Economic asymmetries and political paralysis in the Eurozone – Avenues and Obstacles for Progressive Productive Reconstruction

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Paper presented at 23rd Workshop on Alternative Economic Policy in Europe (EuroMemo 2017), 28-30 September 2017 in Athens

Abstract

After more than seven years of fiscal austerity and neoliberal structural reforms, the fundamental imbalances that led to the Eurozone crisis have remained unresolved and the project of European integration as such appears to be in the deepest crisis it has experienced so far. This has prompted the dominant forces in the EU to at least partially reconsider their present crisis management strategies, envisioning deeper integration towards a "Genuine Economic and Monetary Union" (Five Presidents' Report) and outlining different future scenarios for the EU in general, including variable geometry and partial disintegration, in the recent White Paper. While especially the Five President's Report does acknowledge fundamental construction problems and crisis tendencies of the Economic and Monetary Union, the strategies to address them either fall tremendously short of this diagnosis or lack assertiveness. We argue that this inability to confront these crisis tendencies results from the growing economic and political asymmetry in the axis between France and Germany as the principal mechanism of compromise which undergirded previous cycles of European economic integration. At the bottom of this paralysis lies a gradual shift in the dominant internationalisation patterns of the German political economy within the European division of labor: away from Southern Europe and France and towards Eastern Europe and the Emerging Markets. This shift not only weakens the willingness of dominant economic and political forces in Germany to support comprehensive transfer payments. It also entails severe obstacles for strategies aiming at a progressive European-wide productive development and social-ecological re-industrialisation.

Introduction

Industrial policy, a 'dirty word' in neoliberalism, has experienced a remarkable comeback since the onset of the crisis. Particularly in progressive debates, industrial policy is rightly perceived as a crucial strategic element to tackle the root causes of the crisis and the persistent imbalances in Europe, particularly rapid de-industrialisation and increasing polarisation between 'core' and 'periphery'.

Along these lines and as an alternative to the neoliberal and austerity-oriented structural reforms, the EuroMemorandum 2017 (13) proposes

- "[a] long-run European investment strategy […] to strengthen productivity growth through strategic industrial policies in the countries of the EU periphery. These policies are required to rebuild productive capacity and to improve the competitiveness of the deficit countries."
- Similarly, a recent study funded by the Rosa-Luxemburg-Foundation in Brussels calls for an EU-wide industrial policy which "will have to focus on the reconstruction of production capacities in the regions and countries that have been most affected by the current crisis". (Pianta et al. 2017: 12, similarly Benautouil 2017: 23)

In our view, the novel focus on industrial policy and productive development in progressive debates is not only welcome but of crucial importance: It advances beyond mere criticism of the disastrous austerity policies and provides the basis for an alternative economic and ultimately societal development model beyond neoliberalism. However, while there a numerous convincing and sophisticated proposals how a progressive industrial policy could look like (see also Trost et al. 2015, transform! 2014, 2015), at least in principle, *strategic* perspectives as to how and on which level these proposals could be effectively pushed through and implemented are far less developed. Particularly, while the crisis management policies on the EU level have continued to move into the 'wrong' direction, as documented by annual EuroMemoranda as well as numerous other critical publications (such as Jäger/Springler 2015), the level of the EU has remained the primary starting and leverage point for alternatives.

- For instance, the RLF study, authored by Pianta et al. (2017: 12-5), argues that "[f]unds for a Europe-wide industrial policy should come from Europe-wide resources", and channelled through reformed EU Structural Funds and the European Investment Bank, 75% of which should be directed towards the periphery.
- The EuroMemorandum 2017 is much more nuanced in this regard, arguing that "revolts rooted in specific national contexts may now be the most likely initial form of challenge to present policies" (10). Nonetheless, "the EuroMemo Group continues to insist on the necessity of an international perspective and on the need to develop coordinated European approaches to promote economic recovery and social justice" (ibid.). In this vain, the report goes on to argue that productive capacities should be rebuilt through "regional

> and structural policies of the EU" (13) and "[p]rogrammes of the EU to support and fund private investment in deficit countries" (ibid.).

The debate whether to progressively reform the EU or to pursue progressive policies against and, if necessary, outside the EU (so called 'Left Exit' strategy) has, of course, become an overly divisive split in the European Left. We don't seek to repeat this ideologically stuck debate. Rather, we will look at the current debate on the EU level about proposals to reform the EMU to discuss the prospects for deeper economic integration, *particularly focussing on the prospects for an extension of comprehensive redistribution, i.e. transfer payments, which would be the decisive precondition for various EU-wide progressive industrial policy agendas* (investment programmes, structural and regional funds etc.).

Our argument is that even the very limited reform agenda advocated by France (such as Eurobonds, larger EU budgets and a common European economic government with independent competencies) has been increasingly ruled out due to the growing economic and political asymmetry in the axis between France and Germany, which has been the principal mechanism of compromise undergirding and advancing previous cycles of European economic integration. This holds, in our view, despite the new dynamic which the election of Emmanuel Macron as new French president seems to have injected into the debate on the future of the EMU.

New Dynamism or Continuing Paralysis? The Recent reform discussion on the EMU

In his explicitly pro-European election campaign, Macron emphasised the need for a deep reform of the EMU and has called for a "real social dimension" in the European Union. Many political observers now expect a "change of policy" (Leggewie 2017) from Macron in Europe and the development of a new integration dynamic through the President's proposals (James 2017, Höltschi 2017). The prospect that France will play a bigger role in the European politics again has also been a motivation for many social democrats to talk about a „window of opportunity for progressive reforms of the Eurozone" (Enderlein et al. 2017): With the electoral success of Macron a new opportunity to introduce Eurobonds or a common European economic government seemed to arise. Also John Grahl (2017:2) argues in his EuroMemo-discussion paper about the reform of the eurozone that the "election of the new French president could be a chance to persuade the Germans to reform the EU and the Eurozone".

