3

ILLUSIONS OF CONVERGENCE

The persistent simplification of a wicked crisis

Bent Sofus Tranøy and Herman Mark Schwartz

I Introduction

What variables should we be looking at when measuring economic convergence, how is this choice related to economic theory, and what are the consequences of getting it wrong? European Monetary Union (EMU) was expected to spur economic growth and reverse "eurosclerosis" through three major convergences in pricing, production, and financing. But even when the political authorities in Europe confronted reasonably clear evidence that what they had perceived as stability-inducing convergence was actually crisis-inducing divergence, those authorities doggedly continued to pursue solutions to the Eurozone crisis based upon austerity and "one size fits all" policies. In this chapter, we try to explain why this is so, highlighting how an increasingly segmented epistocracy had an understanding of convergence that first allowed it to ignore the massive build-up of debt that made the Euro crisis possible, and then produced rigidity instead of resilience. This rigidity stemmed from cognitive biases that were structurally encoded into institutions of economic surveillance and governance that were unconstrained by other institutions with a broader perspective.

Many analyses blame the epistemic community centred on the European Central Bank (ECB) for an orthodoxy emphasising austerity, or locate policy failures in the lack of the conditions that might have constituted an optimal currency area in most of the European Union (EU) (Matthijs and Blyth 2015). We expand the austerity argument by looking at the complementarities and interaction between the dominant economic ideology of the ECB and the German ordoliberal tradition. We connect it to the second, optimal currency area argument by showing how illusions of convergence animated both pre- and post-crisis causal processes: convergence between economic theories favouring a system of rules applicable under all conditions to all societies, and an imagined

convergence in the actual operation of the EU's various national and regional economies. Put simply, intellectual convergence around a flawed set of economic ideas continuously blinded EU policy-makers to dangerous divergences in the real economy. A system of uniform rules and rule-based policies could not be applied effectively to a variegated continental economy, either in the boom-phase from 2001 to 2008, or after the financial and fiscal crises had set in and created even more divergence.

The supposed benefits of convergence served to justify integration, but, as with all such justifications, these benefits had some basis in prior economic theory. In particular, neo-classical economics in its real business cycle (RBC) or the New Macro version emphasised that economies naturally came to a state of equilibrium, and that any disturbances were the result of exogenous political or technological factors. In this world view, the job description for governments is to establish clear rules that anchor (rational) expectations and otherwise leave everything to private actors. Central bankers and economists wedded to RBC populated the committee authoring the Delors Report (Delors, 1989; Verdun, 1999). Perfecting markets in the EU via financial and product market integration would thus lead to a convergence in performance. But New Macro and a rules-based system of political economy contained a de-socialised view of the economy. This could have come into conflict with the dominant economic governance ideology in Germany, namely, ordoliberalism, which has a more socially embedded view. But both RBC and ordoliberalism share a reliance on rules, rather than discretion. In effect, a more de-socialised hybrid version of the two liberalisms has carried the day, upholding the ordoliberal principle of constancy in economic policy, but disregarding ordoliberalism's equally fundamental principles of liability and, arguably, legitimacy.

Meanwhile, in the real economy, open financial markets facilitated a huge transfer of capital from northern savers to southern borrowers. This created the illusion of convergence, confirming the prior beliefs of the epistemic élites in the EU's financial bureaucracy. Interest-rate differentials with Germany essentially collapsed after 1999. Growth rates in the south exploded, suggesting that income levels might converge with the north. Labour market reforms raised southern (and Irish) female labour market participation at a much more rapid rate than the rest of the EU, even though the absolute level remained relatively low. But these re-assuring measures of convergence were dependent variables that masked equally important and measurable divergence in the underlying causes for convergence. In particular, current account imbalances increased markedly, with northern countries in surplus and southern in deficit; large increases in southern private debt were the counterpart to this imbalance. While facilitating superficial convergence along nominal indicators, financial flows created deeper divergences in economic developments, and the risk of a financial crisis.

When the crisis erupted, German politicians, the epistocrats in the ECB and the other *Troika* members doubled down on a rules-based response for states while bending over backwards to save banks. Although the intellectual prism

of the German social market economy might have suggested leniency and subordinating market forces to social aims, the entrenched northern disdain for southern polities – particularly Greece – put the southern economies beyond the boundaries of normal society. While the super-abstractions of New Macro travelled frictionlessly upwards and across governance levels, the more grounded ideas of ordoliberalism did not. Thus, epistocrats applied a de-socialised view of what constituted proper policy to those countries, with disastrous results. The New Macro/rules-based approach prescribed austerity in the short run in order to restore confidence and structural adjustment in the medium run as the only path back towards long-term growth. By contrast, ordoliberalism as a theoretical construct was not frictionless. It could only work in the context of specific conditions – namely, Wilhelm Röpke's "mature economic discernment" in the quotation here – and, if those conditions were not present, then all that was left to discipline bad actors was strict external application of the rules. This strict application accelerated economic divergence among Eurozone members while increasing control by the functionally distinct segment of actors that span key EU financial institutions. These institutions, linking the German politicians, the epistocrats in the ECB, and the other *Troika* members, shared institutionalised forms of knowledge, situational understandings and definitions, values, and problem definitions.

The chapter thus has four sections largely centred on these shared institutionalised forms of knowledge. Section I lays out the basis for a rules-based system of economic governance and, in particular, monetary policy, and then compares that to German ordoliberalism with respect to its belief in convergence. Section II discusses how EU bureaucrats selectively perceived the convergence which they demanded (by way of fiscal policy and structural reform) and expected (in observable nominal indicators) after EMU began. Section III discusses the unmasking of convergence and the application of rules-based austerity by EU bureaucrats, central bankers, and their allies in the *Troika*. The final section (IV) concludes by considering the contrast between a Keynesian approach and a rules-based approach to economic governance.

II Economic theory, divergence and convergence

In this section, we will lay out the basic tenets of Keynesianism, neo-classical/RBC economics, and ordoliberalism, with an emphasis on their respective implications as to what degree and what kind of convergence they lead us to expect.

The problem of the fallacy of composition is *a* – if not *the* – central premise of Keynesian thought. In fact, the insight that what constitutes a rational line of action for an individual actor in an economic system might lead to disastrous results for the system as a whole was the key argument for inventing and establishing macro-economics as a discipline in the early 1930s (Tranøy, 2011: 187). John Maynard Keynes and like-minded economists of his generation departed from the prevailing neo-classical school and its practical manifestation in the

"Treasury view" in two ways. First, they started from the assumption that markets are inherently unstable, and thus that state intervention in the market was not only justifiable, but also necessary. Second, they rejected the contemporaneous (and still current) dominant logic conflating what constitutes proper management of the state's finances with what holds for a single household. This meant that, if the state remained fiscally passive while all other actors (firms, banks, and households) did the appropriate thing and saved in a downturn, aggregate demand would fall, leading to a further fall in output and employment. As Irving Fisher (1933) argued, this would create a vicious downward spiral in which efforts to save (or de-leverage) out of a smaller income would further reduce demand, investment, and thus income. Thus, what Keynes termed the "paradox of thrift" led to the policy recommendation of public deficit spending in a downturn.

The fallacy of composition holds equally for the relationship between states. At both the Versailles (1919) and Bretton Woods (1944) conferences, Keynes focussed keenly on the symbiosis between surplus and deficit states, and warned against the detrimental effects of sustained imbalances between trading partners. Keynes' remedy would have addressed persistent imbalances using some form of controlled exchange-rate flexibility, co-ordinated economic policies between surplus and deficit countries, limited capital mobility, and some sort of mechanism forcing surplus countries to increase their domestic demand and thus their imports.

