting visions about the future of Europe; international finance has been given the power to get high and stable returns and it now dominates most other actors by the web of its global networks and the complexity of its products and organizations; the European Commission lacks the legitimacy and instruments to rejuvenate a European community approach based upon the defence of core European public goods and the creation of new ones; Citizens complain about the risk over democratic principles and the poor achievements of European institutions in coping with a crisis they feel not responsible of. .

- The future of the Euro is open. There may exist as many futures as collective actors able to shape the strategy of other entities towards a more coherent configuration with respect to the repartition of competences between European and National arenas (table 10): the collapse of the Euro under the relentless pressures of an impatient finance is a possible and still likely scenario. A complete renationalisation of economic policy and control of finance is is not excluded; a North / South divide within the Euro is looming; the power and centrality of ECB could entitle a progressive reconfiguration of the web of national and European institutions; the European Commission could oppose the value of cooperation to the competition principle deeply embedded in the present European treaties and it would be an alternative to inter-governmentalism. Last but not least, citizens may call for a revival of democracy with ambiguous consequences: at what level? Is the Nation State the only available and adequate arena for democracy or will a democratically negotiated and constructed Europe finally prevail?

--Insert here Table 10--

Hence a prognosis: the Euro crisis is here to last and will probably bring many surprises.

Table 1 – The consequences of the new classical macroeconomics upon the assessment of the viability of the Euro

HYPOTHESES	MECHANISMS INVOLVED	CONSEQUENCES FOR THE EURO	DEGREE OF REALISM
1. EXOGENOUS MONEY CREATED BY CENTRAL BANK	• Typical monetarism • Neutrality of money in the long run	Price stability is the first objective of Central Bank	In modern financial systems, endogenous money creation via bank credit
2. FULL EMPLOYMENT EQUILIBRIUM	• Perfect adjustment by prices and wage flexibility • Unemployment is voluntary	Basically no inflation / unemployment trade off	Large and long term involuntary unemployment in many EU economies
3. SYMMETRIC SHOCKS WILL PREVAIL OVER ASYMMETRIC COUNTRY SPECIFIC SHOCKS	Thus a common monetary policy will fulfil the bulk of national macroeconomic adjustments in response to productivity shocks	Euro-zone can be viable even if it is not initially an optimum monetary zone	Significant endogeneity of productivity, heterogeneity of national macroeconomic trajectories
4. RATIONAL EXPECTATIONS FOR ALL ACTORS: - FIRMS, HOUSEHOLDS - GOVERNMENTS	The economic policy rule associated to the Euro will affect all private and public strategies	The principle of irreversibility of Euro is crucial for its credibility and long run viability	Adaptation of firms and banks… But governments play domestic political games without clear links with the search of economic efficicency
5. THE SAME SIZE FOR ALL	Existence of generic economic adjustments common to all member-States	The Euro will speed up a nominal and thus real convergence	The Single Market has generated a deeper division of labour, hence heterogeneity and complementary specialisation

Table 2 – Alternative approaches delivered more accurate and fair assessments

Approach	Core mechanisms	Consequences for the Euro	Degree of realism
1. Keynesian Theory	Effective demand is the key determinant of employment	Orthodox restrictive monetary policy and limits to public deficit will imply high unemployment	Realist for the slow growth period 1993-1999, but not from 2000 to 2008 due to the rise of credit
2. Neo-Schumpeterian Theory	• Innovation is the engine of growth • The knowledge based economy is the new paradigm	• Speed up innovation via RD and structural reforms • Growth is the condition for the success of the Euro	• Germany and Northern Europe are the good pupils of the Euro • Southern Europe is dramatically lagging
3. New Economic Geography	Increasing returns imply geographical polarization	The Euro triggers a deeper division of labour among regions and countries, hence larger national heterogeneity	The productive unbalances put the Euro at risk, in the absence of fiscal federalism and large labour mobility
4. Post Keynesian Theories	Built in instability of finance in the context of liberalisation, innovation and globalisation	Need to build the credibility of the Euro with respect to international finance, at the cost of lower growth	A typical sequence of optimism (2002-2007) and pessimism (2008-2012)

Table 3 – The drift of public finance could be (and has been) anticipated

Approach	Core mechanism	Consequence for Euro	Degree of realism
Public finance	Theoretical conditions for public finance sustainability	The criteria selected by the Stability and Growth Pact extrapolate past growth patterns and have no theoretical foundations	• Any growth slowdown implies a frequent violation caused by automatic stabilizers • Better rules are available (structural deficit, total public debt,...)
Econometric analyses	The rule of the Stability and Growth Pact has frequently been breached in the past	It will be difficult to enforce	Actually many countries have been unable to stick to the rule from 2003 to 2012, including virtuous countries such as Germany
Political economy	Politicians respond to domestic social demands	Public deficits will expand in economies with major adjustment problems to the Euro	Virtuous competitive Northern Europe may comply but weaker Southern economies not

Table 4 – J. Tinbergen's analysis of economic policy: the Euro means the loss of two key instruments and the ability of the Central Bank to refinance public debt

INSTRUMENTS / OBJECTIVES	THE GOLDEN AGE	THE ROUTE TOWARDS THE EURO	THE EURO
1. INFLATION	Autonomous *monetary policy* Eventually income policy	Restriction upon monetary policy (defence of exchange rate)	• Mainly the objective of the European Central Bank • Interdiction of the refinancing of national public debts
2. FULL EMPLOYMENT	Mainly *Budgetary policy* Sometimes Social Pacts	Restriction upon budgetary policy (reduction of public deficit in order to comply with the convergence criteria)	• Budgetary policy autonomy limited by the Stability and Growth Pact • Structural reforms (competition, labour market) promoting job creation
3. EXTERNAL EQUILIBRIUM	Adjustment by political decisions upon the *exchange rate*	Exchange rates become financial market variables, tentatively controlled by the Central Bank	• No more formal external constraint for Member States • The Euro exchange rate is a pure market variable, and no more the outcome of governments decision making
4. GROWTH	Innovation and industrial policy	Primacy of macroeconomic approach of the business cycle	• Enforcement of competition, as an alternative of industrial policy • Lisbon Agenda and Open Method of Coordination