The euphoria after the June-summit of the European council seems to confirm these optimistic observers. The German-Franco engine, which in the meantime badly stuttered, now seems to be buzzing. The „German-Franco bilateralism" (Schild/Krotz 2013) with its specific dynamic of compromise, appears to be back again and the long-delayed reform of the Eurozone as a realistic scenario.

Since the outbreak of the crisis, there were a lot of attempts to reform the architecture of the Eurozone in far-reaching ways, but all of them failed, as the German government has blocked all attempts in order to defend the "status quo" of a stability union (Parker/Pye 2017). Along these lines, the development of a political or a fiscal union was jammed and the attempts were largely ignored by Germany. However, Emmanuel Macron received strong election support by the German Chancellor. Angela Merkel invited him to the chancellery during the French election battle. After the French presidential election, the German finance minister, Wolfgang Schäuble, and Angela Merkel seemed to have made a U-turn and emphasised that the German government is open for Macrons proposal to install a finance minister for the Eurozone with an independent budget. A working group was set up to develop a roadmap for deepening the Eurozone on the basis of the common reform debate in Europe.

The initial discussion about the reform of the Eurozone was launched by the presidents of the five European institutions in June 2015. At the peak of the Greek crisis, they presented, in addition to the crisis-induced, austerity-oriented instruments, a report with a long-term roadmap for „completing Europe's Economic and Monetary Union“. The report was largely based on the crisis analysis of the “Four-Presidential report” in 2012, but it was also rested on the results of the German-Franco economic summit between 2013 and 2015 (Hacker 2015). Since the publication of the joint paper in 2015, an interdepartmental discussion has emerged about further reforms of the EMU and has recently been mixed with the discussions on the future of the EU as a whole. Especially the European Commission plays an active role in the reform discussions. With the "White Paper on the Future of Europe" and the "Reflection paper on the deepening of the economic and monetary union", the European Commission (2016; 2017) presented two key discussion papers. In the papers, the Commission is following, updating and developing the proposals of the Five Presidents’ Report and proposes concrete steps for the development of the EMU and the strengthening of the link between the Eurozone and the EU (EC 2017: 7). Another contribution to the debate was the Declaration on the 60th Anniversary of the Treaty of Rome, in which the European Heads of State proclaim that they will further strengthen the integration process, if necessary with „different paces and intensity“ (ER 2017: 2).

	The Five Presidents' Report (2015)	Reflection paper on the deepening the Economic and Monetary (2017)	Debate on the reform of EMU (2015 – now)
Economic convergence and common fiscal policy	• Deepening the domestic market • Redesigning the European Semester • Combining country specific recommendations and the European structural and investment funds • MIP as a general tool to increase convergence and reform pressure • Creation of a euro area system of Competitiveness Authorities • Binding convergence and harmonisation processes in labour market, competition and tax policy • European Fiscal Board • Fiscal union to springing macroeconomic shocks • Launch a fiscal capacity based on the EFSI	• Deepening the European domestic market • Strengthening the European Semester • Strong link between the Country Specific Recommendations (CSR) and the EU funds (Structural and Cohesion funds) • Establishing an incentive and punishment structures in the EU-Funds • Development of a macroeconomic fiscal stabilisation function • Eurozone Budget to springing macroeconomic shocks	• Establishing of a fiscal capacity for stabilisation and investment • Establishing a eurozone budget • Strengthening the coordination of fiscal policy • Strengthening the measures and instruments to enforce the European household rules
Finance union and risk-sharing	• Launch a common deposit insurance scheme as third pillar of the banking union • Launch a capital market union • Accelerating the Capital Markets Union with extended macroprudential authority	• Strategy to reduce non-performing loans • Setting up of a common backstop for the Single Resolution Fund • Agreement on a European Deposit Insurance Scheme • European capital markets supervisor • Work towards establishing Sovereign Bond-Backed Securities for the euro area (SBBS) • Development of a European safe asset until 2025	• Eurobonds
Political union	• Less extensive and concrete proposals • Strengthening the Eurogroup with a full-time chairman and stronger controlling competences • Launch of a euro area treasury • External representation of the euro in the IMF	• More formalised dialogue with the European Parliament • Integration of the Fiscal Compact into the EU legal framework • Transformation of the Eurogroup into a council formation • Full-time Chairmen of the Eurogroup • External representation of the euro in the IMF until 2025 • Launch of a euro area treasury • European monetary fund based on the ESM	• Installation of a finance minister for the Eurozone or installation of Euro-Commissioner • Installation of a Eurozone-Parliament or a Eurochamber in the European Parliament • Installation of a European Economic Government • European Monetary Fund (EMF) based on the ESM

Table 1: Debate about the deepening of the European Integration - Overview

The discussions about the institutional reform of the Eurozone concentrates on *three main proposals*. In the discussion, we identified two different, sharply diverging narratives which determined the proposals: One the one hand, there is the narrative of the *stability union*, which interprets all proposals as instruments to enforce austerity. On the other hand, we identified the narrative of a *political and a fiscal union*. This narrative interprets the proposals in the way of enlarging the political competences in the EU. Both narratives reflected the different positions in the European Union between Northern and Southern Europe or, equally, the different positions between the net contributors and the net recipient in the EMU (for a similar argument in the mainstream debate see Kudrna 2017).

The most widely discussed proposal is the installation of a *finance minister* for the Eurozone, which was proposed in the Five Presidents' Report that pleads for a permanent and full-time chairman of the Eurozone (Juncker et al. 2015: 20). The concept was developed in the reflection paper of the European Commission, which also proposed to transform the Eurogroup into a Council and to provide it with its own decision-making competencies. In this scenario, the permanent Chairmen's authority would be shared with the respective commissioner for the EMU so that the competences of the Commission in the sphere of economic policy would be strengthened. Furthermore, the Chairmen of the euro group should be the head of a Eurozone Treasury. In this way, the economic and budgetary monitoring and coordination mechanisms and the space for common decision making in questions of European fiscal policy should be bundled. The function of the Treasury would be to prepare and execute decisions for a common fiscal policy. The decision-making competence itself should remain in the hand of the Eurogroup (EC 2017: 28). These proposals of the Five Presidents' Report and the European Commission have been, however, hardly picked up in the European debate.