Applied to the Eurozone, a Keynesian perspective would direct our attention to the fact that, while northern European Eurozone members tended to be export-oriented surplus countries with an institutional capacity for wage restraint in pursuit of competitiveness, southern European countries have none of these traits. Furthermore, a Keynesian prediction would be more or less exactly what played out over the first nine years of the Euro. Increasing differences in competitiveness – unmediated by exchange-rate policies and financed through a fully integrated market for capital – led to a build-up of imbalances and eventually a crash.

While Keynesianism took its point of departure in the fallacy of composition, RBC and New Macro simply ignore this problem, assuming that the economy is inherently stable and preferring, instead, to start their modelling with "representative agents" blessed with rational expectations and full information. The assumption about representative agents makes it impossible to have (or to see) a fallacy of composition. In New Macro and RBC, private actors are fully rational agents who always optimise inter-temporally and know the future probability distributions of all important economic returns and variables. When you combine the beliefs about stability with the absence of any fallacy of composition, all that is left on the agenda for macroeconomic policy is to establish clear rules on inflation, spending, and borrowing, *i.e.*, create something like the ECB plus the Stability and Growth Pact. The justification is that nothing desirable can come from positive, discretionary government action; the government can only make mistakes. The chief

mistakes are policy interventions that produce higher-than-needed inflation without any corresponding gains in employment and growth, because the representative agent naturally anticipates the inflationary effects or unemployment that are above the "natural" level of both.

Two of the founding fathers of RBC, and were very clear about this, in particular as to the argument that central banks should be independent. Kydland and Prescott (1977: 473) argued that

> Even if there is an agreed-upon, fixed social objective function and policymakers know the timing and magnitude of the effects of their actions, discretionary policy…does not result in the social objective function being maximized. The reason for this apparent paradox is that economic planning is not a game against nature but rather a game against rational economic agents. We conclude that there is *no* way [active monetary or fiscal policy] can be made applicable to economic planning when expectations are rational.

Thus, the policy agenda of the New Macro movement was fairly restricted, concentrating on issues such as rules, and on topics that naturally flowed from a focus on rules, such as how to design institutions able to make credible commitments. Independent central banks were the chief example of this, but so were rigid fiscal rules and the privatisation of as much state activity as possible.

The corollary to this abnegation of active fiscal and monetary policy is that room for economic improvement exists if market actors are given a stable framework and good incentives. RBC and orthodox economics have thus placed a heavy emphasis on structural reform and liberalisation over the last 30 years or so. The efficient-market hypothesis – the idea that asset prices in financial markets always reflect all the available information and that, in financial markets, information flows freely and abundantly – served to reinforce this impetus with respect to policy for financial markets. The most significant conclusion flowing from this view is that, left to their own devices (and in the absence of the rare events that count as "real shocks" stemming from genuinely new information), financial markets tend to be stable and self-correcting. In RBC's view of the world, banks and capital markets do not create any endogenous instability that might have real economy effects. RBC thus habitually omitted banks, the financial system, and debt from its macroeconomic models until very recently.

The international version of this argument bears the name of the "Lawson doctrine," espoused by Margaret Thatcher's long-serving Chancellor of the Exchequer, Nigel Lawson. He argued that current-account deficits stemming from private-sector behaviour were nothing to worry about, because, when the deficit is created by the rational saving and investment decisions of private firms and individuals, there is no reason why the government should know any better than they do about the likely future path of the economy. Indeed, private actors presumably have a better idea about their ability to service their debts consequent

to prolonged current account deficits. However, there will always be some actors that misjudge their capacity to service debt. But actors who misjudge their debt-service capacity just go bankrupt, without significant macroeconomic effects. The proper policy here is simply to make sure that the level of public debt is sustainable. And indeed, in the late 1980s and early 1990s, many states with large public debts and prolonged current account deficits successfully transformed public debt into private debt (Schwartz, 1994). This transformation assumed that markets would always perceive public debt as a unified whole, making any default a huge, uncontainable shock, while simultaneously always perceiving private debt in granular terms, making any default a unique event pertaining to a specific firm, and thus easily contained.

The gap between a Keynesian fallacy of composition view on prolonged, large deficits or unmanageable debt and that of orthodox economics should now be evident: in Keynes' world, one actor's misjudgement about debt-service capacity can affect other actors' capacity to service debt, because any drop in aggregate demand can reduce cash flow to illiquid debtors, transforming them into insolvent debtors and thereby damaging liquid debtors enough to transform them into illiquid debtors, triggering Fisher's (1933) debt deflation cycle. Private-sector defaults are not necessarily discrete, containable events. Indeed, Fisher's debt-deflation dynamic happened at an international level in the 1982 Latin American debt crises, when default by insolvent Mexico pushed illiquid Brazil into insolvency and liquid Korea into illiquidity; and it happened in the 1997 Asian financial crisis, when insolvent Thailand pushed illiquid Korea into insolvency and liquid Malaysia into illiquidity. The Euro crisis also follows this pattern domestically and internationally. Insolvent Greece triggered bank runs that rendered illiquid Spain essentially insolvent and liquid, if economically torpid, Italy illiquid. Domestically, just as *Lehman*'s failure drove the illiquid *Fannie Mae* and *Freddie Mac* into insolvency, the failure of a handful of banks in Greece and, in particular, Ireland, triggered runs that eventually bankrupted a multitude of European banks while pushing most others to the brink of insolvency.[1]

Yet a peculiar fusion of RBC and the German variant of economic liberalism, most often referred to as *ordoliberalism*, dominated EU-policy both before and after the Euro crisis, rather than a fusion of German social market thinking with Keynes. Ordoliberalism starts from two premises distinguishing it from other varieties of liberalism, including the kind of Chicago-school liberalism that produced RBC. Schnyder and Siems (2012: 3) note the difference clearly, arguing that ordoliberalism contains "a prominent and positive role for the state in upholding the liberal economic order and the importance of the 'social question' due to the need to embed economic activity in a sound society."

Ordoliberalism thus does not believe that a market order characterised by functioning competition appears spontaneously. Rather, consistent with more general institutionalist traditions such as that of John Commons (1936), it starts from the premise that market power is distributed unevenly, and that private interest can therefore undermine competition. Free markets require strong states

to contain bad actors. Thus, a strong state is not, as Ronald Reagan would have it, the problem, but rather the solution to the real problem of dysfunctional or monopolised markets. Ordoliberalism thus argues that the rules of the game should not favour the powerful and wealthy. While a narrow conception of ordoliberalism concentrates on competition policy and on the importance of having an economic constitution that secures stability, predictability, and property rights for economic actors in a competitive market, it is also socially aware, as is reflected in the associated term the "social market economy."

This partly stems from a deeper sociological orientation that would come across as very foreign in Chicago. For instance, one of the founding fathers of ordoliberalism, Walter Eucken (Eucken, 1932, quoted in Schnyder and Siems, 2012: 4), used the concept of "interdependence of orders," making the point that the economic order is interdependent with "all other governmental, societal and cultural orders in a society." Thus, ordoliberalism is intellectually and ethically highly compatible with a status (or "order") which preserves the welfare state and the basic tenets of "Rhenish" capitalism (Albert, 1993). Because ordoliberalism saw markets as socially embedded, it necessarily also believed that its fundamental principles could "manifest themselves differently given individual national historic contexts, reflecting societal norms that have acquired legitimacy over time" (Hadeed, 2017).

While ordoliberals see capitalism without clear rules as disorderly, this instability is not the same as Keynes' instability. Keynes was concerned with economic instability, as such, and thus was, in many ways, consistent with the de-socialised view of the economy prevalent in orthodox economics. While Keynes (re-) introduced human psychology – animal spirits – into economic models, and while he was concerned about production, efficiency, and growth, not so much for their own sake as for the sake of enabling humans to live a better life, he did not have a fully prescriptive vision of what that life should look like. By contrast, ordoliberalism has a positive view of society, and argues that the economy should be embedded in, and the servant of, a specific, largely Catholic, social order (van Kersbergen, 2003; van Kersbergen and Manow, 2009). But as a positive vision, Catholic social thought also strictly delineates who is in and who is out of society when it comes to *caritas*, and contains a strict status hierarchy.