Figure 1 – Half century of European integration : building European public goods out of recurring crises

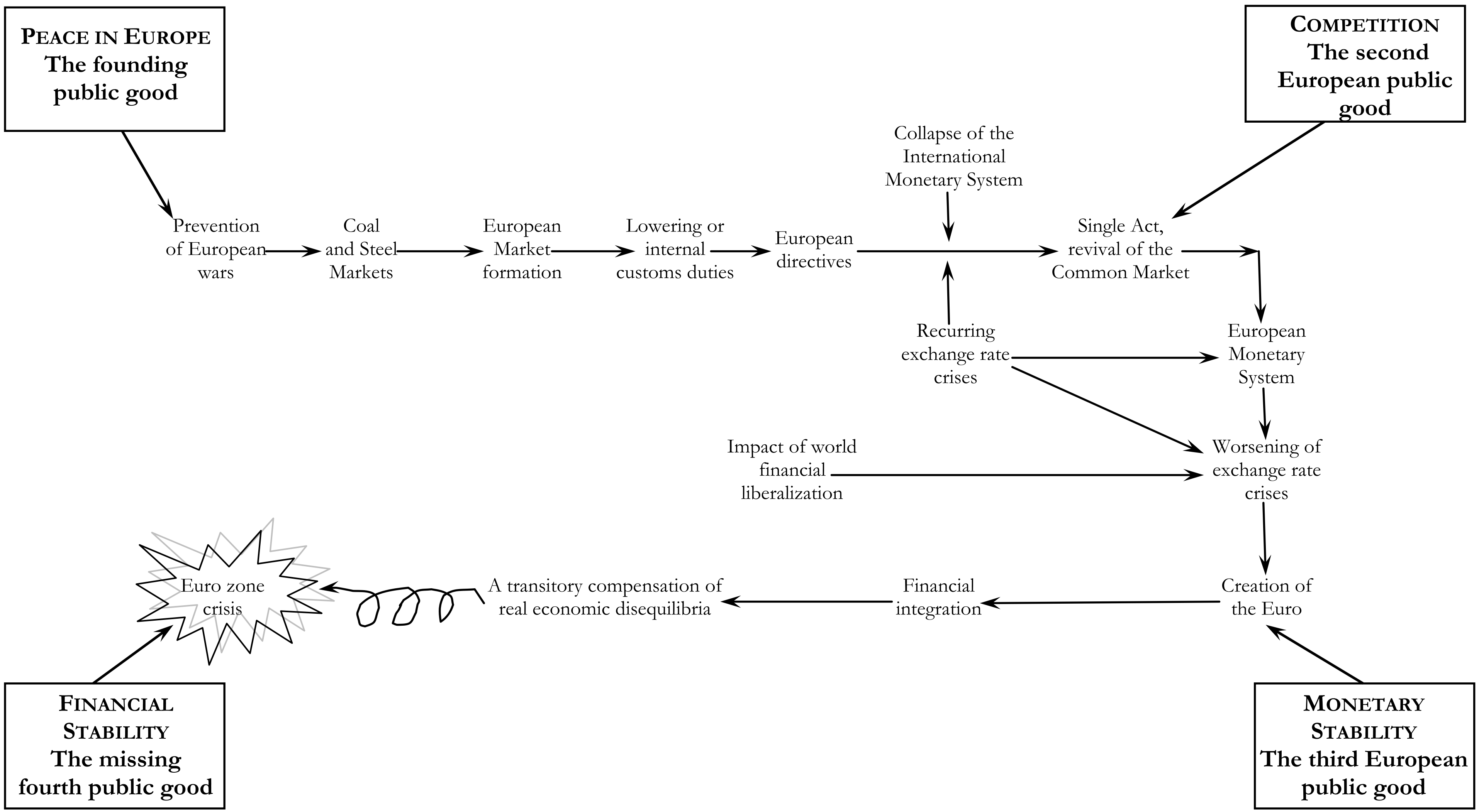
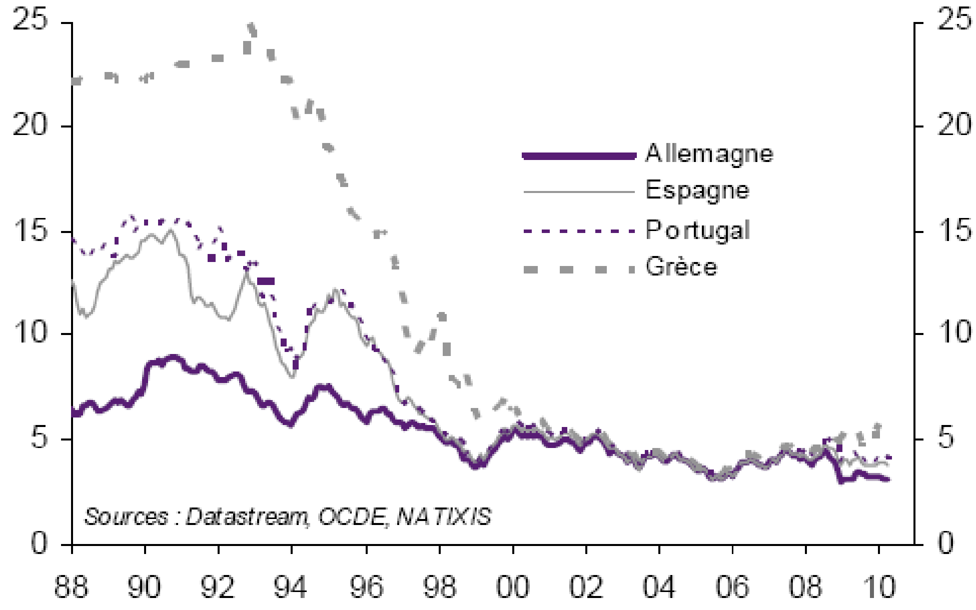


