The Stability and Growth Pact review in context:

State-theoretical reflections on the political economy of EU fiscal policy

Magnus Ryner,

Professor of International Political Economy,

King's College London

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As published on February 5, 2020 (European Commission, 2020), the Stability and Growth Pact (SGP) Review was originally launched as an outcome of the second regular review of the Two Pack and Six Pack legislation that the European Commission is obliged to undertake. It was then put on hold during the COVID-19 Pandemic after the triggering of the General Escape Clause (GEC) in March 2020, which suspended the SGP. The review was then relaunched on October 19, 2021 (European Commission, 2021). According to the Commission's self-description, apart from deliberation in the EU institutions, the review called for a 'wide-ranging debate with stakeholders through various means including through dedicated meetings, workshops, and an online public survey' (European Commission 2022a: p. 1). On the basis of this, the European Commission (2022b) made public its own recommendations for SGP reform on November 9, 2022. A central theme in the review has been to reform the SGP to better balance the need for stability with requirements for capital investments in digitialisation and the green transition and the need to simplify the framework both in terms of the benchmarks used and how to ensure compliance. The Commission proposal has not been well received by Germany, which wants to see firmer requirements for public debt reduction of 1 percent per year (Bundesfinanzministerium, 2023).

In analysing the review, I was struck by the extent to which we can deploy some key neo-Marxist state-theoretical concepts – especially those of Poulantzas but also concepts arising from the German tradition - for understanding the broader context in which the SGP Review must be situated. To do so, this paper deploys Marxist method of abstraction (Marx, 1857).

I

The SGP has a longer lineage than its formal adaptation in 1997 and the 1991 Maastricht Agreement. It most certainly includes the history of the European Monetary System (EMS) that goes back to the so-called Locomotive Conflict in 1977/78. A broader historical perspective would also make reference to, and contrast it with, European integration during the Bretton Woods period under currency convertibility (which coincided with the ratification of the Treaty of Rome in 1958) as well as the post World War II period before such convertibility during the Marshall Plan and the European Payments Union (EPU). Against that backdrop, the SGP represents but one form of fiscal policy norms-setting that should be considered with reference to other matters such as the presence or absence of fiscal transfer payments and support, the monetary policy stance, including exchange rate policy, and the regulation of the capital account (or its absence).

At the highest level of abstraction, Poulantzas conception of the basic mediating functions of the state is helpful (1978). There are two aspects to this. The first is the mediation of class conflict, ensuring that it remains within the confines of a bourgeois social formation. The other concerns the mediation between the imperatives of capital accumulation and legitimation. The conception of the state as an ensemble of apparatuses representing condensed social relations is helpful for elucidating the role of the European Union (or previously the European Community).

Critical EU scholarship has established that EU apparatuses primarily serve the function of ensuring capital accumulation, representing financialised multinational European capital. Think of the role of DG Competition and the European Court of Justice in regulating a continent-wide Single Market and the European Central Bank in regulating the money form, and the exclusive privileging of the executives of the Finance Ministries in ECOFIN and the Eurogroup. It is not without substance that critics, such as Alex Callinicos, call these state apparatuses 'unanchored' from their social formations. From such a perspective one could formulate the hypothesis (that I was not yet able to test for this presentation) that the consultation process for the SGP review was narrow and favoured the usual suspects in the 'Brussels bubble'

A thin set of legitimation techniques are nevertheless deployed in EU economic governance. The potency of these in successfully distancing such governance from overt class rule should nevertheless not be underestimated. A crucial one pertains to what Poulantzas – through his affinity with the French structuralist movement and therefore the psychoanalyst Jacques Lacan – might call subjectification. That is the manner in which neutral social categories and agency are ideologically produced. In EU economic governance this is reflected in the hegemonic aura given to legal and perhaps even more importantly economic expertise, and indeed the aura given to a rather narrow set of mainstream economists. The importance of the German Ordoliberal tradition, for instance, has been noted (Bonefeld, 2002). The authoritative speech-acts in deliberations also tend to be those of mainstream economists. In the SGP review one would note the importance of European Fiscal Board (2019; 2020), whose Chair, Niels Thygesen, already served on the Delors Committee, central in forging the design of the the EMU at Maastricht – indeed he was one of the signatories of the 1974 All Saints Manifesto. Such technical expertise has been central in producing the rationale for monetary integration in (semi-) peripheral Europe. Consider, for instance, Tomasso Padoa-Shioppa's – another expert who reappears in high level expert position in EU governance - role in Italy joining the European Monetary System (Piluso, 2020).