In the run-up to the 60th anniversary of the Rome Treaties, the European parliament has also adopted three resolutions on the institutional reform of EMU. The parliament demands a finance minister for the Eurozone, including an independent budget. This proposal was also supported by the German and French central bank presidents, Jens Weidemann and Francois Villeroy de Galhau. The Jacques-Delors-Institute (2015) has also maintained the importance of a euro-finance minister and elaborated five core tasks in a paper: monitoring and coordination of fiscal and economic policy, enforcement of the SGP, management of the ESM/EWF, mitigating asymmetric shocks by means of an investment budget and the representation of the Eurozone on an international level.

Crucially, the Jacques-Delors-Institute emphasises that the installation of a Eurozone-Finance minister requires a modification of European treaty basis. By contrast, while Merkel and Schäuble advocate the installation of a finance minister for the Eurozone, the representatives of the German government publicly refused any modification of European law. This may be due to the strong differences in conceptions regarding the question which functions and competences a European finance minister should be equipped with: The French government understands a Euro-zone finance minister as part of a democratically legitimate economic government with its own budget and extensive intervention- and stabilisation competences. In contrast, the German Government thinks of a Euro finance minister as a "neutral entity", with very limited competences closely tied to the requirements of the stability union. Especially Wolfgang Schäuble and the German central bank president Jens Weidemann would like to install a Euro finance minister within the institutional framework of the ESM. Their idea is that the ESM should develop further into a European Monetary Fund (EMF) and receive the task to monitor the compliance of Member States with the European rules of public debt. The Euro-Finance minister would primarily be the Chairmen of the EMF and in this function responsible for the monitoring of national budgets. According to this point of view, there would be many advantages of such a design: On the one hand, the ESM would not have to be ratified by the Member States because it is based on an intergovernmental treaty. On the other hand, the ESM could be oriented as an "institution with a clear mandate in view of solid state finances”[1], thereby cementing the stability orientation of the European economic policy.

A corresponding line of conflict between the French and the German position can be observed in regard to the second proposal: a fiscal capacity. The Five Presidents’ Report suggests a *fiscal capacity* to further ensure an automatic stabilisation of the euro area and a cushion for "serious asymmetric shocks" (Juncker et al. 2015.: 17). At the time, this proposal was taken up mainly by the French government and introduced several times to the debate on the reform of EMU (MFC 2016; but also MFC 2013). For example, the fiscal capacity is part of the common paper of the former Franco-German Ministers for Economic Affairs, Sigmar Gabriel and Emmanuel Macron. Due to pressure from the French side, the paper pleads for the institution of a common fiscal capacity in the form of a Eurozone-budget, which can finance investments and measures to stabilise economic activities. An earlier paper by the former foreign ministers, Frank-Walter Steinmeier and Jean-Marc Ayrault (2016), seeks to manage the different German and French proposals for reform of the EMU. In this way, the Steinmeier-Ayrault-Paper suggests to restore

[1] Weidmann, Jens. Speech at the Ruhr-Universität Bochum, 22.05.2017.

the ESM to an ESF and also to institute an common Eurozone-budget, which should promote investment in crisis-ridden countries but only „while avoiding permanent unilateral transfers“ (ibid.: 10).

The reflection paper of the European Commission is based on this German-Franco reform impulse. However, the commission criticises the concept of a fiscal capacity if it is funded by the current EU-Budget. In the reflection paper, the commission is concerned that the impact of fiscal policy stability function based on the EU budget is very limited because of its relatively small financial scope and its long-term structure. The paper therefore suggests a macroeconomic stabilisation function as an alternative. As in the Five Presidents' Report, the reflection paper postulates three guidelines: exclusion of permanent financial transfers to prevent moral hazards, no responsibilities in the acute crisis management and utilisation should be conditioned upon clear criteria such as compliance with the Maastricht criteria (Juncker et al. 2015: 17; EC 2017: 25f).Therefore the reflection paper suggests three options for a fiscal capacity: 1.) a European Investment Protection Scheme to protect investment in the event of an economic downturn 2.) a European Unemployment Reinsurance Scheme, which acts as a "reinsurance fund" for national unemployment schemes and 3.) a rainy day fund, which is accumulating funds on a regular basis to cushion large shocks. The commission suggests different ways to finance such macroeconomic stabilisation functions: An integration in a bigger EU-Budget, finance with national contributions or with the ability to borrow.

Interestingly, the Commission already anticipates the highly divergent positions on such a stabilisation function with its different finance proposals. Especially France demands a fiscal capacity in form of a Eurozone budget or in another form. From a French point of view, the Eurozone budget is essential to balance the macroeconomic consequences of a common currency, like limited national fiscal policy (MFC 2015). Former French governments had urged to establish such fiscal capacity for the Eurozone and proposed a possible source of funding by issuing Eurobonds. Recently, Emmanuel Macron turned the installation of a Euro finance minister with an independent budget for investments into one of his main election demands. In January 2017, Macron advocated a eurozone budget, financed by borrowing through instruments such as Eurobonds. After his election as French president, he has distanced himself from the demand to mutualise existing debt through the issuance of Eurobonds, but insisted on issuing joint bonds in the future. Macron is backed by south European member states: Just recently, the Spanish Prime Minister supported the French proposal of a Eurozone budget, financed by Eurobonds in August 2017. Again, the German side vehemently rejects a fiscal capacity and the issuing of Eurobonds (BMF 2016; 2017). The German government has blocked all advances in this direction in the past, arguing that this would favour moral hazard. The German finance ministry also criticises the proposals of the European Commission in the reflection paper as unbalanced (BMF 2017). Particularly, it criticises that there is an excessive focus in the proposals on risk sharing and only little attention paid to subsidiarity and national ownership. In the same way, the German finance ministry argues that are not any new proposals to strengthen the coordination of European fiscal policy or to enforce budgetary rules in the commission reflection paper. The argument of the German finance ministry is that a fiscal capacity is not necessary. Rather, it is essential to focus on the "compliance and implementation of the agreed stability rules and agreements, as well as concrete measures to solve the structural problems of the European economies" (BMF 2016).

