LSE ‘Europe in Question’ Discussion Paper Series

Adjustments in the Eurozone: Varieties of Capitalism and the Crisis in Southern Europe

Anke Hassel

LEQS Paper No. 76/2014

May 2014

LEQS is generously supported by the LSE Annual Fund

LSE Europe in Question
Discussion Paper Series

Editorial Board

Adjustments in the Eurozone: Varieties of Capitalism and the Crisis in Southern Europe

Anke Hassel*

Abstract

This paper investigates the causes of, and reactions to, the Eurozone crisis, focusing in particular on the institutional foundations of the four Southern European Eurozone countries that have encountered an acute sovereign debt crisis. Applying the basic arguments featured in the Varieties of Capitalism literature, the paper aims to show how the interaction of the institutional set-up of coordinated and mixed market economies, with the effects of the common currency area, can explain both the evolution of the crisis, as well as the reactions to it. This paper interprets the sovereign debt crisis in the Eurozone as the combination of two features: firstly, the architecture of the common currency area, which instituted a common interest rate for widely heterogeneous regional economies, and secondly, the specific institutional foundations of two types of economies participating in the Eurozone, namely coordinated market economies and mixed market economies. Understanding these two factors and their interaction not only helps to explain why the Southern European countries were particularly vulnerable to exploding public debt, but also why, during the on-going resolution of the Eurozone crisis over the last two years, policy makers have persistently preferred austerity over the mutualisation of debt. The compensatory role of the state in mixed-market economies thereby undermines the effectiveness of financial bail-outs for economic growth strategies.

Keywords: comparative political economy; Varieties of Capitalism; European Monetary Union; institutional analysis

* **Hertie School of Governance**, Berlin, Germany
Email: hassel@hertie-school.org

Table of Contents

Abstract

1. Introduction **1**

2. The institutional make-up of the Eurozone countries: CMEs and MMEs **5**

3. Institutional properties of CMEs and MMEs **10**

4. Institutional adjustment in the Eurozone **20**

5. Conclusion: Imbalances, institutional viability, indicators and reform dynamics **29**

References **34**

Adjustments in the Eurozone: Varieties of Capitalism and the Crisis in Southern Europe

1. Introduction

The political and economic interpretation of the Eurozone crisis differs significantly. In political terms, the Eurozone crisis is often portrayed as a case of fiscal profligacy and moral hazard issues. Public overspending by spendthrift governments followed political convenience and the political business cycle. Low interest rates and enhanced credit rating, due to EMU membership, enabled governments, that had previously had restricted access to capital markets, new avenues for public spending. When the sovereign debt crisis hit in 2010 and bail-outs were required to prevent defaults, the political response was to demand austerity and strict compliance with debt brakes from these governments.

In economic terms, the Eurozone crisis is commonly understood as a consequence of economic imbalances within the Eurozone, combined with a banking crisis that followed the financial meltdown in 2008. Economic imbalances are a consequence of an incomplete and asymmetric currency area, in which monetary policy is centralized but fiscal policy and wage setting is regionalised. Inflation differentials in a regime of standard interest rates led to negative real-interest rates in countries with higher inflation. They were also responsible for lowering the competitiveness of these regions. In addition, conditions over debt limits and bail-outs were unclear before the crisis. Even though the Stability and Growth Pact (SGP) anticipated the moral hazard of a currency union with decentralized fiscal policy, its mechanisms were not feasible. Germany and France, the core countries of the Eurozone, both violated the Stability and Growth Pact without immediate negative consequences. The scenario of disciplining governments that engaged in fiscal overspending was not realistic. Moreover, the nature of sovereign debt in a monetary union is different compared to countries which can control monetary policy (de Grauwe, 2011). Sovereign currency countries can use their central bank to combat a liquidity squeeze, whereas regions in a currency union cannot. Therefore a whole range of structural factors significantly increased the vulnerability of these countries. Firstly, countries benefited from low to negative real interest rates; secondly, they also benefited from the credit ratings of the Eurozone as a whole; thirdly, the emerging credit bubbles led to a deterioration in competitiveness and finally, once the crisis had struck, these countries had no instruments of their own to deal with it.

In the ensuing bail-out programmes by the various EU-level facilities and the IMF, the focus of conditionality was firmly on budget cuts combined with cuts in wages and pensions (EU Commission, 2010). In some instances, institutional reforms regarding wage setting systems and employment protection were part of the mix. However, the biggest contribution, made by the vulnerable countries in Southern Europe to the solution of the sovereign debt crisis, was the change in domestic politics. All countries which came under attack by the financial markets and had difficulties to refinance their debts had a change in government. Two countries, Italy and Greece, turned to technocratic governments with unelected leaders, who gained credibility because they were seen and portrayed as non-politicians. The Italian Berlusconi government was forced out by the record spread on Italian government bonds. Financial investors did not trust the capacity of the Berlusconi government to overcome the debt crisis. In Spain and Portugal the governments were changed through elections.

The rise of technocratic governments, and the heavy intervention of the Troika in domestic government budgets, have raised many concerns over the democratic legitimacy (Scharpf, 2011) as well as the economic appropriateness of the general strategy of resurrecting the Eurozone (Hancké, 2012; Armingeon and Baccaro, 2011). Monetary integration in the EU as a whole has been criticized and called into question given the existing regional disparities (Scharpf, 2011). A single monetary policy for a heterogeneous economic area induces diverging economic developments as they have pro-cyclical effects.

This paper will not focus on these aspects. Instead this paper investigates the underlying institutional attributes of the Eurozone countries and the question: to what extent an institutionally informed account can explain the challenges posed by monetary integration. It focuses in particular on the institutional foundations of the four Southern European Eurozone countries[1] that encounter an acute sovereign debt crisis, in contrast to the core of the Eurozone countries. It asks whether, and to what extent, the basic arguments of the Varieties of Capitalism (VoC) literature can help us to understand how the Eurozone moved into this difficult situation. Can the interaction of the institutional set-up of coordinated and mixed market economies, in combination with the effects of the common currency area, explain both the evolution of the crisis as well as the reactions to it?

[1] The countries in question are Greece, Italy, Portugal and Spain. Ireland is not part of this analysis since it is a special case in many ways.

As in Hancké (2012), this paper interprets the sovereign debt crisis of the Eurozone as the combination of two features: firstly, the architecture of the common currency area, which instituted a common monetary policy rate for widely heterogeneous regional economies, and secondly, the specific institutional foundations of two types of economies participating in the Eurozone, namely coordinated market economies and mixed market economies.

It assumes that understanding these two ingredients not only helps to explain why the Southern European countries were particularly vulnerable to exploding public debt, but also why, during the on-going resolution of the Eurozone crisis over the last two years, policy makers have persistently preferred austerity and structural reform over any kind of mutualisation of debt in order to help or maintain the growth of highly indebted countries.

The argument is as follows: the Eurozone consists of a common currency area of several regional economies. These regional economies are made up of coordinated and mixed market economies. Following standard VoC arguments, coordinated market economies are defined by decision-making in key economic activities which are not market-based but rely on the strategic interaction (coordination) of large firms, their interest associations and trade unions. Mixed market economies, as defined by Molina and Rhodes (2007), are characterized by the central role of the state in facilitating coordination and compensating for the lack of autonomous self-organization of business and labour. Labour and business have traditionally used their access to state resources to maintain their position in the political economy.

The two different kinds of political economies entered a currency union which not only removed the protection of business by national mechanisms vis-à-vis foreign competition via currency depreciation, but also gave governments in MMEs access to cheap credit. Because coordination in MMEs rested on compensation by the state, governments used these resources to compensate the losers of closer economic integration.

The development of CMEs and MMEs in EMU raises the general question of adjustment processes of economic institutions in a quasi-experiment. It particularly allows us to study the role of the state in facilitating coordination through compensation.