Table 5 – The Euro means an epochal change for national modes of "régulation"

PERIODS LEVEL OF INSTITUTIONAL FORMS	"GOLDEN AGE" 1945-1971	THE PAINFUL DECADES 1972-1999	THE HAPPY DAYS OF THE EURO 2000-2009	THE DECADE OF RECKONING 2010 - …..
1. MONETARY REGIME	National	More and more constraints upon national monetary autonomy	The same *European monetary policy for all members*	• The loss of efficiency of the conventional tools of the European Central Bank facing national banking and sovereign debts crises • Major concern for financial stability
2. WAGE LABOR NEXUS	National	National, but transformations in reaction to fiercer competition	Still *national* but « *benchmarking* » at the European level	Labour market and welfare reforms in order to restore national competitiveness
3. NATURE OF COMPETITION	Mainly national	Growing impact of European competition policy	Stricter enforcement of competition at the European level	Overcapacity at the world level triggers fiercer competition in the European Union
4. INSERTION INTO THE WORLD ECONOMY, EXCHANGE RATE REGIME	Exchange rate is the outcome of political decisions	Financial markets tend more and more to set spot and future exchange rates	A single common exchange rate set by financial markets	Promotion of "internal devaluations" via wage austerity and welfare slimming down
5. LINK STATE / ECONOMY	Large welfare State	Recurring public and welfare deficits	Diverging evolution of public deficits	Sovereign debt crisis, diverging trends across the Euro-zone
	Large and redistributive tax system	Less progressive income tax	Erosion of the tax base caused by capital mobility	Self defeating austerity policies spill-over across Europe

Monetary union but diverging real economies: a North/South divide

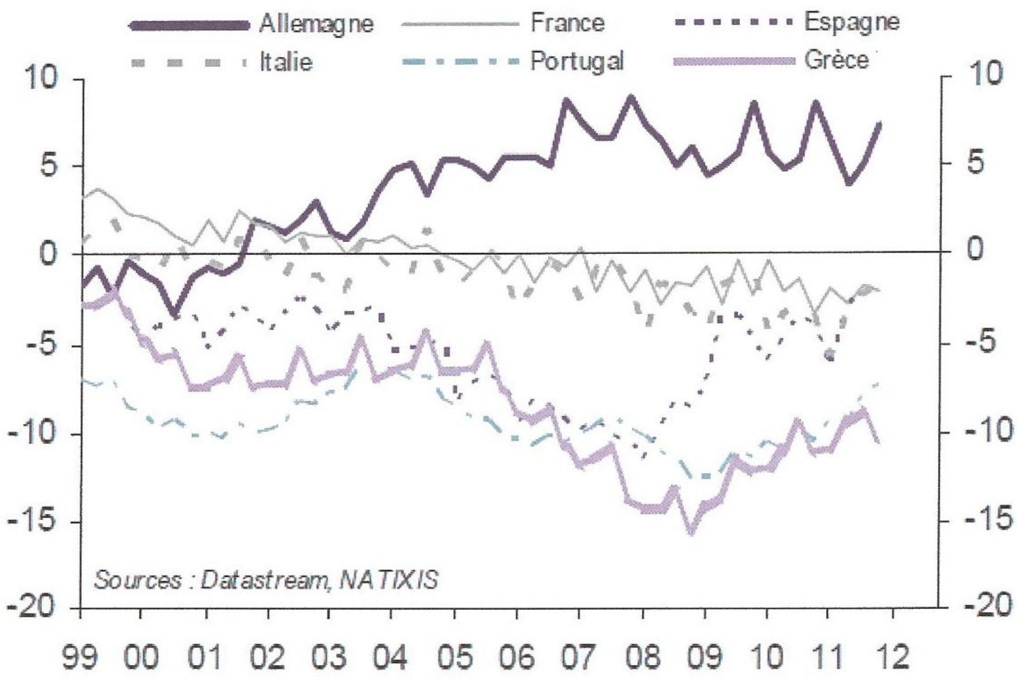
Graph 1 – A convergence of 10 years Treasury bonds interest rate.



Source : Patrick Artus (2010), « Quelle perspective à long terme pour la zone euro ?, *Flash Economie,* n° 158, 12 Avril, p. 4.