Another point in the *reform discussion is the democratic accountability* of the EMU. While the proposals in the Five Presidents' Report and in the Commission reflection were particularly vague, there were numerous more specific reform impulses by German-French ministerial meetings. Frank-Walter Steinmeier and Jean-Marc Ayrault (2016) argued in their paper for a stronger democratic control and accountability of EMU and its institutions. They proposed a permanent Eurogroup President, who should be accountable to a sub-committee of the European Parliament as a short-term solution. In the opinion of the former German and French foreign ministers, a interparliamentary committee with European and national parliament members should be installed, which control the Eurogroup in a long-term view (ibid.). Through this proposal, the Ayrault-Steinmeier-Paper is linked to the Macron-Gabriel-Paper[2], which demands a "eurochamber within the European Parliament" as well as a Euro-Commissar as additional executive body. The proposal of a Eurozone-Parliament was also part of the Macron election manifesto. Macron understands a Eurozone-Parliament as a European assembly of the national deputies in the Eurozone. More specifically, the French economist Thomas Piketty (2017) drew up various concepts of a Eurozone Parliament. In his view such a parliament could be composed based on the population, the national power of political parties or the economic performance in the eurozone.

In the period ahead, German-Franco proposals will set the terms of the discussion. The German and French finance ministries installed a working group after the election of Macron, the "Schäuble-LeMaire-Group" group, elaborating common reform initiatives and a timetable for the next ten years. While trade unions are excluded, the national employer organisations

[2] Guest article in DIE WELT, 04.06.2015, p. 10.

MEDEF and BDI are part of this working group[3]. However, no details about the reform timetable were announced at the meeting of the German-French Council of Ministers, apart from a rather vague commitment to the "strengthening of the Eurozone"[4].

So far, then, there is no indication that the French proposals for deepening European economic integration will not be blocked again by Germany. While the German side has taken up some of the proposals rhetorically, it continues to defend the idea of the European Union as a stability union. Along these lines, the proposals for a fiscal union and a political union are being reinterpreted through the narrative of stability policy so that the substance and the understanding of the proposals from Germany and France are quite different. In sum, European economic integration appears to be stalled and ultimately paralysed: While Germany is opposes any substantial attempt at further developing and deepening European integration by France, France is too weak to force Germany into a progressive Franco-German European policy and a common understanding of the problems and requirements of the prospective European integration process. As a result, the central dimensions of the crisis have remained unresolved.

Stalled Economic Integration – Reorientation of the German Production System and Growing Asymmetry between France and Germany

What explains this paralysis of European economic integration? In our view, the underlying reasons behind this stalemate cannot be accounted for merely by highlighting an overly ‘stubborn’ austerity agenda pursued by the German side or – important as they indeed are – different histories of economic thinking in France and Germany, especially French *dirigisme* and German ordoliberalism (cf. Clift/Ryner 2014, Bonefeld 2016). Rather, we assume that the underlying reasons behind this stalemate lie in a growing economic asymmetry between France and Germany, particularly as a result of the re-orientation of Germany within the European division of labour[5]. This is particularly crucial as the Franco-German axis and the so called “French-

[3] Declaration of the German-French Council of Ministers, p. 15.
[4] Ibid.
[5] This argument presupposes, of course, that individual Member states, especially the two most powerful ones, continue to be decisive for the dynamic and form of the European integration process. By this, we do not mean that there are somehow essential (French and German) ‚national interests’, understood as ‘black boxes’, which shape European integration. Rather, in order to make sense of the present conjuncture, we understand the process of European integration as a ‘second order condensation’ (Brand et al. 2007), i.e. as a condensation of the relations forces, *based* on the first order condensation of relations of forces national level, but at the same time retroacting on the first order condensations. This is not to deny the relative autonomy and importance of transnational actors such as the European commission or the European Roundtable of Industrialists, but to qualify their importance with respect

German bilateralism" (Krotz/Schild 2013) have been the foundation of European integration – not only because these two Member states are the largest and most powerful ones, but also because they represent two different blocks of Member states which are almost always at odds in questions of European economic integration (Kudrna 2017): Germany represents the net-contributors in the Eurozone as well as the Central European periphery integrated into its production system (especially Slovakia, but also the non-Eurozone members Czech Republic, Hungary and Poland) while France represents the Southern European Member states whose peripheral economies have been hit hardest by the crisis (Kaufmann 2013, Bieling 2011).

Of course, the Franco-German axis has never been entirely symmetric. After the erosion of Bretton-Woods and the onset of free international capital mobility, particularly Germany's monetary power severely restricted France's economic policy space, ultimately undermining also Mitterrand's left-Keynesian government project in the early 1980s (Cameron 1996, Schneider 2017). Import dependencies and structural deficiencies of the French economy, as analysed in detail by critical economists both in France and in Germany in the 1980s and 1990s (Deubner et al. 1979, 1992), have been at the heart of this asymmetric interdependence. Nonetheless, while economically dominant in Europe, Germany has been too weak politically to become the sole hegemonic power in the EU (Kundnani 2016). Against this background, France as a victorious power of WWII was successful in forcing Germany, initially reluctant, to accept further economic integration, especially the introduction of the Euro, as a quid pro quo for France's approval of German re-unification (Marsh 2011).

However, the asymmetry intensified over time. Although Germany's economy was often called the 'sick man' of Europe in the first half of the 2000s, the asymmetry in the economic relations between France and Germany grew already before the crisis, as evidenced by the development of the French and German current account balance as well as by the growing French trade deficit with Germany (Fig. 1 and 2).

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to the continued relevance of first order condensations in the Member states, particularly France and Germany, and to emphasise the fact that different actors (such as ministries or Employers' Associations) concomitantly operate on the national as well as on the European level (using 'scalar strategies', Smith 1995).