2. The institutional make-up of the Eurozone countries: CMEs and MMEs

In a simplified understanding, one can conceptualize the member countries of the Eurozone as being broadly made up of two different kinds of political economies: Coordinated Market Economies (CMEs) and Mixed Market Economies (MMEs). CMEs make up the core of the Eurozone: Germany, the Netherlands, Austria, Belgium and Finland are more or less pure types of coordinated market economies, in which key areas of what can be called market support, namely training, wage setting, firms' collaboration over R&D and corporate finance, are not governed by competitive market- but by non-market coordination (Hall and Soskice, 2001). The other big group within in the Eurozone are mixed market economies, MMEs. These are political economies which also have key spheres of market support governed not by market competition but by other forms of coordination. In contrast to coordinated market economies, in mixed market economies firms and trade unions cannot deliver collective goods in the same way. Rather, they have veto power over the state and can demand compensation for state intervention (Molina and Rhodes, 2007). Mixed market economies can be found in Southern Europe, particularly in Greece, Italy, Portugal and Spain.[2] Both types, CMEs and MMEs, are in contrast to Liberal Market Economies, LMEs, in which market mechanisms prevail and collective actors, as well as other forms of non-market coordination through chambers or cross-shareholdings, play a minor role. These are typically English-speaking countries.

In CMEs, coordination takes place via two central mechanisms: the first is the tight web of institutional linkages in wage bargaining. On the vertical axis, collective bargaining behaviour is tightly connected to the competitiveness of firms. As wage setting is dominated by leading firms in the export industries, their competitive pressure shapes the bargaining outcomes on a regional or national level (Hassel and Rehder, 2001). This is accompanied by horizontal coordination between different sectors of the economy. Wage setting manufacturing and services are tightly coupled with the exposed sectors trumping the sheltered sectors (Johnston, 2009; Johnston and Hancké, 2009).

The second mechanism is the protection of firms from capital markets through bank-based finance and cross-shareholdings of banks and firms (Deeg, 2009). Market capitalization of firms is low, and management is therefore not exposed in a similar way to financial markets' expectations. In the face of economic shocks, adjustment of costs takes place via wage restraint and higher work pressure, rather than numerical flexibility as is the case in

[2] Molina and Rhodes defined the concept by analysing Italy and Spain.

liberal market economies. Firms are more protected and have a longer time span to adjust to economic downswings.

Mixed market economies can be seen as part of the family of coordinated market economies, in the sense that the economic actors, trade unions and business organizations have similar organizational features to CMEs. They often hold monopolies, or quasi monopolies, over membership domains and have privileged access to state resources. However, political and economic actors do not have similar coordinating capacities as CMEs nor do they use these capacities for autonomous coordination. Rather, organized interests use their resources to lobby the state for protection or compensation.

The set-up of collective bargaining in MMEs resembles CMEs but the actors, trade unions and employers are far more weakly developed than in CMEs. Similar institutions therefore rest on very different collective actors.

As Molina and Rhodes point out: in MMEs unions and employers are unable to deliver the same collective goods or create strong autonomous forms of coordination (as CMEs) they do, however, frequently have the power to veto change and/or demand compensation from the state. "Levels of direct state intervention, via company ownership, for example, have been heavily reduced in European MMEs in recent years. But there has been a reluctance to abandon the protection of national firms from foreign predators. The role of the state as a compensator 'of first resort' is also still strong, depending on the access of vested interests to policymaking power." (Molina and Rhodes, 2007, 227).

According to Molina and Rhodes (2007, 227-8), this has profound implications for the kind of coordination that develops alongside regulation by markets and social actors. With regard to institutional complementarities between different spheres of economic institutions and the relationship between welfare provisions and the labour market, the authors make four assumptions about MMEs:

- 'First, the exertion of strong veto powers by organizationally weak socio-economic interests has limited investment in specific or co-specific assets and created serious coordination failures—in wage bargaining, the regulation of the workplace, and the management of social and employment protection.

- Second, since coordination failures have often been met by state intervention, processes of adjustment are dependent on the gate-keeping role of the state.

- Third, although the incentives for specific and co-specific asset investment are limited, there have been strong incentives to invest in one kind of asset—political power—creating strong clientelistic links or mutually supportive relations between political parties and their flanking organizations, including trade unions.

- Fourth, the state's role in correcting for coordination deficits will therefore often be accompanied, and sometimes subverted by, 'compensation' (subsidies, protection) demanded by interest

> organizations in return for cooperation' (Molina and Rhodes 2007, 227-8).

Assuming these characteristics of MMEs to be accurate descriptions of the state of Southern European member states, the expectation is that institutional stability in MMEs is not based on complementarities but on state intervention. State intervention substitutes other means of coordination – both regarding market mechanisms, as in LMEs, or autonomous coordination by associations, as in CMEs. As a prime side effect, state intervention supports an economic system which pays out rents to economic actors in the face of economic shocks, rather than giving economic actors the means and incentives to adjust their competitiveness to a new situation. Adjustment to economic shocks will, therefore, take the form of political conflicts between vested interests.

In contrast, the assumption is that in CMEs clientelistic relations between unions and political parties are less developed and unions are more responsive to market pressures. They invest in cooperative relations at the plant level, to protect members and labour market insiders by protecting the competitiveness of firms (Hassel, 2011). They have strong control over wage setting and can protect the competitiveness of key exporting firms via continued wage restraint.

If that was the case, we can make the following assumptions about the adjustment process of CMEs and MMEs in the Eurozone: firstly, we can assume that adjustment processes take different forms. While in CMEs firms aim to restore and maintain competitiveness by controlling labour costs; in MMEs economic actors will aim at maintaining protection and compensation.

Secondly, this process will be reinforced by the fact that unitary interest rates have very different effects in regions with higher and lower inflation rates. In turn, reform processes to regain competitiveness will diverge in both groups of countries.

Thirdly, the loss of competitiveness in MMEs will put pressure towards an increase in compensation. As competitiveness declines, and employment is threatened, economic actors in MMEs will use their traditional reservoir of political influence to maintain standards of living.

To sum up, both groups of countries are assumed to be on diverging trajectories of institutional and policy adjustment in the Eurozone. The effects of monetary union amplify the two trajectories, even though they would not have been fundamentally different without a shared currency.[3] It has been hypothesized that the period during the 1990s—the run-up to monetary union—was an exceptional period, as MMEs had to adjust to the conditions of the Maastricht Treaty.

3. Institutional properties of CMEs and MMEs

The institutional distinction between CMEs and MMEs is hard to define. As outlined above, the lack of autonomous coordination in the context of non-liberal market economies shapes the relationship between interest groups and government policy. As economic actors fail to coordinate themselves, but are sufficiently organized, they will invest their capital in political lobbying.

[3] This point might be contested by critics of monetary union (Scharpf, 2011). It is not in the focus of this paper whether or not the Eurozone is the one and only culprit for economic divergence in the EU.

There is, however, no single indicator on the close interaction of economic actors and governments: indicators of close interaction might look similar in CMEs and MMEs, but lead to very different results. Relations between trade unions and center-left parties are, for instance, close in many European countries as there has been a tight co-evolution of social democratic parties and trade unions (Hassel, 2006).

In the following, I will map out institutional characteristics in CMEs and MMEs in the Eurozone by using a number of indicators that derive from the VoC literature and the distinction made by Rhodes and Molina on CMEs and MMEs. The aim is to provide some empirical evidence for two distinct types of market economies in the Eurozone for analytical purposes.

Table 1 gives some evidence of the different interaction between organizational properties and institutional coverage. While in LMEs both actors are weak and institutions are little developed, CMEs have traditionally combined high density rates with high degrees of coordination in collective bargaining. In MMEs, actors (in particular trade unions) are much weaker, while their institutional influence remains high. Bargaining coverage is often extended through erga omnes provisions and comparatively weak trade unions can control large parts of the labour market without being representative for large parts of the workforce.

Table 1: Labour market institutions in different varieties of capitalism

Country	*Union Density*	*Employers Density*	*Bargaining Coordination*	*Bargaining Centralization*	*Bargaining Coverage*
LME					
UK	*36.63*	*37.50*	*1.00*	*1.13*	*39.57*
USA	*14.91*		*1.00*	*1.00*	*17.33*
Canada	*32.88*		*1.00*	*1.00*	*35.25*
Australia	*33.22*		*2.55*	*2.61*	*65.71*
New Zealand	*36.99*		*2.26*	*1.77*	*32.34*
Ireland	*49.86*	*60.00*	*3.77*	*3.45*	*55.20*
Average	***34.08***	***48.75***	***1.93***	***1.83***	***40.90***
CME					
Austria	*41.76*	*100.00*	*4.10*	*4.10*	*98.00*
Belgium	*52.87*	*74.00*	*4.39*	*3.42*	*96.13*
Germany	*28.28*	*61.50*	*4.00*	*2.90*	*67.53*
France	*10.48*	*74.33*	*2.10*	*2.00*	*89.57*
Netherlands	*24.88*	*85.00*	*4.10*	*3.23*	*84.61*
Sweden	*80.11*	*84.00*	*3.48*	*3.32*	*90.18*
Norway	*56.30*	*61.00*	*4.06*	*3.87*	*71.63*
Finland	*73.26*	*66.64*	*3.61*	*3.90*	*87.55*
Denmark	*75.23*	*61.00*	*3.42*	*2.77*	*82.89*
Luxembourg	*45.52*	*80.00*	*2.06*	*2.00*	*59.25*
Average	***48.87***	***74.75***	***3.53***	***3.15***	***82.73***
MME					
Greece	*31.85*	*43.73*	*4.00*	*3.67*	*66.88*
Spain	*14.19*	*73.50*	*3.45*	*3.26*	*84.64*
Portugal	*30.04*	*61.50*	*2.84*	*2.65*	*65.40*
Italy	*38.34*	*60.67*	*2.90*	*2.74*	*82.10*
Average	***28.61***	***59.85***	***3.30***	***3.08***	***74.76***

Source: ICTWSS, Period: 1980-2010.