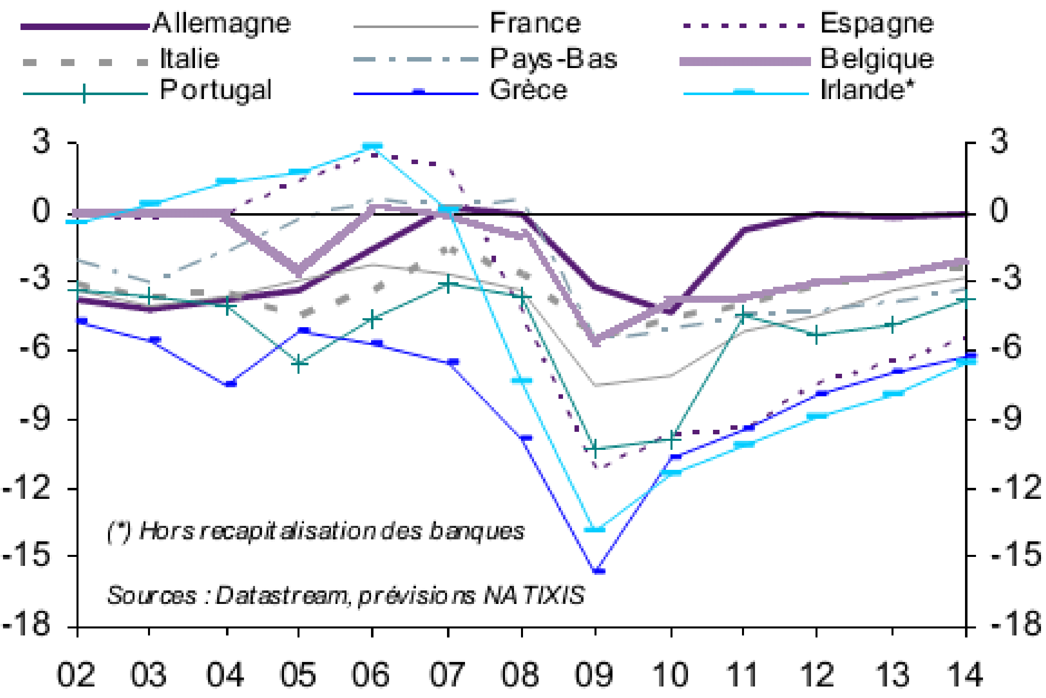
Graph 2 – Trade surplus in the North, growing trade deficit in the South

Current balance / PIB (%)



Source: Patrick Artus (2012), *Flash Economie*, n° 347, 21 mai.

Graph 3 – Structural public deficit/GDP (%) for Greece, Portugal and Ireland



Source: Patrick Artus (2013), « La crise de la zone euro ne peut pas être finie », *Flash Economie*, n° 76, 25 janvier, p. 5.

Table 6 – France: the various social groups perceived quite differently the consequences for them of the Euro.

Question: What are likely consequences of EURO for each of the following groups?

		Not too many problems	Transitory difficulties only	Long lasting problems	Without any opinion
Large firms	100 %	$\boxed{62}$	32	4	2
Younger people		$\boxed{60}$	31	7	2
Small and medium size enterprises		37	$\boxed{53}$	6	4
Retailers		22	$\boxed{65}$	11	2
Savers		20	$\boxed{51}$	21	8
People with low incomes		7	49	41	3
Old people		1	8	$\boxed{90}$	1

Sources: SOFRES [1997]: 110.

Figure 2 – The social and political viability of the adhesion to Euro of a Member-State