The other related technique, which particularly has been highlighted by the so-called Open Marxist school, is the technique of depoliticization (Burnham, 1994; Bonefeld, 2002; 2012). Their analysis is inspired by Marx's critique in the transition of part I and part 2 of the first volume of *Capital* of the separation of forms in bourgeois society, where the realm of circulation ('the realm of Freedom, Equality, Property, and Bentham') obscures the exploitation made evident in the realm or production. In other words, the formal separation of what substantially is connected is a central legitimation technique of bourgeois society, which obscures power and special interests by depoliticizing them. One of these is the formal separation of the worker from the means of production. Another one is the formal separation of economics and politics. A third one is the separation of the world market from the system of segmented nation states. Depoliticiztion is central to the legitimation of EU economic governance and operates through what Stephen Gill has called new constitutionalism (Gill, 1992; 1998). New constitutionalism essentially works through the separation of the economic from the political, in this case by making the economic state apparatuses autonomous and impervious to political scrutiny. This was the case already in the EMS when the independent Bundesbank became the anchor of the system but was then formalised by the independent ECB. The Stability and Growth Pact should also be understood as a constitutionalised form where what is fundamentally a political issue of fiscal policy choice has been rendered depoliticized through the authority of economic science. New constitutionalism also depoliticizes by separating price stability policy at the federal level (as well as negative integration of financial markets) from inter-state fiscal policy very much akin to what Hayek hoped would be the result of inter-state federalism (Anderson, 2009). In that regard, populist Euroscepticism tends to reinforce what it ostensibly is against (Holman, 2004).

II

That being said, this system of governance is by no means without its vulnerabilities and contradictions. Depoltcization runs up against limitations pertaining to the need to regulate and coordinate. In some respects, the most 'pure' form of depoliticization occurred during the EMS period. At that time, the need to adjust in the fixed exchange rate 'grid' system, took the form of the pressure that financial markets exerted directly on national currencies when they were out of step with the inflation rate of the German Mark. That was so, given the emergent mobility of financial capital and the pre-emption of a meaningful transfer mechanism, the European Monetary Fund (EMF), which had been on the agenda in 1978 (Ryner, 2022). The need for the SGP arose to retain new constitutionalism after the introduction of the Euro and was devised on the template of the Maastricht Convergence Criteria. This was because the introduction of the Euro eliminated the power of 'exit', where non-convergent countries could be compelled to leave the monetary regime. Since then, the SGP has been caught in the dilemma between providing simple and clear rules and procedures and rules that are adequate to the complexities of macroeconomic management, including the need to balance 'stability' and 'growth'. France and Germany infamously broke the rules in November 2003 without consequence. The runup to the

Eurozone crisis was characterised by a procyclical financial bubble. The Fiscal Compact made the rules more complex and subject to arbitrary executive interpretation (Oberndorfer, 2015). In other words, new constitutionalism is liable to what Claus Offe (1985) – in an inversion of Samuel Huntington's thesis as presented to the Trilateral Commission - called a 'governability crisis' as well as a legitimation crisis. These are issues that loom as a large shadow over the review, wherein it is generally acknowledged that the rules now surrounding the SGP are overly complex, unwieldy, if not incomprehensible. Furthermore, they are wound up in an accumulation crisis as it is acknowledged that they do not accommodate necessary capital investments for the green and digital transition. Adjacent to this, the COVID-crisis made in necessary to introduce fiscal federal measures in the form of the Next Generation EU (NGEU).

In this context, it is interesting to note that also rather mainstream observers acknowledge these problems. Senior figures in DG Economic and Financial Affairs are blunt on role of the SGP in generating an accumulation crisis and the need to address this in the reformed SGP:

> The only solution ..that ensures an improvement of the quality of public finances and strong political ownership is [is one], which accepts a more gradual curbing of the public debt ratio. A lower 'gradient' allows national policymakers to achieve the necessary fiscal retrenchment without recourse to blind austerity and preserving the enhancement of public investment. [Such a] [s]olution entails a more gradual pace of debt reduction than prescribed by the current SGP. This is justified by the fact that the pace of debt reduction implied by the current debt rule would be economically suboptimal and politically unrealistic (Friis, Torre & Buti, 2022).

In the wake of the COVID-crisis and the NGEU, and with regards to the question of whether the latter was a one-off, the Commission officials as well as publications coming from the ECB (2022), OECD (2021), and the IMF (2021) are clearly in favour of a more permanent 'autonomous fiscal capacity'.

On the other hand, other mainstream observers have concerns over the extent to which Commission proposals adequately address these crisis tendencies. With reference to the question of governability crisis, consider, for instance, Charles Wyplosz' (2022) assessment of the mechanism of Debt Sustainability Analysis (DSA), which the Commission (2022b) has proposed both to simplify the rules and to better balance stability and growth requirements:

> Obviously we know very little about the future evolution of the first two variables [the real interest rate and the real income growth rate]. The Commission proposes that it will be the one to make these assumptions. Since the debt path is highly sensitive to the assumptions, the Commission effectively decides when the debt is sustainable and when it is not (Wyplosz, 2022).