Another way to assess institutional differences between countries within the Eurozone is with regard to their training regimes. Training regimes are at the heart of the VoC literature as they not only shape the skill-set of workers and, therefore, produce human capital and labour productivity (Estevez-Abe et al., 2001): they are also a key theme and content of employers' coordination within CMEs (Thelen, 2004). For my purposes here I use the classification by Hancké and Rhodes (2005), who aimed to embed the emergence of social pacts in what they called micro-level institutional frameworks.[4] In addition to wage bargaining coordination, they looked at different kinds of skill regimes. Vocational training regimes can be distinguished as four different types: firm, industry, or occupational (FIO); industry or occupation (IO); firm or occupational (FO); occupational or general (OG). Hancké and Rhodes used these four types as a scale on which the first two, FIO and IO, provided some micro-foundations, whereas the latter two have little micro-level foundations. They attributed FIO a score of 4, IO a score of 3, FO a score of 2, and OG a score of 1. For my purpose here, we can use the scale for distinguishing between countries that have strong vocational training institutions (which are those where industry coordination is an integral part of training provision) and those who are either completely firm-based or general. In contrast to the labour market institution measures, it is clear, however, that this kind of training typology would put MMEs in the same category of training as LMEs.

If the coordinating mechanisms in MMEs rely on mechanisms such as 'protection', 'state intervention' and 'compensation' we should find some empirical evidence for the different use of these instruments. The OECD has compiled indicators on employment protection and product market regulation. Both can be interpreted as measures that protect either core workers or established businesses from competition. Protecting workers and firms from competition of others captures the essence of the Rhodes and Molina's distinction of MMEs vis-à-vis CMEs. This does not mean that liberalizing employment protection or product market regulation to standards

[4] Their concern was the ability to control wage developments through social pacts which in turn were shaped by these micro-foundations (Hancké and Rhodes, 2005: 7). If macro-level coordination is not underpinned by micro-level foundations, they argue, they will take the form of antagonistic bargaining rather than mutually beneficial coordination.

of CME averages, or even LMEs, will automatically turn these countries into CMEs. Coordination practices in CMEs do not rely on liberal employment or product market regimes. Rather, stricter regulation of labour and product markets can be used as a proxy for political power of associations and economic actors. Liberalizing labour and product markets will, therefore, not automatically solve the problems of competitiveness in MMEs; this would be a misinterpretation. It only indicates that economic actors have lost political power.

As Table 2 shows, there is a strong difference between LMEs on the one hand and CMEs and MMEs on the other with regard to protective measures, particularly up until the 1990s. There is also a correlation between protective measures on the labour market and product market regulation. For 1990 the correlation coefficient between employment protection and product market regulation is .59. The distinction between countries, as well as the correlation between different measures, becomes weaker over time.

Table 2: Training regimes

Country	*Training and Skills*
Austria	4
Germany	4
Belgium	3
Netherlands	3
Denmark	3
Finland	3
Italy	2
France	2
Ireland	1
Spain	1
Portugal	1
Greece	1

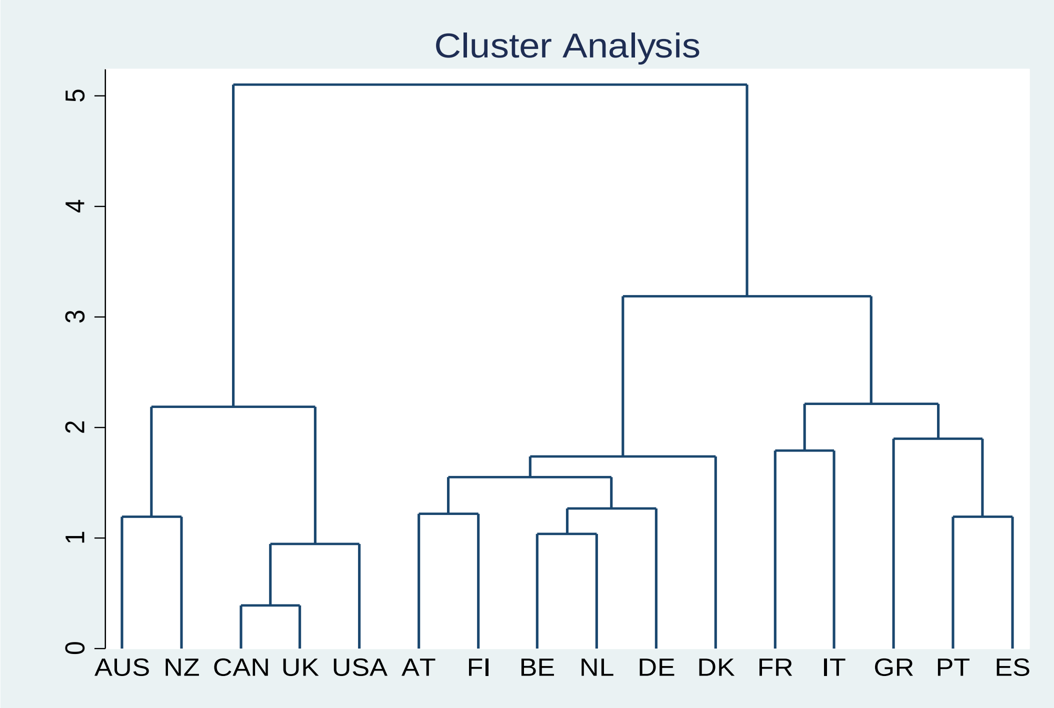
Source: Hancké and Rhodes (2005: 29).

This is only true, however, when including LMEs and the other countries. If one excludes LMEs and only looks at the relationship between different measures among CMEs and MMEs, no correlation can be found. CMEs and MMEs have, therefore, varying degrees of employment protection and product market protection, which are not related to each other.

The distinction between CMEs and MMEs on the other hand is much more subtle, and the differences are narrower. While group averages show that, on the whole, Southern European countries have both more regulated labour and product markets; this is not true for all countries. Two countries stand out, in particular, as outliers in their respective groups: the employment regulation of France resembles much more that of an MME, while Italy would fit well into the CME category.[5] This categorization would also make sense with regard to labour market institutions: France is a classic case of weak trade unions with high political influence, while Italy has had a long standing history of labour strength and increasing patterns of coordination of union activities at the plant level (Hassel, 2006, Molina and Rhodes, 2007).[6] Swapping both countries would make a much clearer case for the distinction between CMEs and MMEs within the Eurozone (see Table 2). A cluster analysis, which is based on employment and product market regulation, skill formation systems, as well as wage bargaining coordination, supports this view. While the two main groups are LMEs and others, the second group is divided into CMEs and MMEs. France is institutionally situated next to Italy within the group of mixed marked economies among the other Southern European countries (Graph 1).

[5] For a comprehensive discussion of the Italian case in the VoC spectrum see Simoni (2012).
[6] See for a detailed discussion of the French case Levy (1999).

Graph 1: Cluster Analysis of Labour market institutions and product market regulation, 16 OECD countries



Source: Tables 1-3. Based on EPL, PMR, Skills and wage bargaining coordination.

All countries have moved towards liberalization over the period between 1990 and 2008. Liberalization has been stronger in countries with high initial regulation. This is true for all countries including MMEs. MMEs have made particularly big steps towards liberalization throughout this period. Adjustment in the Eurozone has, therefore, not protected business and labour market insiders any more than it did before. Rather the opposite: during the enhanced phase of restructuring due to monetary union, regulation and protection have been relaxed in all countries rather than loosened. With regard to product market regulation, the change in MMEs has been even greater than in CMEs. On the whole, liberalization in product market regulation seems to have been greater than in labour market protection (Siegel, 2007).