Ordoliberalism has a similar "insider-outsider" perspective. Like economic orthodoxy and RBC, ordoliberalism sees the market as inherently stable if bad actors can be controlled, or, put more gently, if everyone follows the rules. *Ordnungspolitik* is the concept used to describe the kind of regulation that the ordoliberal vision of stability and predictability requires. Wilhelm Röpke (1982: 188), a founding father of post-war ordoliberalism, was clear about this regulation:

> [Our programme] consists of measures and institutions which impart to competition the framework, rules, and machinery of impartial supervision which a competitive system needs as much as any game or match if it is

> not to degenerate into a vulgar brawl. A genuine, equitable, and smoothly functioning competitive system cannot in fact survive without a judicious moral and legal framework and without the regular supervision of the conditions under which competition can take place pursuant to real efficiency principles. This presupposes mature economic discernment on the part of all responsible bodies and individuals and a strong impartial state.

The principle of liability is of fundamental importance to the ordoliberal vision of the competitive system and its ability to induce "mature economic discernment." In Eucken's (1952/90) words:

> Investments are made more cautiously in proportion to the amount of liability borne by the investor. In this way, liability has a prophylactic effect against the dissipation of capital …

Because private actors are capable of bad behaviour, Röpke raises the possibility of making demands for surveying and regulating private economic activity – for instance, in the credit market – to a degree that the rational expectations school would never find permissible. Yet the emphasis on rules simultaneously made it possible for an intellectual alliance between these main German theoretical strands and economic orthodoxy. This was particularly true with respect to policy recommendations favouring rules such as the Maastricht criteria in the run-up to the crisis, and such as the European semester, the Treaty on Stability, Co-ordination and Governance, and the Six-Pack and Two-Pack legislation after the crisis. Equally so, these largely normative beliefs coloured interpretations of the data around convergence and crisis. Convergence towards German levels of debt, inflation, and employment "obviously" showed how rules enabled good actors pursuing good economic outcomes to constrain bad actors; crisis and divergence "obviously" demonstrated both that bad actors had sabotaged economic progress and that an even stricter application of rules and discipline was needed to constrain bad actors.

The combination of New Macro/RBC wedded to ordoliberalism expected that a single integrated market for goods and services would reduce rent-seeking and production inefficiencies by causing production to re-locate in search of economies of scale and a more efficient mix of inputs. A single currency would reduce transaction costs for continental-scale production and transport, while making prices transparent and comparable. In short, a more competitive market would emerge. Free movement of capital complemented these changes by shifting investment towards higher return activities, while a single – and credible – monetary policy would bring the price of capital down in countries previously burdened by high-risk *premia*. The integrated market and EMU was expected to bring convergence in production costs, prices, interest rates, and risk-adjusted returns. These four changes would unleash balanced growth in the EU, propelling it ahead of the United States (US). At the same time, rules such

as the Maastricht criteria would constrain governments – the only plausible bad actors – from interfering in this process. This vision can be seen clearly in the Delors Report, which we briefly survey in the next section.

III Convergence predicted and assumed: The Delors Report, new rules, and visions of convergence

Academic, political, and central banking actors all shared a common desire for, and belief in, the importance and necessity of rules to produce convergence inside EMU. The Delors EMU Report expected that free factor mobility under EMU would produce convergence. But it also sought rules to govern the conduct of Member States in order to produce this convergence. Towards the end of the report, the committee (1989: 19–20) channelled both ordoliberalism and a rules-based public policy by arguing that

> An economic and monetary union could only operate on the basis of mutually consistent and sound behaviour by governments and other economic agents in all member countries. In particular, uncoordinated and divergent national budgetary policies would undermine monetary stability and generate imbalances in the real and financial sectors of the Community.

Yet while the report nodded in the direction of ordoliberalism's worries about private actors, it singled out fiscal misconduct as the real worry for a post-EMU Europe. The Delors Report was not alone in this orientation. In public speeches, Jacques Santer (1998), president of the Commission from 1995 to 1999, noted that convergence around common rules was essential to the success of EMU:

> The euro calls for a high degree of convergence of economic thinking in the common currency area. And when I say economic policy, I include the policy line taken by the social partners on wages. Any deviation from convergence will bring a penalty in the shape of high political and economic adjustment costs. That is precisely why mutual understanding is so vital.

This world view shaped how key European policy-makers filtered and interpreted the data flowing across their desks. Expecting convergence, they read convergence and causality into the outcomes post-dating the Single Integrated Market and the adoption of the euro. From the late 1990s until around 2008, various indicators of economic ill-health improved in Europe, especially in southern Europe. However, the selection and assessment of these variables very much depended on the point of view of the observer. In the run-up to EMU, many economic variables did improve, particularly the interest rate and inflation variables that were most susceptible to the influence of financial flows. But this convergence was never as dramatic as theory and expectation might have hoped. Moreover, as the saying goes, "the data don't speak (unambiguously) for

themselves." While the data indicated convergence, this said nothing about why convergence was occurring. Proponents of compliance with Maastricht criteria, monetary rules, fiscal balance, flexible labour markets, and minimal government intervention read convergence as structural changes in southern economies that had unleashed their productive power.

The European Central Bank's annual report (2008: 10) provides the best indication of the epistocracy's reading of the data just before the US housing finance crash and consequent Eurozone crisis:

> With annual inflation averaging only slightly above 2% in the euro area, we have witnessed a decade of relatively stable prices, in line with the ECB's mandate to deliver price stability. Likewise, longer-term inflation expectations have remained broadly anchored at levels in line with price stability during this time, reflecting the high degree of credibility enjoyed by the ECB's monetary policy. This success is also tangible proof of the institutional robustness, coherence and unity of the Euro system – of its capacity to act in a truly European spirit on the basis of shared values, high standards and common principles.

Why did they see convergence and improvement? Because there was, in fact, some convergence and improvement in six crucial variables: government debt and deficits, inflation rates, long-term interest rates, female labour force participation, unemployment and the employment-to-population ratio, and GDP growth. The first two mattered for the all-important convergence to, and maintenance of, the Maastricht criteria for participation in the EMU. The third had three effects: the budgetary burden of government debt, the ability of private actors to finance investment, and outside observers' assessments of inflation going forward. The fourth measured the degree to which societies were converging on a northern European norm of high labour participation; the fifth measured whether the labour market was well functioning in general; and the last measured the economic growth that open markets were supposed to unleash. In the paragraphs and charts here, with one exception, we norm these indicators against the German level, as convergence implicitly meant convergence towards German and/or northern European norms, with a red line to indicate the onset of the crisis. The information contained in each variable could support a different story. In particular, a more Keynesian-oriented analysis, particularly with respect to (un-)employment levels, could read convergence as a more or less predictable consequence of the aggregate demand associated with housing bubbles in the south (and their absence in Germany, if not all of the north), rather than the outcome of successful European rules-based integration (Becker and Schwartz, 2005).

With respect to gross government debt, convergence trends were well underway before 1999, as southern states struggled to meet the Maastricht criteria. The difference between columns 2 and 3 in Table 3.1 displays gross government

TABLE 3.1 Average Gross Public Debt* or Net Lending* as a Percentage Of GDP, Net of the German Level of Debt, Select Countries, 1995–2015

Average gross public debt (stock)				*Average net government lending (flow)*			
	1995–1999	*2000–2008*	*2009–2015*		*1995–1999*	*2000–2008*	*2009–2015*
EZ17**	-13.6	-5.0	-7.9	EZ17**	0.6	0.2	-3.5
Greece	-41.1	-42.2	-93.8	Greece	-3.2	-4.7	-9.2
Spain	-4.9	16.9	8.8	Spain	-0.1	2.0	-8.6
France	-1.4	-0.7	-6.9	France	0.7	-0.6	-4.1
Italy	-55.4	-39.4	-38.2	Italy	-0.4	-0.9	-2.5
Portugal	3.0	0.8	-33.1	Portugal	-0.2	-2.2	-6.4

* Positive numbers mean debt or deficit levels lower than the corresponding German level.