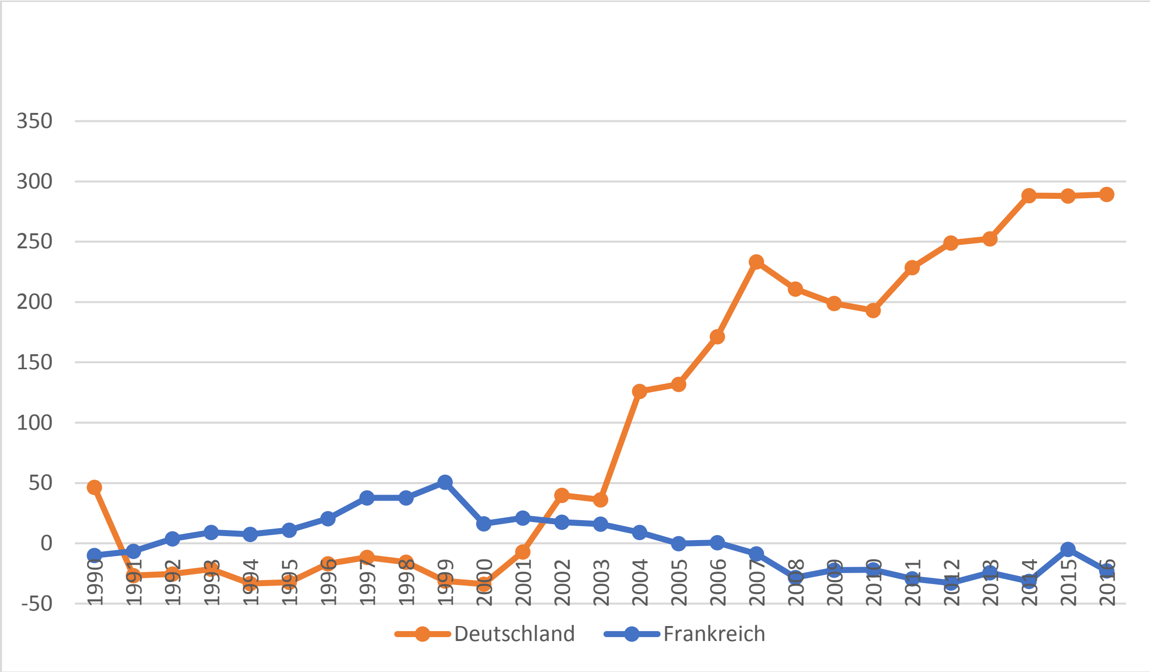

Figure 1: Current Account Balance (Billions of US-Dollar, current prices), Source: World Bank.

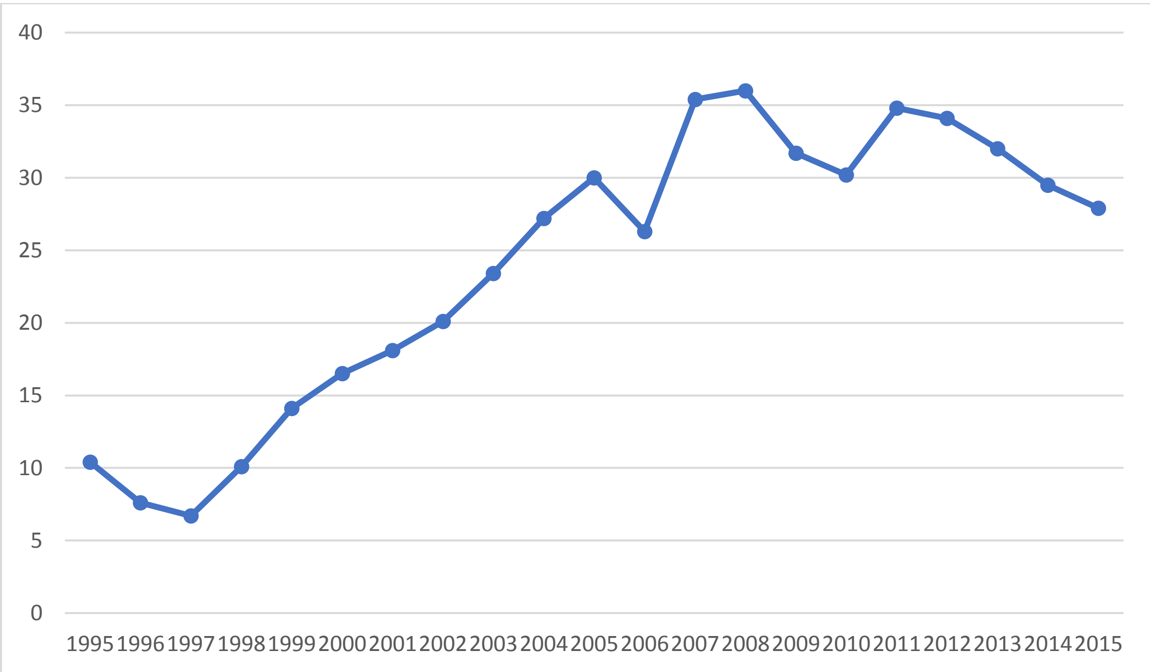

Fig 2: French Trade Deficit with Germany (Billions of US-Dollar, constant prices), Source: UN Comtrade.

Although the French trade deficit with France is declining slightly since the onset of the crisis (Fig. 2), the crisis has, overall, re-inforced the growing asymmetry between France and Germany: France has been under severe economic pressure since the crisis (Syrovatka 2016), particularly because, as Frederik Heine and Thomas Sablowski (2015) point out, French exports were more concentrated on the Eurozone (49,6%) than German exports (42,7%). In the course of the crisis, then, the export focus of the French economy on the crisis ridden Eurozone economies decreased only slightly (to 46,8% in 2013) while the German export sector significantly reduced its dependency on the Eurozone to 37% in 2013 as it was able to diversify its export orientation, specifically towards the emerging market economies (ibid.).