There are, however, notable differences between individual countries: Greece and Italy have not relaxed employment protection, while Spain has relaxed protection for permanent workers but increased the regulation of temporary workers.

Table 3: Employment Protection and Product Market Regulation

	Employment Protection		*Temporary Employment*		*Product Market Regulation*	
	1990	*2008*	*1998*	*2008*	*1998*	*2008*
Australia	*0.94*	*1.15*	*1.47*	*1.43*	*1.58*	*1.23*
Canada	*0.75*	*0.75*	*1.06*	*1.06*	*1.29*	*0.96*
New Zealand	*0.86*	*1.40*	*0.78*	*1.23*	*1.37*	*1.27*
United Kingdom	*0.60*	*0.75*	*0.98*	*1.10*	*1.01*	*0.79*
Ireland	*0.93*	*1.11*	*1.17*	*1.32*	*1.59*	*0.86*
United States	*0.21*	*0.21*	*0.65*	*0.65*	*1.28*	*0.84*
	0.72	***0.90***	***1.02***	***1.13***	***1.35***	***0.99***
Denmark	*2.40*	*1.50*	*1.90*	*1.77*	*1.52*	*0.99*
Sweden	*3.49*	*1.87*	*2.49*	*2.18*	*1.86*	*1.24*
Norway	*2.90*	*2.69*	*2.72*	*2.72*	*1.83*	*1.15*
Finland	*2.33*	*1.96*	*2.18*	*2.03*	*2.01*	*1.12*
Austria	*2.21*	*1.93*	*2.38*	*2.15*	*2.25*	*1.38*
Belgium	*3.15*	*2.18*	*2.48*	*2.50*	*2.13*	*1.37*
France	*2.98*	*3.05*	*2.84*	*2.89*	*2.45*	*1.39*
Germany	*3.17*	*2.12*	*2.57*	*2.39*	*2.00*	*1.27*
Netherlands	*2.73*	*1.95*	*2.77*	*2.13*	*1.59*	*0.91*
CMEs in Europe	***2.82***	***2.14***	***2.48***	***2.31***	***1.96***	***1.20***
CMEs only eurozone	***2.76***	***2.20***	***2.54***	***2.35***	***2.07***	***1.24***
Greece	*3.50*	*2.73*	*3.46*	*2.81*	*2.91*	*2.30*
Italy	*3.57*	*1.89*	*3.06*	*2.38*	*2.53*	*1.32*
Portugal	*4.10*	*3.15*	*3.53*	*2.93*	*2.18*	*1.35*
Spain	*3.82*	*2.98*	*2.96*	*3.01*	*2.47*	*0.96*
MMEs	***3.75***	***2.69***	***3.25***	***2.78***	***2.52***	***1.48***

Source: OECD Statistics.

With regard to state intervention in wage bargaining, there are no major differences between CMEs and MMEs. Attempts by governments to control wage increases through state intervention took place in MMEs but not to any higher degree than in CMEs. On average, state intervention in wage bargaining declined slightly, compared to the 1990s, when governments were anxious to meet the convergence criteria (Hassel, 2006).

Table 4: State intervention into wage setting

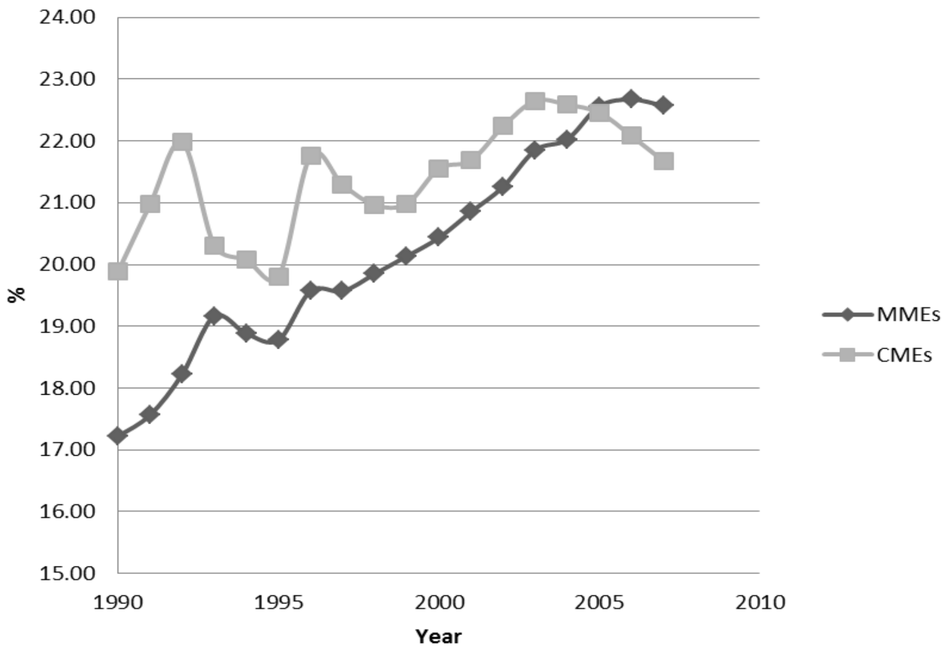
	80s	*90s*	*2000s*
LME			
UK	*1,0*	*1,0*	*1,5*
US	*1,0*	*1,0*	*1,0*
AUS	*3,6*	*3,6*	*2,8*
CAN	*1,0*	*1,0*	*1,0*
IE	*3,4*	*4,0*	*3,8*
NZ	*3,8*	*2,0*	*2,0*
Average LMEs	*2,3*	*2,1*	*2,0*
CME			
DK	*3,3*	*2,3*	*2,0*
SE	*2,5*	*2,6*	*2,0*
NO	*3,7*	*3,5*	*3,0*
FL	*3,7*	*3,7*	*3,6*
AT	*2,0*	*2,0*	*2,0*
BE	*4,4*	*4,1*	*4,4*
DE	*2,0*	*2,2*	*2,1*
FR	*3,2*	*3,0*	*3,0*
NL	*3,6*	*2,6*	*3,0*
Average CMEs	*3,2*	*2,9*	*2,8*
MME			
GR	*4,0*	*3,2*	*3,2*
IT	*3,5*	*2,9*	*2,4*
ES	*3,7*	*3,0*	*3,0*
PT	*3,2*	*3,4*	*3,2*
Average MMEs	*3,6*	*3,1*	*3,0*

Source: ICTWSS.

Finally, ‘compensation’ as a political instrument for coordination can also take the form of social spending. Public social spending is, however, a tricky indicator because CMEs include high-spending, social-democratic welfare states, as well as big Bismarckian continental welfare states. Both kinds of welfare state have a long- standing record of high levels of public social spending. MMEs, on the other hand, as Southern European welfare states were late-comers both politically, as well as economically (Ferrera, 1996; Rhodes, 1996). Institutional structures of Southern European welfare states are different from those in Northern Europe, which do not automatically add to the distinction between CMEs and MMEs. However, as in the Rhodes and Molina analysis (2007), they do feed into the way economic actors and the state interact, as they focus on clientelism and patronage.

Looking at the evidence of spending patterns, it becomes clear that MMEs over the last two decades have closed the gap between CMEs and MMEs and, in fact, overtaken them (Graph 2). While public social spending has been in decline in CMEs since the early 2000s, MMEs have been increasing their social spending above average.

Graph 2: Social expenditure as share of GDP



Source: OECD. CMEs are Eurozone countries only.

To summarize, the main institutional distinctions between CMEs and MMEs, as established in the preceding section, are as follows: there is some evidence that there are systematic institutional differences with regard to labour market institutions, employment and product market regulation, as well as vocational education regimes that differentiate between Northern European and Southern European countries. While the Nordic, Benelux and Germanic countries are clearly part of the Northern European CME type, mixed market economies certainly include Spain, Greece and Portugal. The cases of France and Italy are less clear cut and border with both of them. In the following section, I will test to what extent these differences might explain the adjustment patterns within the Eurozone over the last decade.