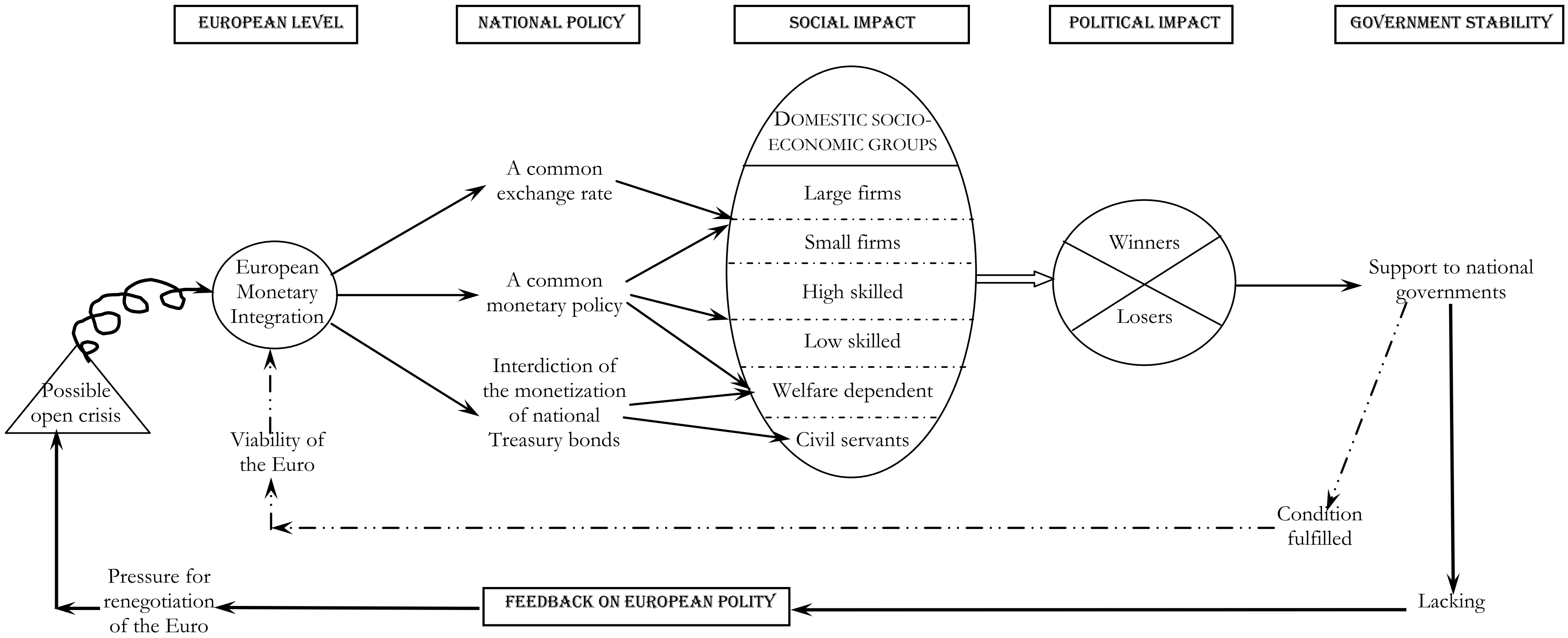


Table 7 – Polity matters: why France joined the Euro and Sweden did not

INSTITUTIONAL FEATURES	FRANCE	SWEDEN
1. Social inequalities and stratification	Significant	Moderate
2. Degree of political conflicts	High	Moderate
3. Nature of the political system	Presidential	Parliamentary
4. Style of economic policy debates	Technocratic / elitist	Involvement of most social sectors
CONSEQUENCES UPON THE DECISION TO JOIN THE EURO		
5. Access of various opinions to the debate	Existing but not very wide	Quite exhaustive
6. Extent of the criteria taken into account	Narrow, only macroeconomic management	A whole spectrum of criteria
7. Involvement of the citizens	High at the grass root level but not formally	Direct and indirect via deliberation
8. Political procedure	1. A referendum gives a majority to the NO 2. A Parliament votes YES: France joins the Euro In the	The government decides not to join given the mixed and uncertain economic and social consequences
MEDIUM-LONG TERM OUTCOMES		
	• Progressive erosion of competitiveness and economic performance	• A steady economic performance
	• Rise of opposition to the Euro	• No major opposition in favour of joining the Euro

Figure 3 – Success of the Euro…or renationalisation of national policies?

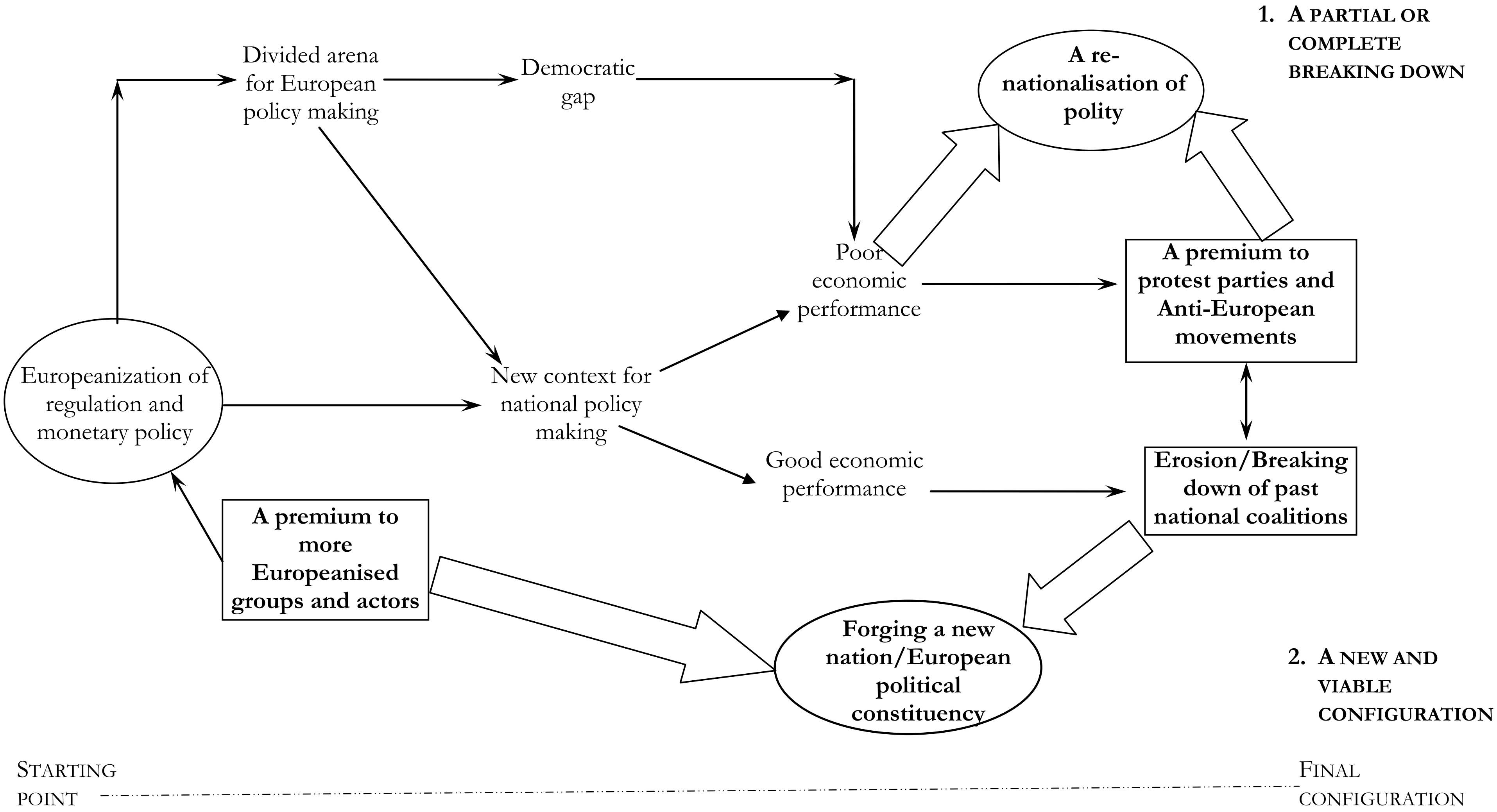


Table 8 – The same European treaties…but conflicting visions of the dynamics they imply