This is in line with a closer look at the development of exports of France and Germany to the six largest Eurozone economies (according to GDP: France/Germany, Italy, Spain, the Netherlands, Austria, Belgium) as a percentage of total exports (Fig. 3): While both France's and Germany's exports to the six major Eurozone economies have declined over the past two decades, the decline in German exports is much more pronounced, widening the already existing gap in terms of the dependency on the Eurozone as a source of effective demand.

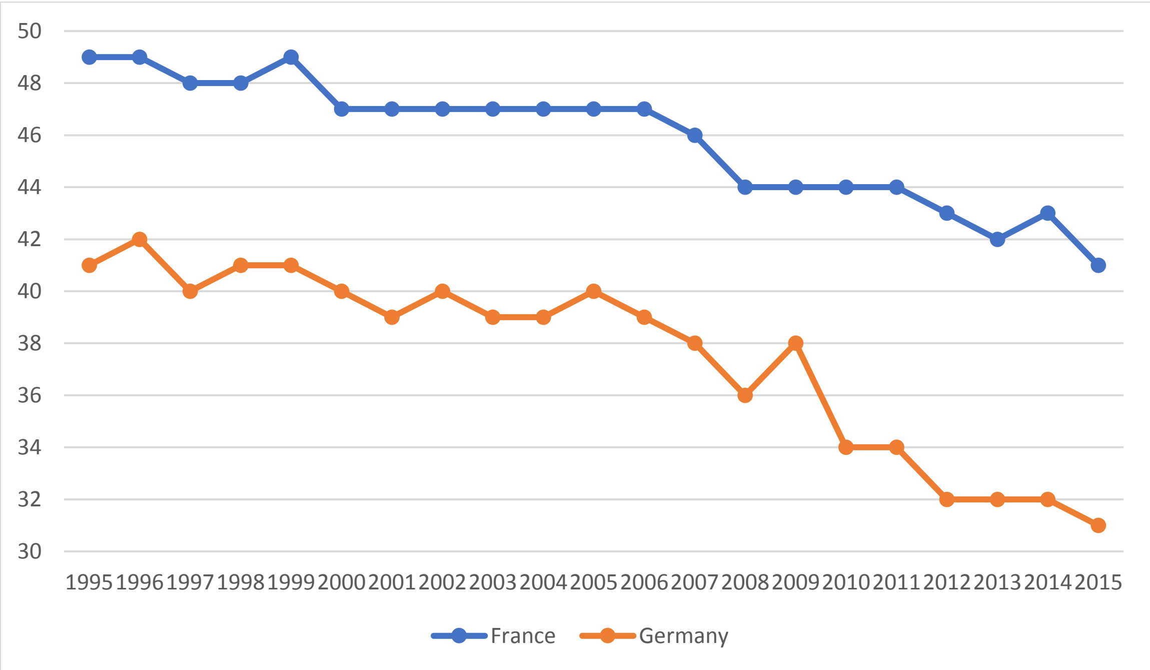

Fig. 3: Exports to the six largest Eurozone economies as percentage of total exports (constant prices), Source: UN Comtrade.

This admittedly rather superficial data points to a more fundamental reorganisation and reorientation of Germany within the hierarchical European division of labour – and beyond. As Simonazzi et al. (2013) argue, the German production system continuously expanded its links with both the Central European periphery and the growing emerging market economies while decoupling from the crisis-ridden, stagnant Southern European economies. Through comprehensive FDIs, particularly the so called "V4", i.e. the Visegrád-countries (Czech Republic, Slovakia, Hungary and Poland), have been closely integrated into the German production system and export model along supply chains and transnational production networks. Countries such as Portugal or Spain, by contrast, lost significance for the German production system due to the larger geographical distance and relatively higher wages.

This reorientation of the German production model and its internationalisation patterns become particularly apparent if we look at how the economic relevance of Southern Europe (Italy, Spain, Portugal, Greece) and the Central European periphery has shifted from the French and German perspective in terms of exports and FDI stocks over time (Fig. 4 and 5).

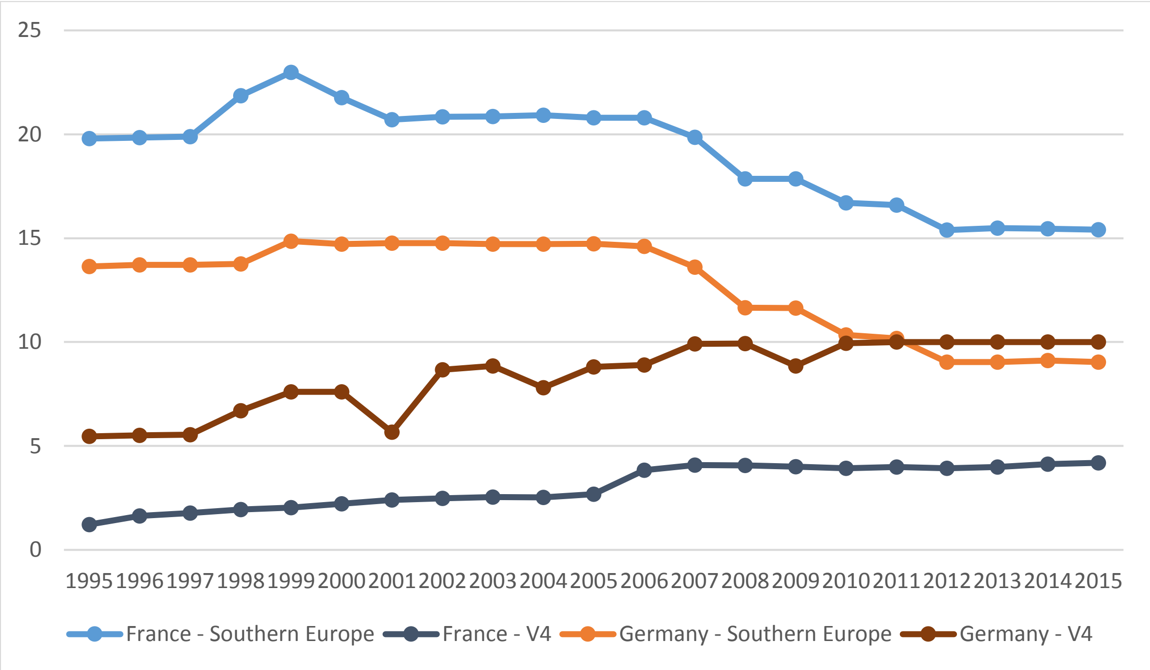

Fig. 4: Exports to Southern Europe and the V4 as percentage of total exports (constant prices), Source: UN Comtrade.