4. Institutional adjustment in the Eurozone

The overarching challenge to the Eurozone today is undoubtedly the diverging development of competitiveness between different regions which has led to major imbalances (Scharpf 2011; Hancké 2012). One size fits all monetary policy put a strain on economies with low inflation rates like in Germany and did not balance overheated economies like in Ireland. In both cases, monetary policy, oriented to an average target for the Eurozone as a whole, had a pro-cyclical effect. Governments did not use the cheap credit they accessed for economic development, but rather for consumption. Over time, current account deficits and surpluses accumulated and competitiveness diverged. These problems with the European Monetary Union were known from the beginning and did not come as a surprise to policy makers or analysts.

About a decade ago, at the beginning of Monetary Union, there were two fundamental expectations on further institutional adjustment in the Eurozone, mainly coming out of the social pacts literature. The first expectation was that negotiated adjustment was to be continued in order to maintain competitiveness, provided that governments would not use fiscal policy against economic downturns and adhere to the Stability and Growth Pact (Hassel 2006, 252). The second expectation was that, with the beginning of monetary union, incentives for governments to engage in negotiations with social partners over wage bargaining, institutions and wage setting would decline (Hancké and Rhodes 2005, 28).

Empirically, it has been shown that social pacts have continued to play a role during the last decade but in different forms (Visser and Rhodes 2011, 69). While during the 1990s, 34 pacts were concluded, this number declined to 20 for the period between 2000 and 2007. Country case studies have shown that social pacts in the 2000s had less political clout and were rather used strategically by governments to achieve clear-set goals (Regini and Colombo 2011; Molina and Rhodes 2011). We moreover know, from recent literature, that in the financial crisis only a few attempts were made to address the issues through social pacts.[7]

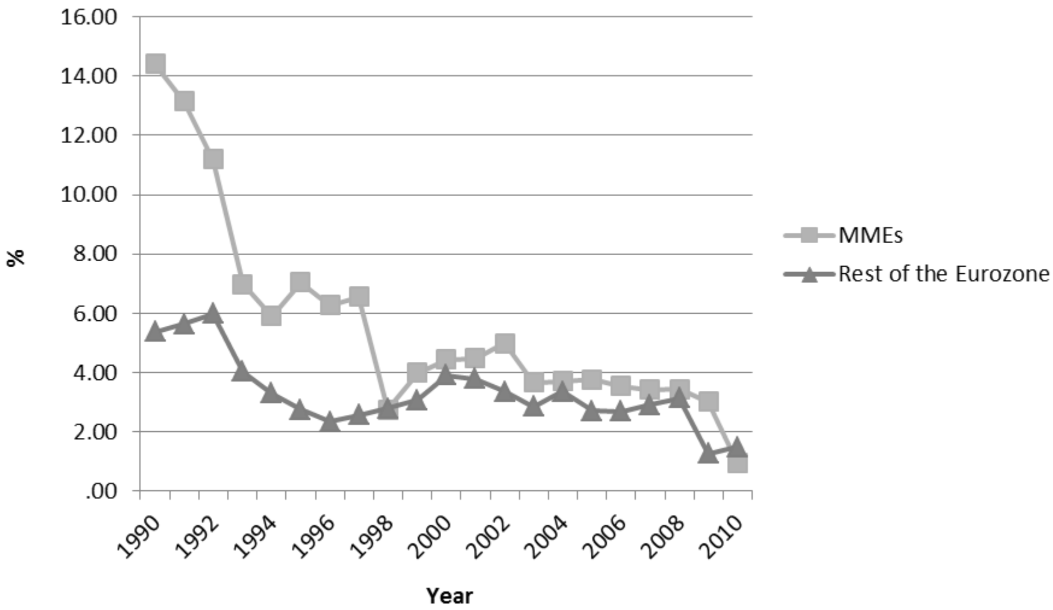
The first decade of experience with EMU did not lead to any formal restructuring of wage bargaining institutions. Hopes and expectations of a process of Europeanization of wage setting did not materialize. Infant exercises to coordinate wage setting between neighbouring regions in the Eurozone remained at an experimental level. Very few changes occurred at the level of formal institutions. Collective bargaining centralization and

[7] For instance by the former socialist government in Spain.

coordination have remained stable in the majority of countries. What kind of institutional adjustment, if any, has occurred?

It is important to emphasize that, for most of the period, in terms of standard macro-economic indicators, there was little to worry about for most countries in the Eurozone, in particular those who had problems meeting the convergence criteria. Both nominal wages, as well as inflation differentials, continued to exist over the decade of the Euro, but to diminishing degrees (Graph 3 and 4). While, during most of the period, wage increases were higher in MMEs, compared to the rest of the Eurozone, the differentials diminished.

Graph 3: Nominal Wage Change in MMEs and Rest of the Eurozone



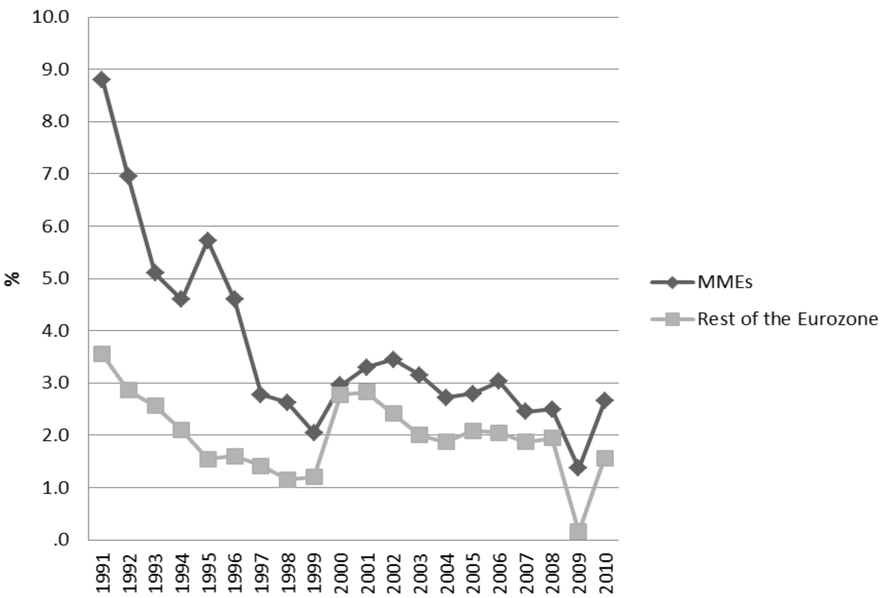
Source: OECD Statistics.

The same is true for inflation differentials. During the first half of the 2000s, inflation differentials have been persistent (Scharpf 2011). Greece, Ireland, the Netherlands and Spain all had significantly higher inflation than the

Eurozone average. Germany, on the other hand, had the lowest inflation and highest real interest rates and was, therefore, held back in growth. Lower prices in Germany benefitted the competitiveness of German firms in the long-run.

While this is problematic for the Eurozone as a whole, and for the less competitive countries in particular, in comparison to earlier wage developments in these countries, the period of the 2000s were a haven of economic stability. One should recall that inflation differentials between Portugal and Germany in the 1980s were almost 15 percentage points on average (Hassel 2006, 106). Given where Southern European countries were coming from economically, the Euro served the need for price and economic stability.