1. Conception of the European Central Bank	Normative	Instrumental
	Absolute autonomy in order to preserve price hence monetary stability	Dependence with respect to the political power, search for a trade-off between inflation and unemployment
	Germany	France
2. Leading principles for economic governance	Pure Markets	Public monitoring
	The European Union should be a free trade zone	European level institution building on top of markets
	United Kingdom	France, Germany
3. Conceptions of Welfare and labour institutions	Market enhancing	Protection from market insecurity
	Workfare Privatization of most components of welfare	Extended Welfare, ideal of a social Europe, role of collective negotiations
	United Kingdom	Denmark, France, Germany
4. Role of public spending and taxation	Minimalist	Key political tools
	Ideal of balanced budget	Active Stabilisation policy
	Germany	France
	Ideal of a flat tax	A progressive personal taxation
	United Kingdom	Denmark, Sweden

Table 9 – The paradox of the launching of the Euro.

EUROPEAN SURVEY
Early 1997

A rather enthusiast Southern Europe	A sceptical Northern Europe
France	**Germany**
70 % have a positive appraisal about the Euro. 58 % consider that the benefits overcome the required sacrifices.	60 % fear the consequences of the Euro.
Spain	**Great Britain**
70 % have a positive appraisal of the Euro.	58 % fear joining the Euro...but 56 % of businessmen wish Britain to join.
Portugal	**Netherlands**
53 % are ready to financial sacrifices in order to have their country in the first wave of Euro.	A drastic breaking down of the acceptance of Euro. 1995 : 73 % 1996 : 46,3 % 1997 : 34 %
Italy	
70 % have a positive appraisal of the Euro.	

Source: Le Sondoscope n° 129, Avril 1997, p. 70-71-73.

Table 10 – Solving the incompatibility of objectives and interests by the leadership of a key-actor: some tentative scenarios

KEY ACTOR	STRATEGIC ASSET	IMPACT ON EURO	FINAL CONFIGURATION	PERMISSIVE FACTORS	BLOCKING FACTORS
1. INTERNATIONAL FINANCE SETS THE DESTINY OF THE EURO	Mobility and volume of assets controlled by finance	Speculation reveals the institutional mismatch of the EU and the inability of reforming the Euro	**Breaking of the Euro** • Exclusion of insolvent States • A two speed/tier Euro with flexible exchange rate • End of the idea of a common currency, return to complete national sovereignty	• Impotence of European authorities • Conflicting national interests	• Loss of legitimacy of high finance after recurring scandals • Coordination of major central banks to restore financial stability
2. THE EUROPEAN CENTRAL BANK FIGHTS BACK	Monetization of national public debts; Lender of last resort for banks	• Mitigates speculation • Gives time to national economies in order to adjust structural unbalances	**Pragmatism but coherence** • Debt forgiveness for insolvent States • Rescheduling for illiquid public debts • Fiscal federalism in order to rebuild the competitiveness of weak economies	• Compromise between the German and Keynesian conceptions of Central banking • Knock down impact upon European Commission and European Council	• Opportunist behaviour of national governments • Irreconcilable national conceptions of central banking • Impotence of weak States
3. RENEWED COMMUNITY APPROACH	Defence of European public goods, including the Euro, by a strong European Commission	A complete re-foundation of EU makes viable the Euro	**An European Community** • Euro as a common but not single currency • Taxation of capital at the EU level • A European financial regulatory and federal deposit insurance • A large structural fund in order to reindustria-lize the weakest economies	• Recognition of large productive heterogeneity • Devaluation far better than inefficient austerity policies • The principle of solidarity better fulfilled by growing economies	• Obstacles admitting the flaws in the design of the Euro • Loss of expertise and leadership of the European Commission • Legacy of intergovernmental negotiations at the level of the European Council
4. EUROPEAN CITIZENSHIP	The democratic principle: control by people of the political and economic institutions they live with	Uncertain according to the level of action: either typically national or European	**OPPOSED OUTCOMES** **Economic nationalism** • Democracy can only be expressed at the level of the Nation-State • Reconquest of full sovereignty, including the monetary one	• The failure of austerity policies, both inefficient and unfair • Diffusion of grass roots movements against inefficient and undemocratic reforms	• Some nostalgia for a golden past • Democracy or typical nationalism? • Danger and limits of protectionism
			Democratically negotiated Europe • Radical political innovations allow the emergence of democratic EU	• A recovery in the credibility of the Euro • Emergence of transnational parties	• Europe is not yet constituted as a democratic arena • Opposed conceptions within the same parties (left or right) • Domination of powerful lobbies defending the *statu quo* • Reluctance of new social movements to organize themselves as national / European political parties

REFERENCES

AMABLE Bruno (2003), *The diversity of capitalism*, Oxford University Press,,Oxford.

AMABLE Bruno, BARRE Rémi, BOYER Robert (1997), *Les systèmes d'innovation à l'ère de la globalisation*, Economica, Paris.

ARTUS Patrick (2011a), "L'ajustement demandé aux pays périphériques de la zone euro est-il réalisable? Une comparaison avec l'ajustement réalisé en Allemagne », *Flash Economie*, n° 268, 11 avril.

ARTUS Patrick (2011b), "Introduction du federalisme dans la zone euro : les avantages et les risques", *Flash Economie*, n° 284, 18 avril.

ARTUS Patrick (2012a), « Visiblement, les dirigeants européens ne comprennent pas que la stratégie de sortie de crise qu'ils utilisent ne marche pas : la déconnexion de la logique européenne et de la logique des marchés financiers », *Flash Economie,* n°519, 26 Juillet.