So far, the issue has been addressed at a high level of abstraction that does not take into account the inherently competitive nature of capitalism, between individual oligopolistic capital groupings, and the international relations between distinct states and social formations. Also here Poulantzas (1974) developed a powerful concept for understanding the nature of present-day capitalist imperialism under a US hegemon that had, in the words of Panitch and Gindin's (2013) seminal Poulantzian study, 'made' global capitalism. The fact that the name of the concept in English is cumbersome – 'interiorisaton' – does not diminish its explanatory power.

Written at a time when the tendencies were more emergent than actualised, Poulantzas concept strikes a brilliant middle line between works on the classical era of capitalism, from which we have qualitatively departed, and the hubristic globalisation thesis which envisaged an eclipse of the capitalist inter-state relations and the emergence of a global ruling class (e.g. Robinson, 2014). For Poulantzas (and as demonstrated concretely by Panitch and Gindin), the hegemony of the American state is and remains central to the capitalist world economy, but it is qualitatively different from the classical imperialist situation as it has made social relations between core capitalist social formations intertwined and 'interior' to one another. This does not mean that there are not individual capitalist groupings and states that compete with American capital, such as European – most notably German and French – capital that competes with the US on reasonably equal terms. There are. But the US dominates in key sectors and exercises structural power by forging and setting the standard of key structures. This is most notably the case in the fields of money and finance (e.g. Cafruny & Ryner, 2007; Ryner & Cafruny, 2017).

From this arise two crucial consequences for the analysis of the Euro. The first of these is that modus operandi of dominant fractions of European capital are relatively dislocated from their domestic social formations. The most important manifestation of this is the financialisation of European companies, whose downsize and redistribute business models are at odds with the social partnership traditions of most European models of industrial relations and welfare state (Grahl, 2001). There is a lack of institutional complementarity between these business models, the welfare state, and patterns of consumption that has resulted in secular stagnation of the European economy. It should be said that the SGP review does nothing to change that reality.

The second pertains to the Euro. It was built on this financial structure, the consequence of which is that – under its present design – it is not a contender currency to the Dollar and it does not enjoy the seignoriage privileges of that currency. Rather, European monetary integration developed as a result of defensive responses to turbulence caused by Dollar unilateralism and the capacity of the US to delay and deflect adjustment costs to others (Henning 1998[1]). In this context, accumulated German reserves offered in the last instance a

[1] Neo-realist political economist Randall Henning has traced European monetary integration in these terms from the 1958-61 'Dollar glut', the 1967-71 through 'benign neglect', the 1971-73 'Nixon shocks', the 1977-78 'locomotive conflict', the aftermath of the 'Volcker shock' and Reagan's monetarist turn 1981-85 and the 'Dollar neglect' during the second Reagan administration and Bush Sr. leading up to the Maastricht Agreement. The reforms of the SGP during the global financial/Eurozone crisis and the COVID – crisis takes the story up to the present.

shield against such turbulence but at the – at times exorbitant – costs of submitting to the conditionalities imposed by Germany. These are not the least manifested in the practices of the SGP.

The final set of Poulantzian concepts that are useful for elucidating European economic governance are the concepts of 'power bloc', 'structure of unequal representation', and the state as an 'unstable equilibrium of compromise'. These are quintessentially about the mediation of conflict within and between classes in capitalist society. As such, they directly address the question of dialectics and hence the strategic terrain for change.

Bourgeois hegemony is based on creating an appeal of the existing order that transcends immediate class interests and in the successful representation of these as general interests. This is expressed in social accords, which are 'cemented' through hegemonic ideologies. Poulantzas called these entities power-blocs. These are in turn represented in the hierarchical ensemble of state apparatus through an unequal structure of representation that reflects the power relations in a power bloc and its attendant 'unstable equilibrium of compromise'. These play themselves out at the EU level primarily through the pivotal role played by Finance Ministries through ECOFIN and the Eurogroup. In the EU there are a multitude of such power-blocs, primarily organized through each member states. The dominant power bloc is that of Germany, wherein financialised export-oriented capital leads a power bloc that also includes core workers. Other export-oriented 'growth models' in northern Europe have similar power blocs (e.g. Baccaro & Pontusson, 2016). These power-blocs provide the social foundation of EU's disciplinary neoliberalism as they can generate aggregate demand through exports, and are wary of other forms of expansion that can be counterproducve due to the effect on the nominal exchange rate.

German leadership in the forging of NGEU nevertheless suggests that there are contradictions in this type of power bloc. As Schneider's (2023) research shows, the change of Germany's position was not merely or primarily about the immediacy of the pandemic. At a deeper level, concerns about Italy leaving the Euro and geopolitical competition between China and the US led to a reassessment of the Single Market as a home market and source of aggregate demand. Hence, in the German Ministry of Finance, the terms of mediation between big export oriented capital, small domestic capital and the Mittelstand, changed to the detriment of the latter. This made export oriented capital more amenable to Keynesian solutions. The question is how enduring this is. The German non-paper goes the other way, but it may be that this is contrary to organic developments in the German political economy.

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