Graph 4: Inflation rates in MMEs and Rest of the Eurozone

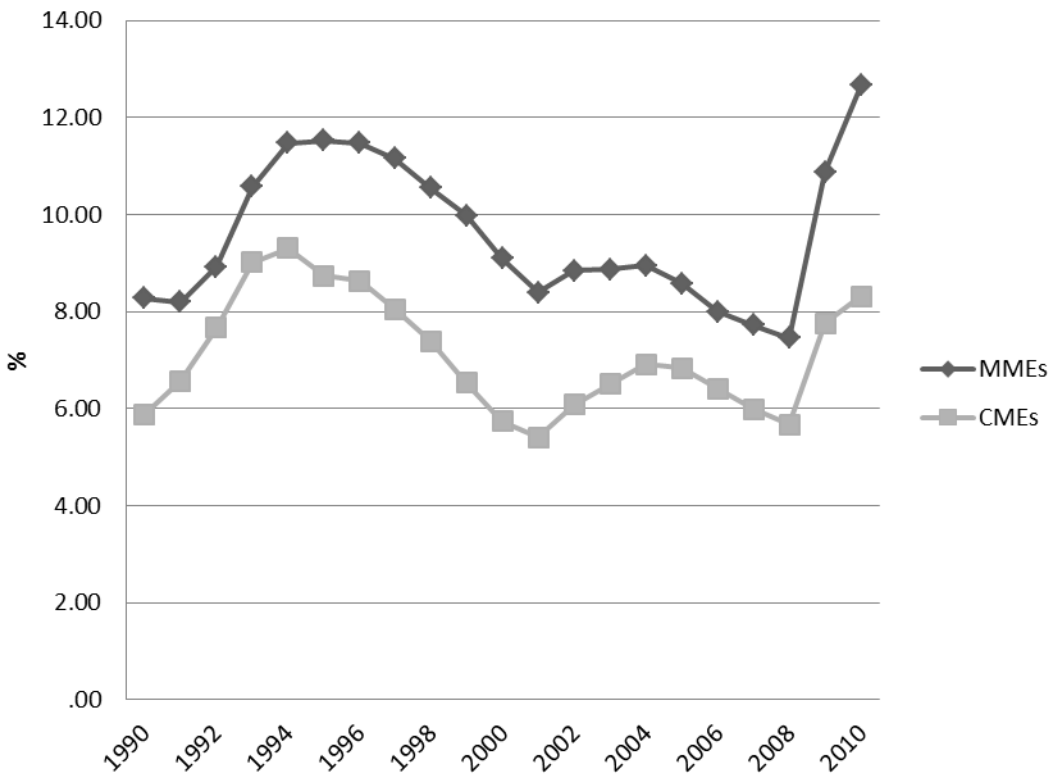


Source: OECD Statistics.

Unemployment, on the other hand, did not converge but neither did it diverge; rather it moved in parallel. CMEs had about 2-percentage points lower unemployment levels compared to MMEs throughout the last two decades (Graph 5).

In summary, there were few economic problems for MME governments to act upon until the financial crisis. Macro-economic circumstances were characterized by stability rather than crisis, and fiscal deficits and debt were easily financed.

Graph 5: Unemployment Rates in the Eurozone

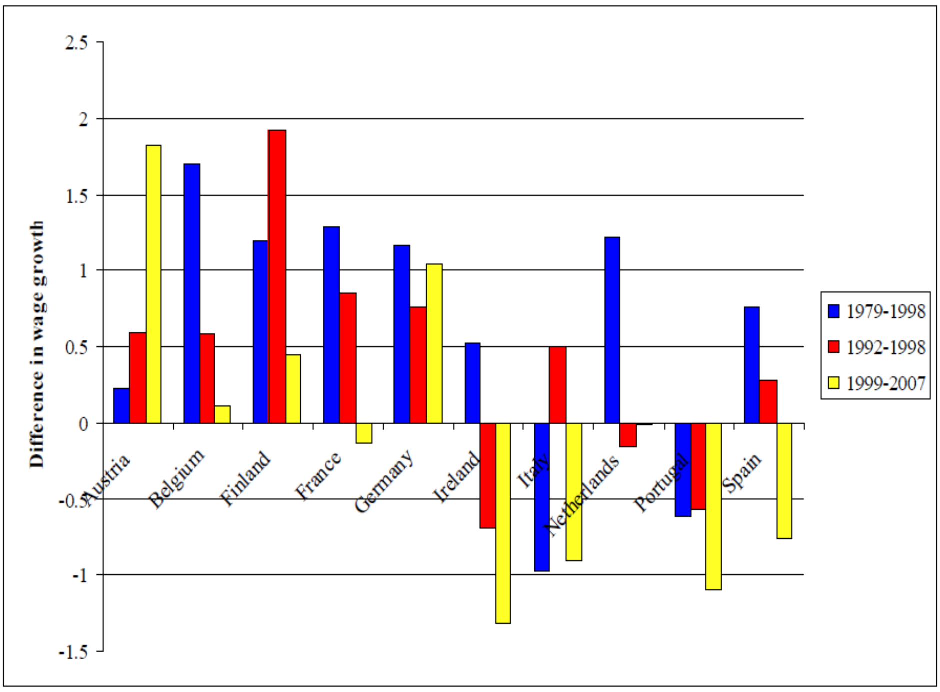


Source: OECD Statistics.

The underlying problem, however, as expressed in current account deficits/surplus and diverging unit labour costs, had to emerge eventually and came into full view after the financial crisis in 2008. Bank bail-outs, combined with deep recessions, revealed the competitive backwardness, particularly of MMEs. To what extent is this due to the very different mechanisms of coordination and wage adjustment in different countries? Can the distinction between MMEs and CMEs help to understand the two different dynamics that are at play?

Graph 6 illustrates the differences in nominal wage growth in manufacturing and in the public sector in core Eurozone countries. It shows firstly, that the countries where public sector pay exceeded private sector pay were MMEs: Italy, Portugal, Spain – and France.[8] Secondly, Germany and Austria are the only countries where the difference between manufacturing and public sector wages grew in the period between the 1990s and the 2000s. Despite the strong wage restraint in the manufacturing sector, public sector wage restraint was even stronger. What are the underlying dynamics?

Graph 6: Difference in Manufacturing and Public Sector Nominal Wage Growth (period averages)



Source: Johnston 2011, 8.

[8] Unfortunately, there is no information on Greece.

The pattern in the graph above reconfirms long-standing assumptions about the workings of CME wage bargaining institutions in continental Europe.[9] The institutional basis for systematic wage restraint is coordination through pattern setting or centralized control over wages (Hassel 2006, 165; Johnston 2011). Export-oriented industries set the upper limit for wage negotiations, which serve as an orientation point for the sheltered sectors. Wage increases in the sheltered sector are generally lower than in the exposed sectors. A major factor for coordinating wage setting downwards in continental CMEs is the dominant position of manufacturing trade unions in a coordinated trade union system. As manufacturing firms have to stand the pressure of international competition, labour costs are a major concern of these unions. Pay increase is exchanged with job security in leading manufacturing firms through rounds of plant-level concession bargaining. Manufacturing unions can essentially control wage developments in other sectors as well by signalling to employers, but also to governments, the standard going rate. Other unions in services or the public sector will not generally exceed this mark.

It is, moreover, in the interest of manufacturing unions to control wages in services and the public sector as these keep costs for consumption down (Hassel, 2011). Unsuccessful and weak public sector trade unions are, on the other hand, not attractive membership organizations. Their membership drive is, therefore, unlikely to be more successful than that of their manufacturing counterparts. As Johnston points out (2011, 29), public sector staff associations have repeatedly tried to break out of the straightjacket of manufacturing-dominated unionism. Hospital doctors' and train drivers' unions left the main

[9] As has been well-established in the literature by now, the Nordic countries follow a different trajectory in wage bargaining coordination. Public sector wage setting is highly relevant in the Nordic countries but controlled by macro-level centralization (see Iversen, 1999, Thelen, 2011).

umbrella union federation DGB, and the pattern bargaining wage coordination system, in order to negotiate higher wage increases. This indicates that there are tensions between public sector professionals and the disciplining force of manufacturing unions, which have so far had only limited success.

In MMEs wage bargaining does not follow a coordinated pattern, and coordination has frequently been attempted through social pacts. Spain, Italy and Portugal all had frequent social pacts during the 1990s to control wage developments to meet convergence criteria. An interesting example is Italy, where the Ciampi Protcol, in 1993, restructured public sector pay and introduced ceilings for it (Ebbinghaus and Hassel, 2000). After 2000, however, the public sector pay discipline was lost again, and wage increases outstripped private sector pay. Similarly in Greece, attempts were made to curb pay in loss-making state industries in 1998 (Johnston 2011, 16). But since public sector pay negotiations are not embedded in an institutional framework that allows other actors greater levels of control, public sector unions pursue a strategy of squeezing the public sector as a sign of union success. This, in turn, helps to entrench unionism in the public sector and further weakens coordination with manufacturing wage setting.