** for reference.

Source: Authors' construction from Eurostat data.

debt and deficits net of the German level. The closer the number is to zero, the greater the degree of convergence; positive numbers indicate a lower gross debt than Germany. Table 3.1 shows that Spain actually attained lower levels of gross debt than Germany during the 2000s. Table 3.2 shows the absolute level of government net lending. Consistent with the EMU planners' desires, both Spain and Italy made significant progress in lowering gross debt levels, while the others largely kept pace with Germany. In the eight years after the introduction of the euro, debt and deficit levels improved markedly everywhere but Greece. Indeed, an especially buoyant economy meant that Spain outperformed Germany with respect to debt and deficits. With respect to deficits, Table 3.1 shows relative

TABLE 3.2 Average Net Government Lending as a Percentage of GDP, Absolute Level (negative numbers indicate deficits)

	1995–1999	*2000–2008*	*2009–2015*
Germany	-4.0	-2.1	-1.1
Greece	-7.2	-6.8	-9.9
Spain	-4.1	-0.1	-8.3
France	-3.3	-2.7	-5.1
Italy	-4.4	-3.0	-3.5
EZ-17*	***-3.7***	***-2.0***	***-4.0***

* for reference.

Source: Authors' construction from Eurostat data.

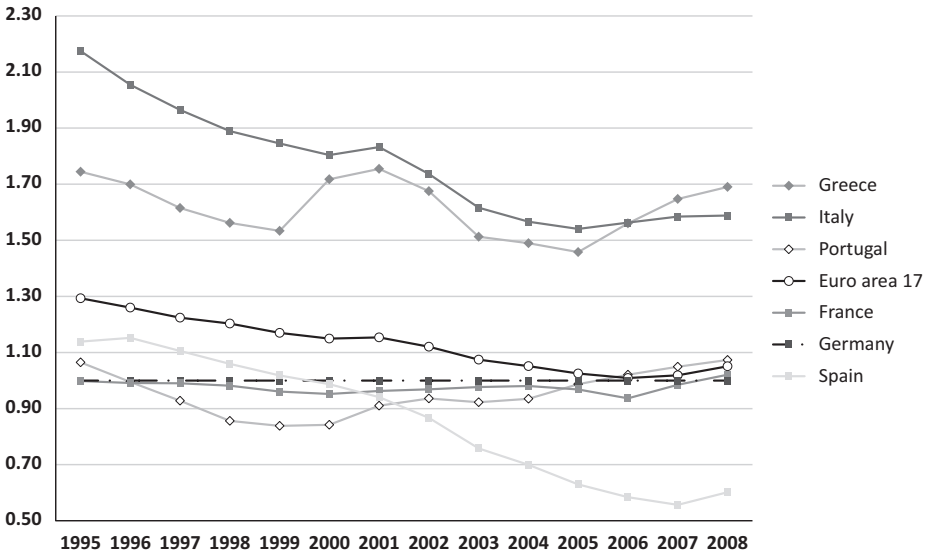

FIGURE 3.1 Government debt to GDP relative to German debt to GDP ratio.

change, but, given that Germany's deficit fell absolutely by 2.1 per cent of GDP from their average 1995–1999 level to their average 2000–2008 level, convergence towards or a position around German levels seemed to indicate rather good performance. Thus, even though, for example, France fell behind Germany in budget consolidation, it was still moving in the right direction. Greece also seemed to be moving towards balance, albeit more slowly, and with the help of creative bookkeeping and Goldman Sachs' *legerdemain*.

The single biggest help in lowering debt, aside from robust US import demand, was falling interest rates, which lowered the budget cost of government debt and also stimulated all European economies. Here, too, the hopeful could find confirmation of their views if they wanted. As Table 3.3 shows, Greece more than halved the relative gap with Germany in public interest payments as a percentage of GDP, as did Italy. The rest actually pushed their interest expenses below the German level, offsetting their slightly worse gross debt positions.

Falling interest rates reflected both falling inflation and the removal of currency risk for lending in the Eurozone. Consumer inflation and, even more so, long-term interest rates converged on German levels, as Table 3.4 shows. Here those wary of Greece's continuing deficit troubles could find solace in rapidly falling inflation and a dramatic convergence of long-term rates. But outside of Greece, there was strong convergence towards German inflation and interest rate levels.

Observers construed a supply-side response behind these improving fiscal and monetary numbers. Thus, for example, ECB president Jean-Claude Trichet (2008) credited the EMU for these positive outcomes:

> The euro area has been a source of stability. […] Over these ten years, we have observed greater price stability, greater macroeconomic stability, as well as increasing economic and financial integration.

TABLE 3.3 Average Interest Payments on Public Debt as a Percentage of GDP, Net of the German Level of Payments*

	1995–1999	*2000–2008*	*2009–2015*
EZ-17**	-1.5	-0.3	-0.5
Greece	-5.6	-2.4	-4.8
Spain	-1.1	0.7	0.0
France	0.0	0.1	-0.1
Italy	-5.9	-2.3	-2.2
Portugal	-0.7	0.0	-1.8

* Positive numbers mean interest payments lower than the corresponding German level.

** for reference.

Source: Authors' construction from Eurostat data.

TABLE 3.4 Average Consumer Price Inflation and Long-Term Interest Rates Relative to the Corresponding German Rate (positive number means higher inflation or interest rate)

	Consumer price inflation (%)				*Long-term interest rate (%)*		
	1996–1999	*2000–2008*	*2009–2015*		*1995–1999*	*2000–2008*	*2009–2015*
EZ-17*	0.5	0.5	0.4	EZ-17*	0.7	0.1	1.2
Greece	4.0	1.6	-1.1	Greece	5.7	0.4	9.4
Spain	1.4	1.5	0.3	Spain	1.6	0.2	2.2
France	0.2	0.3	0.1	France	0.2	0.1	0.6
Italy	1.4	0.7	1.2	Italy	2.1	0.3	2.1
Portugal	1.3	1.2	0.7	Portugal	1.7	0.2	4.2

* for reference.

Source: Authors' construction from Eurostat data.

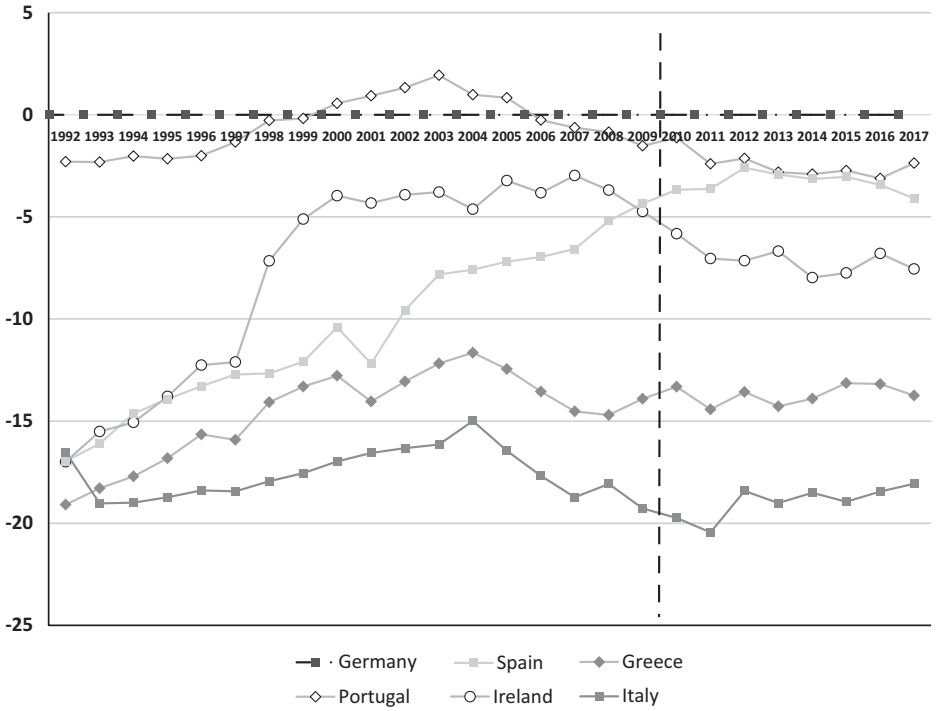

FIGURE 3.2 Female labour force participation (% of 16-64-year-olds).