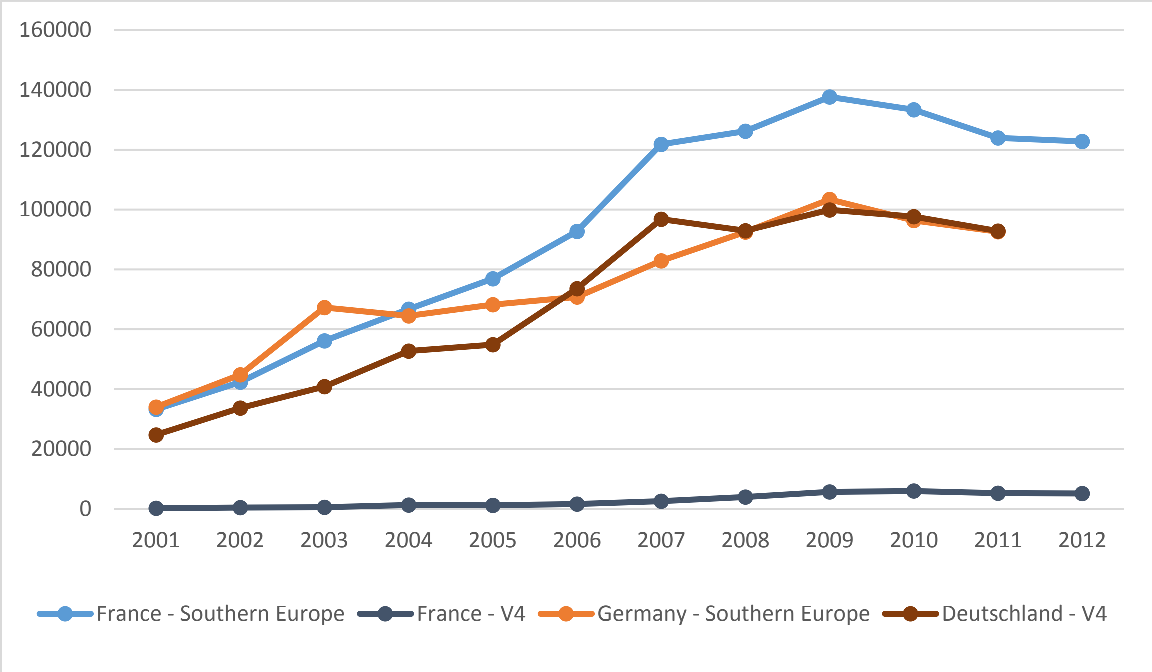

Fig. 5: FDI stocks abroad (Millions of US-Dollar), Source: UNCTAD.

Strikingly, the V4 countries either entirely caught up with (FDI) or even overtook (exports) Southern Europe in terms of economic significance from the German perspective – despite the fact that the GDP of Southern Europe almost quadruples (!) the GDP of the V4 (in 3480 vs. 874 Billions of US-Dollar in 2016). While there are similar tendencies in the French case, i.e. a slightly declining relevance of Southern Europe and a moderate increase in the relevance of the V4 countries, these tendencies are far less pronounced. Southern Europe maintains its important economic position from the French perspective, whereas the V4 countries remain marginal.

An even more striking account of the re-orientation of the German production model from South towards the East emerges when looking at the imports from Southern Europe as compared to imports from the V4 countries: Imports from Southern Europe decline, while imports from Central Europe increase drastically, overtaking imports from Southern Europe already by the mid-2000s. Afterwards, particularly with the onset of the crisis, the gap between imports from South Europe and the V4 countries widens rapidly.

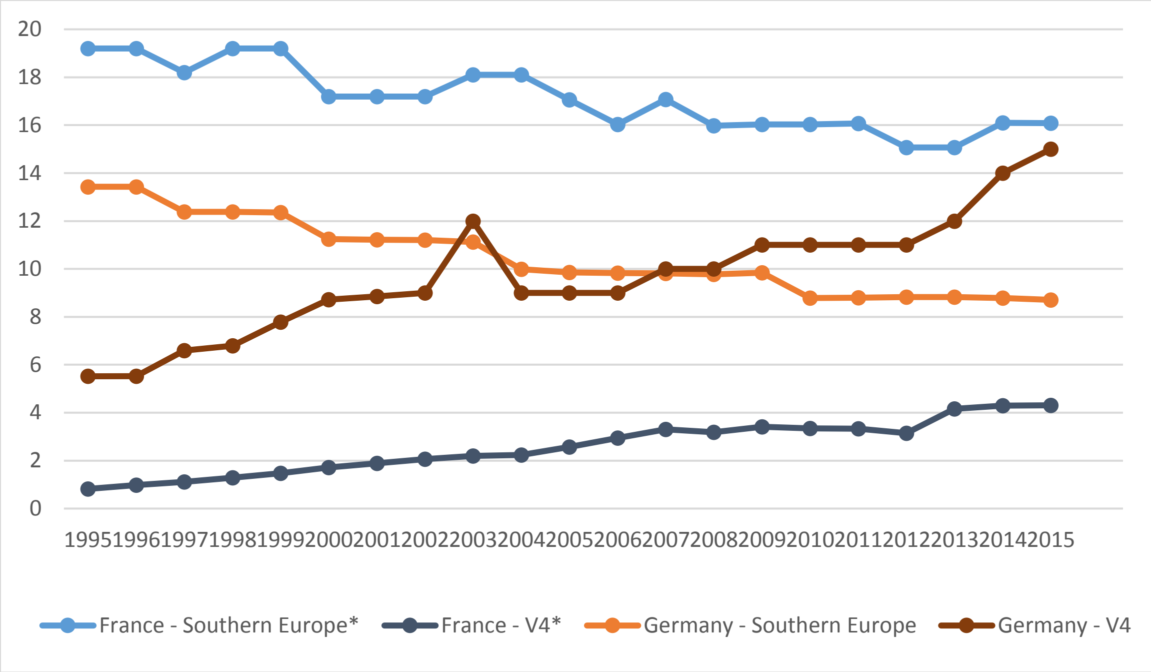

*Fig. 6: Imports from Southern Europe and the V4 as percentage of total imports (constant prices), * approximation for Greece and Slovak Republic, Source: UN Comtrade.*