Table 5: Sectoral unionization rates (2002)

	Manufacturing	*Services*	*Public*	*P/M*
GB	*0.21*	*0.12*	*0.45*	*2.15*
IE	*0.29*	*0.15*	*0.48*	*1.62*
DK	*0.78*	*0.71*	*0.86*	*1.11*
SE	*0.85*	*0.55*	*0.83*	*0.97*
NO	*0.59*	*0.39*	*0.72*	*1.21*
FI	*0.71*	*0.51*	*0.79*	*1.12*
NL	*0.24*	*0.16*	*0.34*	*1.44*
FR	*0.07*	*0.08*	*0.13*	*1.72*
AU	*0.30*	*0.19*	*0.41*	*1.34*
BE	*0.45*	*0.32*	*0.39*	*0.88*
DE	*0.28*	*0.13*	*0.20*	*0.74*
ES	*0.12*	*0.11*	*0.23*	*1.84*
IT	*0.20*	*0.18*	*0.31*	*1.51*
PT	*0.15*	*0.10*	*0.21*	*1.39*
GR	*0.12*	*0.13*	*0.30*	*2.56*

Source: Own calculation from European Social Survey

Table 6: Sectoral unionization rates (2008)

	Manufacturing	*Services*	*Public*	*P/M*
UK	*0.13*	*0.10*	*0.32*	*2.42*
Ireland	*0.12*	*0.07*	*0.31*	*2.63*
Denmark	*0.65*	*0.56*	*0.71*	*1.09*
Sweden	*0.61*	*0.43*	*0.63*	*1.04*
Norway	*0.45*	*0.30*	*0.68*	*1.50*
Finland	*0.57*	*0.49*	*0.67*	*1.17*
Belgium	*0.48*	*0.34*	*0.34*	*0.70*
Germany	*0.19*	*0.07*	*0.15*	*0.80*
Netherlands	*0.16*	*0.13*	*0.25*	*1.56*
France	*0.08*	*0.05*	*0.13*	*1.58*
Greece	*0.08*	*0.08*	*0.22*	*2.81*
Spain	*0.11*	*0.04*	*0.19*	*1.77*
Portugal	*0.05*	*0.02*	*0.15*	*3.06*

Source: Own calculation from European Social Survey.

On the whole, sectoral unionization rate differentials add to the picture of power struggles between public and private sector workers. In MMEs—as economic actors strive for political control rather than competitiveness—the public sector has to be a major battling ground for influence. This is different to both LMEs and Nordic CMEs; both are types of capitalism where public sector workers' unions are stronger than those in the private sector. In LMEs the public sector has been sheltered so far from harsh anti-union campaigns, whereas, in the Nordic countries, the public sector is a central employment segment and an integral part of the welfare state.

The dynamic of adjustment in MMEs has been a combination of private and public sector pay rises, with rising standards of living for the public sector combined with above-average social spending. Whereas CMEs used new flexibilities from employment deregulation for lowering labour costs, MMEs abandoned the drive for economic performance and accessed cheap money from financial markets for a debt-fuelled growth model. The institutional underpinnings of MMEs have, therefore, at least partially explained the diverging developments of competitiveness of both regions.

5. Conclusion: Imbalances, institutional viability, indicators and reform dynamics

There are four quite different implications from the preceding analysis. One might help to understand the position of the German government. The other two refer to further research on the classification of different types of market economies. The fourth one refers to the role of the state and the relationship between coordination and compensation in the Eurozone.

Firstly, the heavily criticized position of the German government, since the outbreak of the crisis, was to insist on the political responsibility of national governments within the Eurozone. Even if the Eurozone as a whole suffered from the recurring sovereign debt crisis, the German government refused to take on any direct liability from other countries. This position is often ascribed, by critical authors, to the German government's lack of understanding of the need of reciprocity within the Eurozone and their preference to outcompete important trading partners. Without going into any of the arguments about the sustainability of this position, the preceding analysis suggests that one reason for a strict policy of non-mutualization of the German government could lie in an assessment of the political adjustment processes in MMEs.

If the institutional foundation of MMEs give incentives to economic actors to seek compensation and protection, rather than to engage in seeking new forms of competitiveness, there is a danger that political responses that entail a mutualization of risks and debt in this framework would systematically shift transfers from CMEs to MMEs without ever improving competitiveness in MMEs. Only if compensation and protection practices are eradicated, and MMEs fundamentally change the institutional underpinnings of their economies, can temporary transfers be accepted. The tight conditionality of bail-out programmes—which exceeds conditionality in IMF programmes (Lütz and Kranke 2013) —aims precisely at cutting the ties between political and economic actors in MMEs. This is not to imply that the German government (and EU Commission) has a clear understanding of the academic debates on CMEs and MMEs. It is more to suggest that actors have an intuitive understanding of where political veto points are rooted in the Greek political economy.[10]

In line with this reasoning, economic adjustment programmes, for instance in Greece, contain measures on labour market deregulation, not because there is an expectation that these measures will improve competitiveness, but because policy-makers in the Troika believe that the protection and compensation mechanisms must be broken for the effectiveness of financial transfers. In Greece for instance, wage bargaining deregulation has been part of the adjustment package by the Troika, which would costs Greek society very little financially and would be unlikely to fundamentally change labour costs in Greece. However, the change in the regulatory set-up of wage setting institutions is seen as an important political measure rather than an economic one. For policy-makers in debtor countries, it is, therefore, not the economic adjustment process that is a precondition for financial integration, but the political process of detaching economic actors from the policy process.

The second major implication of this analysis is the classification of France. France has always been a difficult case in the VoC framework. The important role of the state has led some scholars to widen the analysis for a state-led model of capitalism.[11] It would, however, make more sense to include France in the group of MMEs. Statism, as an integral part of French political economy, closely resembles the mechanisms of protection and compensation. If France is, however, in the institutional trajectory of MMEs, the underlying problems of the Eurozone might be greatly enhanced, as the twin engines of

[10] This point mainly reflects anecdotal evidence gathered from conversations with German policy-makers.
[11] This discussion goes back to Shonfield (1965) and has more recently been developed by Vivian Schmidt (2003).

European economic and monetary integration are Germany and France. To establish a common economic and fiscal policy framework with two countries from such different institutional backgrounds remains a major challenge, if the Euro is to survive the sovereign debt crisis long-term.

Thirdly, the distinction between CMEs and MMEs, as established in the preceding sections, runs the danger of being based on inaccurate indicators. While some of the underlying indicators point to a distinct relationship between economic actors and policy-makers in different political economies, they do not necessarily present the best measures for the underlying phenomenon. Moreover, they are in flux and cannot be seen as fixed. Unionization is in decline in most of these countries, and informal processes of bargaining decentralization and fragmentation can be observed. Employment protection and product market regulation have been liberalized virtually everywhere. Lack of coordination and articulation as identified in MMEs might soon be observed in key CMEs as well, without necessarily implying the same kind of interaction between economic actors. At the same time, we know from earlier writings that fundamental institutional patterns of political economies are surprisingly stable over time (Thelen, 2004, Shonfield, 1965).

Finally, the main distinction between CMEs and MMEs in this analysis has been with regard to the role of the state when facilitating coordination. In CMEs, coordination is based on the business community and its relations to organized labour. In MMEs the state has played an active role by facilitating coordination through compensation. The sovereign debt crisis of several MMEs in the Eurozone has now undermined the capacity of governments to compensate economic actors during the recession. Since this was an important ingredient of these political economies, large groups of societies have suffered significantly, while others escaped relatively unharmed. It is now an open question how economic actors in these countries will regroup as their access to public budgets is severely restricted. In order to co-exist with other CMEs in a currency union, coordination is in principle the superior approach to economic management than liberalization. Liberalization is however the preferred approach by the Troika in order to undermine existing patterns of clientelism. This is a dilemma for the crisis countries and unlikely to be solved easily.

References

Avdagic, S., Rhodes M., & Visser, J. (Eds.). (2011). *Social Pacts in Europe: Emergence, Evolution and Institutionalization*. Oxford: Oxford University Press.

Armingeon, K., & Baccaro, L. (2011). *The Sorrows of Young Euro: Policy Responses to the Sovereign Debt Crisis*. Manuscript submitted for publication.

Deeg, R. (2009). 'The Rise of Internal Capitalist Diversity? Changing Patterns of Finance and Corporate Governance in Europe'. *Economy and Society* 38(4), pp. 552-579

De Grauwe, P. (2011). Managing a Fragile Eurozone. CESIfo Forum 2/2011, pp. 40-46

Ebbinghaus, B. & Hassel, A. (2000). 'Striking Deals. The Role of Concertation in the Reform of the Welfare State'. *Journal of European Public Policy 7(1),* pp. 44-62.

Estevez-Abe, M., Iversen T., & Soskice, D. (2001). Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State. In P. A. Hall, & D. Soskice (Eds.) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.

European Commission. (2010). *The Economic Adjustment Programme for Greece. European Economy Occasional Papers* (61). Brussels: European Commission, Directorate-General for Economic and Financial Affairs

Ferrera, M. (1996). 'The Southern Model of Welfare in Social Europe'. *Journal of European Social Policy,* February 6(1), pp. 17-37.