EU Commissioner for Economic and Monetary Policy Joaquín Almunia (2008) similarly credited the EMU:

> I am happy to say the euro has proved its critics wrong. EMU underpins prosperity in euro area countries, it drives economic integration and it has enlarged and is set to enlarge further in the next years.

In the real economy, female labour force participation and the employment-to-population ratio also seemed to be improving. Figure 3.2 presents the trends, once again normed against German levels. As the figure shows, Spain made considerable progress in pushing female labour force participation up to German levels (the "Y" axis). This progress persisted well into the crisis. Equally so, female labour force participation rose in Ireland, Portugal, and Greece. Figure 3.3 shows the same trends for the entire labour force, with even stronger convergence by Spain and Ireland.

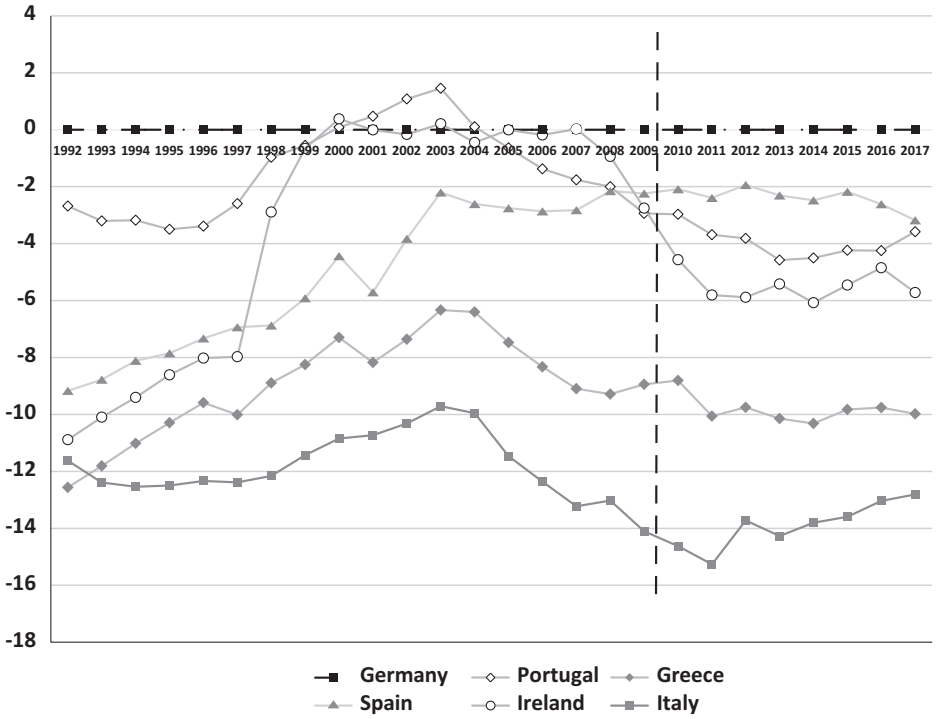

FIGURE 3.3 Total (M+F) labour force participation (% of 16-64-year-olds).

IV Convergence unmasked

Beneath and behind the apparent convergence of the epistocracy's favoured indicators, a second set of indicators was rapidly diverging. As the next figures show, current account imbalances were growing both absolutely and as a percentage of GDP. Household debt in the deficit, mostly southern, countries was rapidly rising, and housing prices were rising well above trend levels. In turn, higher housing prices were inducing a shift of resources into the non-traded sector, imperilling the ability of households and countries to service debt in the absence of a massive increase in northern consumption of southern traded goods.

These trends should have worried the Commission and the ECB, yet they did not. Those trends concerned private debt and current account deficits, which were diverging rapidly. But the RBC-derived theoretical framework prevailing in Brussels and Frankfurt meant that these numbers had no relevance. Surely, private actors knew what they were doing when northern banks abetted an astounding increase in credit to southern private borrowers, thus driving southern current account deficits to historic highs! Surely, this was not the main causal driver of prosperity as compared to better rules and the unleashing of the private sector! And, in any case, the single currency had removed the risk of devaluation by debtors, or, put differently, from the epistocracy's point of view, the fact that

debtors earned in Euro meant that the mass of debtors could easily pay back in Euro, even if a few debtors went bankrupt.

Figure 3.4 (which is not normed against Germany) shows the sharp divergence in external positions after the introduction of the euro. Conventional wisdom identifies a sustainable current account deficit in two different ways. First, most commonly, a rule-of-thumb 3 per cent of GDP threshold is a cause for worry. Likewise, so is a debt-to-GDP ratio over 30 or 40 per cent. Both reflect the more formal and general definition that says current account deficits as a percentage of GDP should not exceed nominal GDP growth if debt levels are to be stable in relation to GDP (and thus, presumably, sustainable). But Figure 3.4 shows that – at peak – Spain, Greece, and Portugal were running deficits exceeding 10 per cent of GDP, while Ireland was running a deficit of over 5 per cent of its harder-to-measure GDP.[2] There is and was no plausible scenario in which any of those countries might attain annual GDP growth rates over 10 per cent.

Beneath the aggregate measure of current account balances was a sharp divergence in private household debt levels, which exploded in the southern countries and Ireland (Figure 3.5). Those households dramatically increased their borrowing as interest rates, and thus what looked like the future stream of debt-service payments, fell. Data for the pre-crisis era are only available for Italy, Spain, Greece, and Germany, and those for Greece are so extreme that Figure 3.5 below omits them for clarity. The increase was especially pronounced in Greece (217%), Ireland (101%), Spain (75.2%), and Portugal (49%). By contrast, household debt levels in Germany were falling slightly, and the EU average increase was only

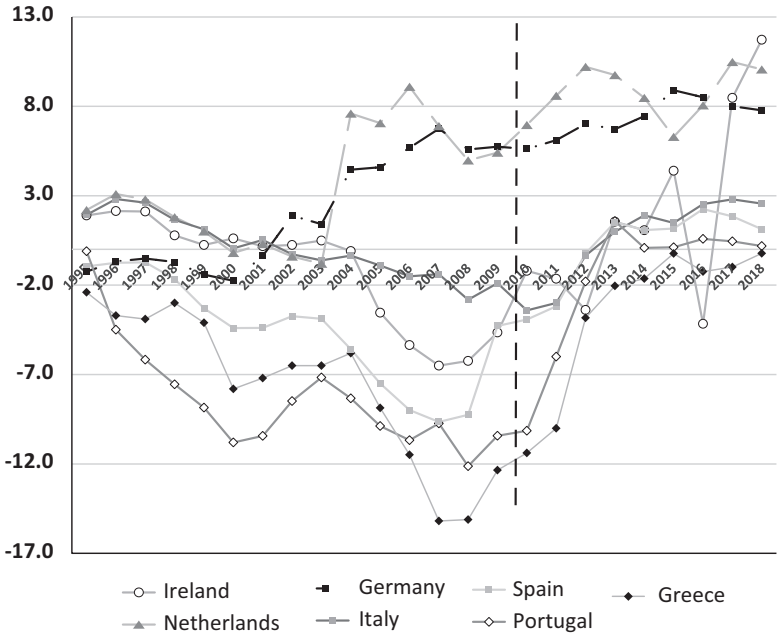

FIGURE 3.4 Current account balance, % of GDP.