ARTUS Patrick (2012b), « En situation de sous-utilisation des capacités, les entreprises concentrent leurs productions dans les pays où elles sont les plus profitables, d'où l'accélération des pertes d'emplois dans les pays où la profitabilité est faible », *Flash Economie*, n°515, 25 juillet.

ARTUS Patrick, WYPLOSZ Charles (2002), « La politique monétaire de la Banque centrale européenne », Rapport du *Conseil d'analyse économique*, la Documentation française, Paris.

BOYER Robert (sous la présidence) (1999), *Le gouvernement économique de la zone euro*, La documentation française, Paris.

BOYER Robert (2000), "The Unanticipated fallout of European Monetary Union: The Political and Institutional Deficits of the Euro", Colin Crouch, *After the Euro*, Oxford University Press, Oxford, p. 24-88.

BOYER Robert (2006), "The institutional and policy weakness of the European Union: the evolution of the policy mix", in CORIAT Benjamin, PETIT Pascal, SCHMÉDER Geneviéve*, The Hardship of Nations*, Edward Elgar, Cheltenham, p. 161-187.

BOYER Robert (2010), "Integracion productive y financiera en la Union Europea. De la sinergia al conflicto", *Puente@Europa*, *Dinamicas productivas de la integración: comercio, moneda, trabajo e industria*, Ano VIII, n° 1, Abril, p. 31-47.

BOYER Robert (2012), "The four fallacies of contemporary austerity policies: the lost Keynesian legacy", *Cambridge Journal of Economics*, 2012, 36, p. 283-312.

BOYER Robert, DEHOVE Mario (2001a), « Du « gouvernement économique » au gouvernement tout court. Vers un fédéralisme à l'européenne », *Critique internationale*, n° 11, Avril 2001, p.179-195.

BOYER Robert, DEHOVE Mario (2001b), « Théories de l'intégration européenne : entre gouvernance et gouvernement » *La Lettre de la Régulation*, n° 38, Paris, septembre, p. 1-4.

BOYER Robert, NEFFA Julio Ceasar (Dir) (2007), *Salida de crisis y estrategias alternativas de desarollo. La experiencia argentina*, Miño y Davila Madrid et Buenos Aires.

BOYER Robert, SAILLARD Yves (Eds) (1995), *Théorie de la Régulation. L'Etat des Savoirs*, La Découverte, Paris.

BRENDER Anton, PISANI Florance et Emile GAGNA (2012), *La crise des dettes souveraines*, Repères « Economie », n° 601, La Découverte, Paris.

CARRICK-HAGENBARTH Jessica and Gerald EPSTEIN (2012), "Dangerous interconnectedness: economists'conflicts of interest, ideology and financial crisis", *Cambridge Journal of Economics*, Vol. 36, n° 1, January, p. 43-65.

COENEN Günter, STRAUB Roland and Mathias TRABANDT (2012), "Fiscal policy and the great recession in the Euro Area", *American Economic Review*, 102 (3), May, p. 71-76.

CONSEIL D'ANALYSE ÉCONOMIQUE (1998), *Coordination européenne des politiques économiques*, n° 5, La Documentation Française.

CONSEIL D'ANALYSE ÉCONOMIQUE (2004), *Réformer le pacte de stabilité et de croissance*, Rapport n° 52, La Documentation française, Paris.

COUNCIL OF THE EUROPEAN UNION (2011), Statement by the heads of state or government of the Euro area and EU institutions, Brussels, 21 July.

CROUCH Colin (ed.) (2000), *After the Euro*, Oxford University Press.

DEHOVE Mario (1997), 'L'Union Européenne inaugure-t-elle un nouveau grand régime d'organisation des pouvoirs publics et de la société internationale ?', *l'Année de la Régulation 1997*, 1, (Paris: La Découverte), 11-83.

DELORME Robert, ANDRE Christine (1983), *L'Etat et l'économie*, Le Seuil, Paris.

DOSI Giovanni (2008), Schumpeter meeting Keynes: a policy friendly model of endogenous growth and business cycle LEM papers series. Santa Ana School of Economic.

DRAGHI Mario (2012), "Introductory statement to the Press Conference, 2 August. http://www.ecb.int/press/pressconf/2012/ html/is120802.en.html

DRAZEN Allan (2000), *Political Economy in Macroeconomics*, Princeton University Press, Princeton.

ECONOMISTES ATTERES (LES) (2012), *L'Europe mal-traitée. Refuser le Pacte budgétaire et ouvrir d'autres perspectives*, Les Liens qui Libèrent, Lonrai.

EUROPEAN COUNCIL (2012), "Towards a genuine Economic and Monetary Union", Statement after the 28 and 29 June, *European Council.*

FEINSTEIN J. (1992), « Public Good Provision and Political Stability in Europe », *American Economic Review*, May, 82(2), p. 323-329.

FELLMAN Susanna, IVERSEN Jes Martin, SJÖGREN Hans and Lars THRUE (eds) (2008), *Creating Nordic Capitalism. The Business History of A Competitive Periphery*, Palgrave-MacMilan, New York.

GAZIER Bernard et TOUFFUT Jean-Philippe (2006), « Bien public, bien social », dans TOUFFUT Jean-Philippe (Dir.) *L'avancée des biens publics*, Albin Michel, Paris, p. 9-22.

GREELEY Brendan (2012), "Krugmenistan vs. Estonia", *Bloomberg Business Week*, July 23, p. 48-53.

HABERMAS Jürgen (2011), *Zur Verfassung Europas, Ein Essay*, Suhrkamp Verlag, Berlin. Traduction Française 2012.

ISSING Otmar (2012), "Europe's political union is an idea worthy of satire", *Financial Times*, July 29.