Hall, P. A., & Soskice, D. (Eds.) (2001). *Varieties of Capitalism: The Institutional Foundations of Competitiveness*. Oxford: Oxford University Press.

Hancké, B. (2012). Worlds apart? Labour Unions, Wages and Monetary Integration in Continental Europe. *IHS Political Science Series, No. 128 (February)* [Working Paper].

Hancké, B., & Rhodes, M. (2005). 'EMU and Labor Market Institutions in Europe: The Rise and Fall of National Social Pacts'. *Work and Occupations 32(2*), pp. 196-228.

Hancké, B., Rhodes, M., & Thatcher, M. (Eds.) (2007). *Beyond Varieties of Capitalism: Conflict, Contradictions, and Complementarities in the European Economy*. Oxford: Oxford University Press.

Hassel, A. (2006). *Wage Setting, Social Pacts and the Euro. A New Role for the State*. Amsterdam University Press: Amsterdam.

Hassel, A. (2011). *The paradox of liberalization – Understanding dualism and the recovery of the German political economy*. European Institute, London School of Economics and Political Science.

Hassel, A. and Rehder, B. (2001). Institutional Change in the German Wage Bargaining System – The Role of Big Companies. *MPIfG Working Paper 01/9*. December. Cologne.

Herrmann, A. (2005). 'Converging Divergence: How Competitive Advantages Condition Institutional Change under EMU'. *Journal of Common Market Studies 43(2)*, pp. 287-310.

Iversen, T. (1999). *Contested Economic Institutions – The Politics of Macroeconomics and Wage Bargaining in Advanced Democracies*. Cambridge: Cambridge University Press.

Johnston, A., & Hancké, B. (2009). 'Wage Inflation and Labour Unions in EMU'. *Journal of European Public Policy, 16(4),* [Special Issue]. *Ten Years of EMU*.

Johnston, A. (2011). 'The Revenge of Baumol's Cost Disease? Monetary Union and the Rise of Public Sector Wage Inflation'. *LSE 'Europe in Question' Discussion Paper* Series, Paper No. 32. European Institute, London School of Economics and Political Science.

Levy, J. (1999). *Toqueville's Revenge. Dilemmas of Institutional Reform in Post-Dirigiste France*. Cambridge MA: Harvard University Press.

Lütz, S. & Matthias Kranke (2014). 'The European rescue of the Washington Consensus? EU and IMF lending to Central and Eastern European countries'. *Review of International Political Economy* 21(2), pp. 310-338.

Molina, O., & Rhodes, M. (2007). The Political Economy of Adjustment in Mixed Market Economies: A Study of Spain and Italy.In Hancké, et al. (Eds.) (2007). *Beyond Varieties of Capitalism: Conflict, Contradictions, and Complementarities in the European Economy* (pp.223-252). Oxford: Oxford University Press.

Molina, O., & Rhodes, M. (2011). Spain: From Tripartite to Bipartite Pacts. In S.Avdagic, M. Rhodes & J. Visser (Eds.), *Social Pacts in Europe. Emergence, Evolution and Institutionalization (*pp.174 – 202). Oxford: Oxford University Press.

Pochet, P. (Ed.). (2002). *Wage Policy in the Eurozone*. Brussels: PIE/Peter Lang.

Regini, M., & Colombo, S. (2011). Italy: The rise and decline of Social Pacts. In S. Avdagic, , M. Rhodes & J. Visser (Eds.), *Social Pacts in Europe. Emergence, Evolution and Institutionalization* (pp. 118–146). Oxford: Oxford University Press.

Rhodes, M. (1996). 'Southern European Welfare States: Identity, Problems and Prospects for Reform. South European Society and Politics'. [Special Issue] *Southern European Welfare States* (Guest Editor: Martin Rhodes), 1(3), pp. 1-22.

Royo, S. (2006). 'Beyond Confrontation. The Resurgence of Social Bargaining in Spain in the 1990s'. *Comparative Political Studies* 39, pp. 969-995.

Scharpf, F. (2011). 'Monetary Union, Fiscal Crisis and the Preemption of Democracy'. *LSE 'Europe in Question' Discussion Paper* Series, Paper No. 36. European Institute, London School of Economics and Political Science.

Schmidt, V. A. (2003). ‘French capitalism transformed, yet still a third variety of capitalism’. *Economy and Society*, 32(4), pp. 526–554.

Shonfield, A. (1965). *Modern Capitalism. The changing balance of public and private power*. Oxford: Oxford University Press.

Siegel, N. (2007) The changing contours of product market regulation and employment protection legislation in OECD countries, 1980–2003. In: Castles, F.G. (ed.): *The Disappearing State. Retrechment Realitis in an Age of Globalisation.* Edward Elgar. Cheltenham.

Simoni, M. (2012). *Institutional Roots of Economic Decline. Lessons from Italy.* European Institute. London School of Economics and Political Science.

Thelen, K. (2004). *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States and Japan*. New York: Cambridge University Press.

Visser, J. & Rhodes, M. (2011). The Evolution of Social Pacts: Trajectories and Mechanisms of Instituitonalization. In S. Avdagic,, M. Rhodes & J. Visser (Eds.), *Social Pacts in Europe. Emergence, Evolution and Institutionalization* (pp. 61 – 88). Oxford: Oxford University Press.

Recent LEQS papers

Mabbett, Deborah & **Schelkle**, Waltraud. 'Searching under the lamp-post: the evolution of fiscal surveillance' LEQS Paper No. 75, May 2014

Luthra, Renee, **Platt,** Lucinda & **Salamońska,** Justyna. 'Migrant diversity, migration motivations and early integration: the case of Poles in Germany, the Netherlands, London and Dublin' LEQS Paper No. 74, April 2014

Garcia Calvo, Angela. 'Industrial Upgrading in Mixed Market Economies: The Spanish Case' LEQS Paper No. 73, March 2014

White, Jonathan. 'Politicizing Europe: The Challenge of Executive Discretion' LEQS Paper No. 72, February 2014

Esteve-González, Patricia & **Theilen**, Bernd. 'European Integration: Partisan Motives or Economic Benefits?' LEQS Paper No. 71, February 2014

Monastiriotis, Vassilis. 'Origin of FDI and domestic productivity spillovers: does European FDI have a 'productivity advantage' in the ENP countries?' LEQS Paper No. 70, January 2014

Ward-Warmedinger, Melanie & **Macchiarelli**, Corrado. 'Transitions in labour market status in the European Union' LEQS Paper No. 69, November 2013

Dani, Marco. 'The 'Partisan Constitution' and the corrosion of European constitutional culture' LEQS Paper No. 68, November 2013

Bronk, Richard & **Jacoby**, Wade. 'Avoiding monocultures in the European Union: the case for the mutual recognition of difference in conditions of uncertainty' LEQS Paper No. 67, September 2013

Johnston, Alison, **Hancké**, Bob & **Pant**, Suman. 'Comparative Institutional Advantage in the European Sovereign Debt Crisis' LEQS Paper No. 66, September 2013

Lunz, Patrick. 'What's left of the left? Partisanship and the political economy of labour market reform: why has the social democratic party in Germany liberalised labour markets?' LEQS Paper No. 65, July 2013

Estrin, Saul & **Uvalic**, Milica. 'Foreign direct investment into transition economies: Are the Balkans different?' LEQS Paper No. 64, July 2013

Everson, Michelle & **Joerges,** Christian. 'Who is the Guardian for Constitutionalism in Europe after the Financial Crisis?' LEQS Paper No. 63, June 2013

Meijers, Maurits. 'The Euro-crisis as a catalyst of the Europeanization of public spheres? A cross-temporal study of the Netherlands and Germany' LEQS Paper No. 62, June 2013

Bugaric, Bojan. 'Europe Against the Left? On Legal Limits to Progressive Politics' LEQS Paper No. 61, May 2013

Somek, Alexander. 'Europe: From emancipation to empowerment' LEQS Paper No. 60, April 2013

Kleine, Mareike. 'Trading Control: National Chiefdoms within International Organizations' LEQS Paper No. 59, March 2013

LEQS
European Institute
London School of Economics
Houghton Street
WC2A 2AE London
Email: euroinst.LEQS@lse.ac.uk

http://www2.lse.ac.uk/europeanInstitute/LEQS/Home.aspx