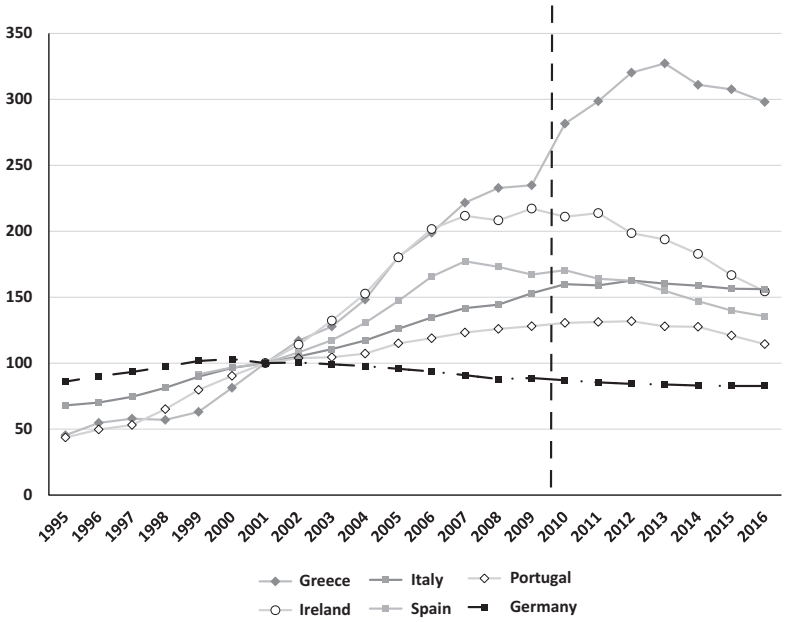

FIGURE 3.5 Household debt, index, 1995 = 100.

27 per cent. That said, in other northern European countries, rising household debt also accompanied rising housing prices, and the Dutch and Scandinavians carried household debt relative to income generally higher than southern Europeans as of 2006. Nonetheless, the general pattern here is that the south was not converging on the relevant part of the north, namely, Germany.

Finally, behind private debt was a rapid divergence in house prices, with enormous increases in Ireland and Spain *versus* stagnation in Germany. Most of the increase in household debt, unsurprisingly, was home mortgages. The ratio of mortgage debt to GDP increased in Greece, from 9 per cent in 2000 to 36 per cent in 2010; in Spain, from 30 per cent to 63 per cent; in Italy, from 10 per cent to 22 per cent. In Germany, by contrast, mortgage debt as a percentage of GDP fell from 53 per cent to 45 per cent (EMF, 2007; 2016).

All of this is easily accommodated in the usual analyses of the Euro crisis as a consequence of Europe not being an optimum currency area (Matthijs and Blyth, 2015). But beyond this were more subtle divergences around the absence of a common identity in Europe, and therefore a common sense of shared responsibility. As the crisis unfolded, Germans put the blame on the Greeks (and *vice versa*), reflecting the complete sense that this was a "national" crisis within a Europe of nations. By contrast, most people in the US did not frame the corresponding crisis as stemming from the behaviour of people in a particular state (racial and ethnic, rather than geographical lines mattered). By 2015, 68 per cent of Germans thought the Greeks were to blame for the crisis and resisted a bail-out, reflecting a framing of the crisis that contrasted hard

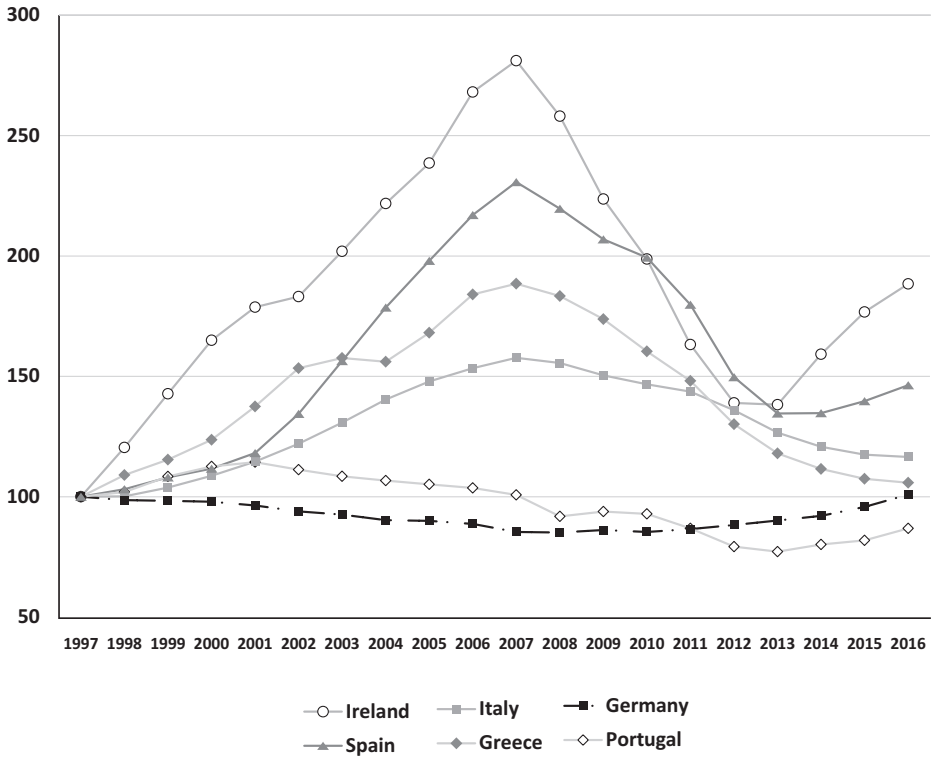

FIGURE 3.6 Housing price index, 2000 = 100.

working and austere Germans with lazy, profligate Greeks.[3] This framing was consistent with an attitude that rule or law-breakers should be punished for their deviant behaviour, for their lack of "mature economic discernment." In the epistemic world created by the convergence of RBC and ordoliberalism, strict rules were needed to tame bad behaviour in the south. (Unsurprisingly, this distrust spread to all European institutions. By 2013, 63 per cent of Europeans surveyed by the Eurobarometer blamed the post-crisis austerity on the EU ([Anderson, 2015: 216].)

So while the indicators favoured by RBC, the ECB, and the Commission were converging, other important variables were diverging in ways that should have signalled danger ahead. RBC, the ECB, and the Commission shared a common belief in the dangers of state economic fine-tuning and expanded state spending; to this, the Germans added a fear of the lack of "*Ordnung*" in everything southern. Thus indicators relating to the state mattered: public debt, the public interest burden, and inflation rates. Similarly, RBC and the ordoliberals could converge on the need for more competition in labour markets and be re-assured by rising participation rates. But since RBC and the ECB considered private actors to have more and better information about the economy than state planners, indicators relating to the private sector were irrelevant.

Household debt, over-leveraged banks, and regional housing bubbles were not matters of concern for the state.[4]

Not all members of the ECB's leadership, however, remained as singularly focused on the role of government. In a speech to the G30 in May 2010, Lorenzo Bini Smaghi (2010) spoke of "misplaced assumptions," revealing both the earlier world view of the ECB and a change of the cognitive frame among at least some of its members:

> The first [assumption] was that markets would exert strong pressure on euro area fiscal policies. The second assumption was that if the first assumption were insufficient to discipline public finances, then the Stability and Growth Pact, based on monitoring, peer pressure and sanctions, would do the job. The third assumption, reinforcing the previous ones, is that if a member of the euro area were unable to implement sound fiscal policies, it would be left to its own devices. The final assumption was that national economic policies would be geared to ensure convergence among euro area economies, within a strengthened single market.