LEMAITRE Fréderic (2012), « Le grand dessein d'Angela Merkel », *Le Monde*, 8 juillet, p. 13.

LE MONDE(2012), "Le sauvetage interminable de la Grèce met la patience de l'Allemagne à rude épreuve", 31 juillet.

LUCAS Robert E. (1983), *Studies in Business Cycle Theory*, The MIT Press, Cambridge MA, USA.

LUNDVALL Bengt-Ake, Edward LORENZ (2011), From the Lisbon Strategy to Europe 2020, Mimeograph Forthcoming in Morel,N., Palier Bruno and Palme James (eds), *Social Investment*, Policy Press..

MAURICE Joël (2012), "Ombres et périls du traité Merkel-Sarkozy : Quelques simulations élémentaires", *Les Cahiers*, n° 45, Lasaire, Paris, 25 février.

MCKAY David (2001), *Designing Europe: Comparative Lessons from the Federal Experience*, Oxford, Oxford University Press.

MILLET Damien et Eric TOUSSAINT (2012), *AAA, Audit, Annulation, Autre politique*, Seuil, Paris.

MINSKY Hyman (1986), *Stabilizing an unstable economy*, Mc Grow-Hill, New York.

MISHKIN F. and T. ERBERTSSON (2006), *Financial stability in Iceland*, Reykjavick Iceland Chamber of Commerce.

MONNET Jean (1976), *Mémoires*, Paris, Fayard.

MUNDELL Robert A. (1961), "A Theory of Optimum Currency Areas", *American Economic Review*, 51 (4), p. 657-665.

ORLEAN André (2004), « Efficience, finance comportementale et convention : une synthèse théorique », in Robert Boyer, Mario Dehove et Dominique Plihon (dir), *Les crises financières,* rapport du Conseild'Analyse Economique, n° 50, octobre, La Documentation Française, Paris, p. 241-279.

ORLEAN André (2011), *L'empire de la valeur,* Paris, Seuil.

PEDERSEN Ove (2008), "Corporatism and Beyond: The negotiated Economy", in CAMPBELL John, John HALL Ove K. PEDERSEN, *National Identity and the Varieties of Capitalism. The Danish Experience*, DJOF publishing, Copenhagen, p. 245-270.

PETIT Pascal (2012), "Building faith in a common currency can the eurozone get beyond the common market logic?", *Cambridge Journal of Economics*, 36(1), p. 271-282.

PORTES Richard and BALDURSSON F. (2007), *The Internationalisation of Iceland's financial sector*, Reykjavick Iceland Chamber of Commerce.

RODRIGUES Maria Joao (ed.) (2002), *The new Knowledge Economy in Europe. A strategy for international competitiveness with social cohesion*, Edward Elgar, Adelshot.

RUFFONI Serena (2012), “Default coverage costs more as crisis touches Berlin”, *The Wall Street Journal*, June 26, p. 25.

SEN Armitya (2012), “L’euro fait tomber l’Europe”, *Le Monde*, 3-4 juillet.

SHILLER Robert J. (1999, 2006), *Irrational Exuberance*. Princeton University Press, Princeton.

SINN Hans-Werner (2012), « Pourquoi Paris et Berlin s’opposent », *Le Monde*, 1er Aout, p. 17.

SMETS Franj and Raf WOUTERS (2002), “An estimated Stochastic Dynamic General Equilibrium Model of the Euro Area”, *Working Paper Series*, n° 171, European Central Bank (International Seminar on Macroeconomics), August.

SOETE Luc (2002), “The Challenges and the Potential of the Knowledge-Based Economy in a Globalized World”, in RODRIGUES Maria Joao (ed.), *The new Knowledge Economy in Europe. A strategy for international competitiveness with social cohesion*, Edward Elgar, Adelshot.

SORMAN Guy (2012), « Quelle Europe pour sortir dela crise? », *Le Monde*, 13 juillet, p. 17.

STREECK Wolfgang (1991), “On the institutional conditions of diversified quality production”, in MATZNER EGON., STREECK Wofgang (eds.), *Beyond Keynesianism. The socio-economics of production and full-employment*, Aldershot, Edward Elgar, p. 21-61.

STREECK WOLFGANG (1997), “German capitalism: does it exist? Can it survive?”, in C. CROUCH, W. STREECK (Eds) *Political Economy of Modern Capitalism : Mapping Convergence & Diversity*, SAGE, London.

THERET Bruno (2001), *Régimes économiques de l’ordre politique*, PUF, Paris.

THERET Bruno (2001), « Economie politique du fédéralisme », *Critique internationale*, no 11, p. 128-130.

THERET Bruno (2012), « Dettes et crise de confiance dans l’euro. Analyse et voies possibles de sortie par le haut » CNRS, IRISSO – Université Paris Dauphine.

TINBERGEN Jan (1952), *On the theory of economic policy*, North Holland publishing.

WADE Robert H. and Silla SIGURGEIRSDOTTIR (2012), “Iceland’s rise, fall, stabilization and beyond”, *Cambridge Journal of Economics*, 36 (1), January, p. 127-144.

WIELAND Volker (2010), Model comparison and Robustness: A proposal for policy analysis after the financial crisis, *WP Goethe University Frankfurt*, November 28th.

WOLF Charles Jr. (1990), *Markets or Governments: Choosing Between Imperfect Alternatives*, Cambridge MA and London UK: The MIT Press.

WOLF Martin (2012), « Zone-Euro : ni solution fédérale, ni statu quo destructeur », *Le Monde*, 27 juin.

WYPLOSZ Charles (1997), ‘EMU: Why and How it might Happen’, *Journal of Economic Perspective*, 11, Autumn.