This, again, substantiates Simonazzi et al.' (2013) argument: While the tripling of German imports from the V4 countries[6] reflects their integration into the German production system and export model along supply chains, the decline of imports from Southern Europe may be attributed to the fact that the expansion of the low wage sector in Germany as a result of the Hartz-reforms partly shifted the demand of German consumers towards low-price products from China and, concomitantly, away from more expensive consumer goods from Southern Europe (ibid.).

Conclusion

What, then, is the significance of the growing asymmetry between France and Germany and the re-orientation of the German production system within the European division of labour with regard to the current reform discussion and progressive alternatives?

On the one hand, the reorientation of the German production system, as the result of a variety of political and economic factors we couldn't discuss in this paper, not only significantly contributed to the imbalances which escalated in the Eurozone crisis. We also suggests that it is a key reason why Germany, already hostile towards the expansion of redistribution and transfer

[6] Input-Output tables.

payments as well as towards debt and risk mutualisation in past eras of European Economic integration, continues to block any initiative from France, such as a Eurozone finance minister with significant competencies or a fiscal capacity – even in a moment when the Eurozone crisis has revealed the dysfunctionalities of the Eurozone: *If the trend towards the decoupling of Southern Europe from the German production system continues along with the further integration of the V4 countries into supply chains and tighter links to the emerging market economies, the Eurozone as a whole and the stabilisation of the Southern European economies in particular loses significance for Germany*. In the long run, and given the tendencies outlined above persist, stabilising and maintaining the Eurozone in its present form might be considered more costly than beneficial from the German perspective, at least in narrow economic terms.

On the other hand, the growing asymmetry between Germany and France, re-inforced by the declining economic weight of Southern Europe supporting at least slightly progressive French positions in European Economic integration, makes it less likely that French positions can assert themselves in the current reform discussion. Taken together, and although Brexit might strengthen France in the French-German bilateralism, the reorientation of the German production system from South towards East and the growing economic asymmetry between France and Germany cast doubt on a progressive strategy relying, at least solely, on coordinated European approaches, such as a European investment strategy, a debt mutualisation through Eurobonds or an extension of EU structural funds to rebuild productive capacities in the Southern periphery.

Of course, this is just a piece of puzzle in a larger picture. Economic tendencies and interests alone cannot account for the course of European integration as a whole. Other areas of European integration, especially a European geo-political and military agenda independent from the USA under Trump, may inject new dynamism into European integration despite the stalemate in economic integration. This, in turn, might lead to – borrowing a term from neo-functionalism - ‘spill-over effects’ to economic integration. And even in the area of economic integration as such, the benefits of the Euro as a currency with much higher global significance than the Deutschmark might outweigh the costs for stabilising the Eurozone from the German perspective for considerable time – not least because the German export model benefits from the undervaluation of the Euro in relation to the German price level.

Nonetheless, the decoupling of the German production system from Southern Europe in line with its reorientation towards the East and emerging markets as well as the growing asymmetry in the French-German bilateralism have important **implication for policy alternatives** in our view:

1. The only way to rebalance the Franco-German axis is to strengthen French positions, even though only modestly progressive, through the support of European trade unions and progressive forces in general. This could be a starting point for a progressive block against the German position which effectively challenges the so far hegemonic narratives and principles of the stability union. The only way to do this is to articulate a counter-hegemonic project by forming a broad alliance of progressive European stakeholders.
2. At the same time, however, because of the political and economic weakness of France and the present neoliberal French government under Macron, *predominantly* focusing on policy alternatives coordinated at the European level runs the risk of paralysing progressive forces – not only in light of the current relations of forces in the EU and the Eurozone, but also in light of the long-term changes in the European division of labour discussed in this paper.
3. This means we cannot expect significant policy space for alternatives at the European level any time sone. Rather, national policy space must be exhausted to its maximum and possibly expanded through 'strategic disobedience' to EU regulations that restrain it (Mittendrein/Schneider 2017).
4. Nonetheless, the international perspective remains decisive. The crucial question is not national strategies vs. international, European strategies. Rather, the crucial question is: What are the appropriate international coalitions to pursue progressive policies? Thus, instead of waiting for windows of opportunity for progressive policies at the European level while Merkel and Macron already announced to focus on flexible forms of integration and a 'multi-speed' Europe, progressive economic policies should be pursued by new forms of international cooperation – both within Europe and beyond.

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2. Dynamizing productive development in the EU: structural reforms or industrial policies?

Besides fiscal austerity, the central policy response of EU institutions to the profound economic crisis has consisted in advancing structural reforms in order to promote the competitiveness of economies. Typically this focussed on increasing the 'flexibility' of labour markets, which basically meant cutting back on labour standards and workers' rights. Given large-scale de-industrialisation, very high levels of unemployment and the need to address the ecological crisis, progressive forces have recently called for strengthening the productive capacities and capabilities of EU economies so as to foster socially inclusive and environmentally sustainable economic development, particularly in the crisis-ridden EU peripheries. Against this background, non-mainstream analyses are encouraged that make policy proposals on the specific objectives, contents and financial as well as institutional prerequisites for a new Europe-wide approach to productive development.