In the same speech, Bini Smaghi went on to explain that financial markets had overshot in an "abrupt procyclical way," producing unsustainably low interest rates in the peripheral economies) before the crisis and unsustainably high ones afterwards. He goes on – like Trichet – to speak of the difficulties that the EU had in implementing surveillance of macroeconomic policy, while underlining that simply leaving Member States "to their own devices" in moments of crisis was impossible given the probability that financial markets would produce contagion. He then ends that section of his speech with reference to the build-up of imbalances.

But at the top, things remained the same, with Bini Smaghi leaving the Executive Board in late 2011. Pronouncements from the core of the European financial epistocracy reveal no sense of the fallacy of composition, or of unstable financial markets, or that, in the Eurozone crisis, both creditors and debtors shared some blame. In a set of speeches after 2009, ECB president Jean-Claude Trichet opined that the real problem lay in labour markets and the lack of clear fiscal rules. In terms of ECB policy, of course, Trichet engineered an increase in interest rates in April and July of 2011, just as the southern European countries were diving more deeply into recession, and simultaneously talked of drawing a line in the sand on Greece.

At the onset of the crisis, Trichet (2009a) called attention to labour markets and fiscal deficits:

> The persistent inflation and labour cost differential with the average of the euro area during the expansion has hampered competitiveness which will have to be regained. The present situation suggests a need for labour market reform and wage moderation in particular by discontinuing wage indexation. Appropriate structural reforms will support a sustainable economic

> upswing and also the consolidation of public finances, which will be crucial not only in Spain but in the entire euro area, for confidence to be restored.

One year later, Trichet (2010), virtually a personification of encoded cognitive bias, was still blaming the crisis on fiscal problems rather than on private overlending. After reference to imbalances and the need to improve risk management in the financial sector, he claimed that

> It is very important to understand – and it has perhaps not yet been sufficiently understood – that the developments we are currently witnessing in Europe's economy have to do with the 'Economic' functions of Economic and Monetary Union. They have essentially three origins: unsound fiscal policies in a number of Member States; inappropriate macroeconomic policies in a number of Member States; and overall an inadequate system of surveillance by all Member States.

And not only Trichet; Vítor Constâncio (2011; see also Constâncio, 2013), vice-president of the ECB, stated that "rule-based frameworks must act a [*sic*] substitute for centralised authority" when it came to preventing the emergence of large imbalances of public and private sector debt. The idea that Keynesian demand-stimulus might help was notably absent from most speeches after the crisis, even though this produced even more divergence in EU fiscal balances, as southern GDP shrank faster than government spending (Table 3.2).

V Implications

Conventional wisdom lays the blame for the Eurozone crisis on the absence of an optimum currency area in the EU economy. More recent revisionist arguments have stressed the absence of a common sense of shared social purpose (Matthijs and Blyth, 2015). Here, we have tried to expand on that relatively broad notion by narrowing our focus down to what a segmented set of decision-makers believed. The Euro project was built on a variety of false assumptions about the best form of economic governance. Intellectual convergence around a flawed set of economic ideas continuously blinded EU policy-makers to dangerous divergences in the real economy. A system of uniform rules and rule-based policies could not be applied effectively to a variegated continental economy, either in the boom-phase from 2001 to 2008, or after the financial and fiscal crises had set in. A functionally distinct segment of actors spanning key EU financial institutions, and including German politicians, the epistocrats in the ECB, and the other *Troika* members, shared institutionalised values, forms of knowledge, situational understandings, and definitions of what constituted an economic problem.

This intellectual convergence occurred between the real business-cycle flavour of macroeconomic theorising that was present in the ECB and other national central banks with the German governance philosophy called ordoliberalism.

Convergence occurred because of a shared belief in the importance of rules limiting forms of bad behaviour. This convergence need not have happened. Though this is necessarily crude, we can posit three different philosophies of economic governance with a plausible chance of making their way into policy circles, and we can characterise these three along two different dimensions.[5] The first is whether or not a given philosophy believes the market can exist independently of some larger social structure. The second is whether or not a given philosophy believes that the fallacy of composition exists. Put far too simply, Keynesian perspectives are more or less consistent with neo-classical economics in denying or minimising the existence of social embeddedness, but diverge from neo-classical views in emphasising the fallacy of composition. Real business-cycle theory, of course, denies both social embeddedness and the fallacy of composition. And ordoliberalism recognises social embeddedness, indeed elevates it into a commanding principle, but denies fallacy of composition.

Viewed this way, it is plausible that actors with an ordoliberal outlook could have coalesced with Keynesians along some second order principles, in which ordoliberals recognised that a massive economic slowdown would undermine the social structures that contained bad behaviour in the market, and in which Keynesians accepted, probably more happily, that the economy did have *some* moral aspects. But the alliance between ordoliberalism and real business-cycle theory along the primary line of agreement over the need for rules was always more likely, even if it produced complaisance before the crisis and counter-productive policy afterwards. The general disparagement of Keynesian views by the economics profession also probably impeded a joining up of Keynesian and ordoliberal views.

But 10 years after the crisis, and 20 years after introduction of the Euro, it is clear that the Kydland and Prescott view of the world is simply wrong. Rules alone will not prevent disequilibria from emerging, because the fallacy of composition does operate, and because private actors are not in any fundamental way wiser or more honest than public actors. Private actors face collective-action problems around excessive credit creation that only the state can (try to) solve (Minsky, 1992). As Keynes argued, private actors are likely to be subject to herd-like behaviour that exacerbates a crisis, and to individually rational, but collectively irrational, refusals to invest in the aftermath of a crisis.

Evaluating the contribution of the ordoliberal school to the policies that have given us the present crisis demands a more nuanced analysis. This is because the marriage of ordoliberalism to the RBC/Chicago school of economics has left the EU with an incomplete version of the school's main structure. Governance of the Eurozone is performed mostly by autonomous technocrats (tick), characterised by clear rules (tick), and meant to produce restrictive fiscal policies and sound money (tick). But on the creditor side of the ledger, bureaucrats systematically violated the principles of liability and legitimacy. In reality, the only actors who have faced real consequences for not showing sufficiently mature economic discernment are governments that have either borrowed irresponsibly (Greece) or have had domestic banks doing the same (Spain and Ireland).

Either way, the real liability and cost has been transferred to, and borne by, largely innocent citizens and taxpayers in austerity deals forced upon democratically elected governments by the *Troika* of the Commission, the ECB, and the IMF. The *Troika*'s technocratic powers reflect Germany's political power and intellectual norms. Thus, we have seen a perversion of the logic and ideals of *Ordnungspolitik*. Anti-debtor normative content led to self-destructive policies. Not only did it code some societies as being outside the social bounds, and thus as deserving the "pariah treatment," but it also aggravated the fallacy of composition around stimulating the economy in the face of deflation, default, and diminishing employment.

Keynes, by contrast, emerges as the only theorist with mature economic discernment. Attaining and maintaining full employment requires active and often discretionary government intervention to maintain investment levels. Moreover, intervention often has the salutary effect of preventing the formation of bubbles by decreasing the room that private actors have to create credit simply for the purpose of credit creation and financial speculation. This behaviour ultimately was the source of the housing-finance bubble that triggered the Eurozone crisis (Schwartz, 2016). It was Europe's private actors, not its states, perhaps with the exception of Greece, that burst southern Europe's and Ireland's housing bubbles. It was the puncturing of these bubbles that produced a financial crisis that required a massive increase in public debt to bail-out banks – precisely the moral hazard that ordoliberalism decries and the kind of discretionary policy real business-cycle that theorists decry. Europe's financial epistocracy needs to converge back towards what Keynes pointed out almost a century ago. The economy is not a morality play.

Keynes' comment on neo-classical economics applies with equal force to its RBC progeny. Because RBC

> reached conclusions quite different from what the ordinary uninstructed person would expect, added, I suppose, to its intellectual prestige. That its teaching, translated into practice, was austere and often unpalatable, lent it virtue. That it was adapted to carry a vast and consistent logical superstructure, gave it beauty. That it could explain much social injustice and apparent cruelty as an inevitable incident in the scheme of progress, and the attempt to change such things as likely on the whole to do more harm than good, commanded it to authority. That it afforded a measure of justification to the free activities of the individual capitalist, attracted to it the support of the dominant social force behind authority.
>
> *(Keynes, 1936).*

Notes

1 Moreover, it is often forgotten that the non-Euro economies of Eastern Europe had their own housing bubble and subsequent banking crises, which started in January 2009, more than a year earlier than the official Euro crisis, and that bank failures started in the north, and not the south, beginning with bank failures in Ireland and Britain and by the multinational ABN-Amro.

2 Irish GDP is about 20 per cent larger than GNP because multinational firms park profits in Ireland using transfer pricing. This artificially increases Irish GDP.
3 *Financial Times*, "German Public Resists Debt Cut for Greece", 23 January 2015, available at: https://www.ft.com/content/3a9de4de-a191-11e4-b176-00144feab7de.
4 In this respect, the ECB, in particular, paralleled the attitude of the US FED under Alan Greenspan, who famously said in 2005 that it was impossible to know when a bubble existed, and who also downplayed the dangers of non-traditional mortgage products.
5 A 2 × 2 framework, of course, gives rise to a fourth type, but as this type is associated with Marxism and with schools of economic thought that have not been taught since the 1920s (e.g., the institutional economics of John Commons or Thorstein Veblen), this fourth type never had any chance of traction in policy-making circles.

References

Albert, Michel (1993), *Capitalism against Capitalism*, New York: John Wiley & Sons Incorporated.

Almunia, Joaquín (2008), "Future Challenges Facing the Euro", *Speech*, European Commission, 15 April 2008, available at: http://europa.eu/rapid/press-release_SPEECH-08-194_en.htm.

Anderson, Karen (2015), *Social Policy in* the European Union, Basingstoke: Palgrave Macmillan.

Becker, Uwe, and Herman Mark Schwartz (eds) (2005), *Employment Miracles: A Critical Comparison of the Dutch, Scandinavian, Swiss, Australian and Irish Cases versus Germany and the US*, Amsterdam: Amsterdam University Press.

Bini Smaghi, Lorenzo (2010), "Challenges for the Euro Area, and the World Economy", *Speech*, Brussels, 28 May 2010, available at: www.ecb.europa.eu/press/key/date/2010/html/sp100528.en.html.

Commons, John R. (1936), "Institutional Economics", *The American Economic Review*, 26 (1): 237–249.

Constâncio, Vítor (Vice-President of the ECB) (2011), "The Macroeconomic and Financial Landscape in the Aftermath of the 2007 Crisis: New Challenges and Perspectives", *Speech*, 7 June 2011, available at: www.ecb.europa.eu/press/key/date/2011/html/sp110607.en.html.

Constâncio, Vítor (Vice-President of the ECB) (2013), "The European Crisis and the Role of the Financial System at the Bank of Greece Conference on 'The Crisis in the Euro Area'", *Speech*, Athens, 23 May 2013.

Delors Report (Commission of the European Communities, Committee for the Study of Economic and Monetary Union) (1989), "1. Report on Economic and Monetary Union in the European Community 2. Collection of Papers Submitted to the Committee for the Study of Economic and Monetary Union", Luxembourg: Office for Official Publications of the European Communities.

Eucken, Walter (1932), "Staatliche Strukturwandlungen und die Krisis des Kapitalismus", *Weltwirtschaftliches Archiv*, 36 (1): 297–323.

Eucken, Walter ([1952] 1990), *Grundsätze der Wirtschaftspolitik*, Tubingen: Mohr.

ECB (2008), *Annual Report*, Frankfurt: European Central Bank.

European Mortgage Federation (EMF) (2007), *Hypostat: A Review of Europe's Mortgage and Housing Markets*, Brussels: European Mortgage Federation.

European Mortgage Federation (EMF) (2016), *Hypostat: A Review of Europe's Mortgage and Housing Markets*, Brussels: European Mortgage Federation.

Fisher, Irving (1933), "The Debt-deflation Theory of Great Depressions", *Econometrica: Journal of the Econometric Society*, 1 (4): 337–357.

Hadeed, Marcel (2017), "The Ordoliberal Ghost," *Social Europe*, 2 August 2017, available at: www.socialeurope.eu/the-ordoliberal-ghost.

van Kersbergen, Kees (2003), *Social Capitalism: A Study of Christian Democracy and the Welfare State*, London: Routledge.

van Kersbergen, Kees, and Philip Manow (2009), *Religion, Class Coalitions, and Welfare States*, Cambridge: Cambridge University Press.

Keynes, John Maynard (1936), *General Theory of Employment, Interest, and Money*, New York: Harcourt, Brace.

Kydland, Finn E., and Edward C. Prescott (1977), "Rules Rather Than Discretion: The Inconsistency of Optimal Plans", *Journal of Political Economy*, 85 (3): 473–491.

Matthijs, Matthias, and Mark Blyth (eds) (2015), *The Future of the Euro*, New York: Oxford University Press.

Minsky, Hyman (1992), "The Financial Instability Hypothesis", Levy Institute Working paper #74.

Röpke, Wilhelm (1982), "The Guiding Principles of the Liberal Programme", in: Horst Friedrich Wünche (ed), *Standard Texts on the Social Market Economy*, New York: Gustav Fischer Verlag, pp. 187–192.

Santer, Jacques (1998), "Shaping Europe's Future", *Speech*, International Bertelsmann Forum, Berlin, available at: http://europa.eu/rapid/press-release_SPEECH-98-151_en.htm.

Schnyder, Gerhard, and Mathias M. Siems (2012), "The Ordo-liberal Variety of Neoliberalism", in: Suzanne Konzelmann and Marc Fovargue-Davies (eds), *Banking Systems in the Crisis: The Faces of Liberal Capitalism*, Abingdon: Routledge, pp. 250–268, available at: https://ssrn.com/abstract=2142529.

Schwartz, Herman Mark (1994), "Small States in Big Trouble: State Reorganization in Australia, Denmark, New Zealand, and Sweden in the 1980s", *World Politics*, 46 (4): 527–555.

Schwartz, Herman Mark (2016), "The Euro as a House of Straw: Why Europe's Crisis is (still) Linked to American Housing", in: Bruno Dallego, Gert Geri and John McGowan (eds), *A Global Perspective on the European Economic Crisis*, Abingdon: Routledge, pp. 224–240.

Tranøy, Bent Sofus (2011), "Poor Governance in a Very Rich and Advanced (Micro) State: Reflections from Political Science", *European Political Studies*, 10 (3): 277–291.

Trichet, Jean-Claude (2008), "The Current State of the Euro Area and its Future", *Speech*, 10 July 2008, at conference entitled: "The Euro's 10th anniversary: History and Presence of the Euro", held in Munich, available at: www.ecb.europa.eu/press/key/date/2008/html/sp080710.en.html.

Trichet, Jean-Claude (2009), "Supporting the Financial System and the Economy: Key ECB Policy Actions in the Crisis", *Speech*, 22 June 2009, available at: www.ecb.europa.eu/press/key/date/2009/html/sp090622.en.html.

Trichet, Jean-Claude (2010), "Lessons from the Crisis", Speech, 3 December 2010, available at: www.ecb.europa.eu/press/key/date/2010/html/sp101203.en.html.

Verdun, Amy (1999), "The Role of the Delors Committee in the Creation of EMU: An Epistemic Community?", *Journal of European Public Policy*, 6 (2): 308–328.