Seeing like the ECB on Capitalist Restructuring: The Constructivist Politics of European Growth Models

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Abstract

This research contributes to European Integration and comparative capitalism scholarship, taking issue with interpretations positing the convergence of EU member states towards a single model of growth, and seeing EU institutions straightforwardly as agents of capitalist convergence, pulling economic and institutional reforms in one clear direction. European capitalist restructuring, we argue, is more contested and more open-ended than that, as the economic ideas shaping it do not all pull consistently in the same direction.

By exploring ECB's thinking and discourse on fiscal policy and structural reforms, we identify a crucial yet under-appreciated point of intersection between the politics of economic ideas underpinning changing European capitalisms, and technocratic economic governance institutions engaged in the economic management of the Euro area. Theoretically, we highlight the contribution of a Constructivist Institutionalist approach to the analysis of the political economy of European capitalist reform. Building from the insight that ideational factors inform and mediate the trajectory of capitalist restructuring, this article seeks to reinsert politics, contingency, and ideas into the analysis to counter functionalist presuppositions, latent in some growth models analysis, that efficient institutions are 'called forth' by economic imperatives. We argue that different economic ideas and conceptions of state-market relations held by powerful institutions like the ECB mediate the complex inter-relationship between national capitalisms and European integration.

Introduction

This article contributes to the literatures on European integration and comparative capitalisms, and on technocratic economic governance. Theoretically, it augments our understanding of the role of ideas and EU economic institutions within the political economy of European capitalist reform. Baccaro, Blyth, and Pontusson (2023, 5) observe that 'growth models may be national, but […] regional institutions can "select for" certain types of growth models over others'. And yet, Johnston and Matthijs (2022, 118) argue that 'the growth model literature has not fully considered how international actors and the arrangements they create shape the evolution of growth models within domestic political economies'. Taking inspiration from this call to arms, and bringing into conversation the growth models scholarship with constructivist explorations of the ideas held by supranational institutions, we seek to highlight the contribution of Constructivist Institutionalism to the study of European comparative capitalisms.

Empirically, to understand how EU institutions think about and act for capitalist restructuring we look at the ideas that inform ECB's thinking and discourse on fiscal policy and structural reforms. Far from being stable, we find that ECB economic policy thinking is evolving in meaningful ways. By exploring the agency of the ECB within the political economy of European comparative capitalisms, we identify a crucial yet under-appreciated point of intersection between the politics of economic ideas underpinning changing European capitalisms, and technocratic economic governance institutions engaged in the economic management of the euro area. In highlighting how and why the politics of ECB ideational change matters for growth models analysis, this article complements and expands IPE accounts of 'how international institutions, and the power struggles within them, have the potential to change and consolidate member states' national growth models' (Johnston and Matthijs 2022, 118).

Contrary to a popular commentary seeing the ECB as a stubborn advocate of 'bad' ordoliberal and neoliberal ideas (Warren 2020; Matthijs and Blyth 2018), we find that the Eurozone crisis of 2010-12 engendered a significant shift in ECB's economic thinking. Following the logic of bricolage (Carstensen 2011), the ECB curtailed its expectations of European capitalist reform and expanded its economic policy repertoire to include ideas coming from different paradigmatic homes. This entailed a 'productive incoherence' (Grabel 2011) wherein Keynesian notions like public risk-sharing through a euro area fiscal capacity are juxtaposed with neoclassical concepts such as flexible labour markets enabling a market-based automatic adjustment to shocks. This illustrates the capacity of ECB economists, like other technocratic economic governance actors, for cognitive dissonance (Clift 2019), and reflects the messy complexities of 'the practical life of [economic] ideas' (Best 2020: 3).

But then, what does this mean for European comparative capitalisms? We contend that ECB ideational change matters for growth models analysis in three ways. First, through their epistemic authority, international organisations (IOs) can 'shape both how the world is constituted and our agendas for acting in it' (Barnett and Finnemore 2004, 7). If we seek to understand IOs' agential role within the politics of capitalism reform, it is therefore important to explore the ideas that inform their thinking and policy prescriptions. Specifically, we see the ECB ideas as a supranational actor exercising ideational power (Carstensen and Schmidt 2016) to legitimise a particular form of regional economic governance and reconfigure EMU political economies according to its preferences. Through its policy interventions, we maintain, the ECB sought to turn into reality the illusion that Eurozone 'national economies, with a bit of structural rearranging, could be merged into a unified whole' separate from its domestic political economies (Mudge and Vauchez 2022, 590-91).

Second, ECB ideational change matters for the study of comparative capitalisms because different ideas have different normative contents and thereby different policy effects. For example, a conservative fiscal stance is found to align better with the requirements of export-led growth because austerity preserves cost competitiveness (Hübscher and Sattler 2022). In contrast, it is posited that demand-led regimes 'need fiscal flexibility to manage domestic demand' (Hübscher and Sattler 2022, 401). Consequently, it has very different political economy implications whether one advocates for budgetary consolidation and tight fiscal rules or to create a common fiscal capacity and use available fiscal space to support aggregate demand. Similarly, as we will further elaborate, the distinction between 'single market-making' and 'common market-making' approaches to European integration (Mudge and Vauchez 2022, 588) is very consequential for the politics of European capitalist reform.

Third, a closer look at ECB ideational change reveals some of the tensions and contradictions between how EU institutions think about and act for capitalist reform, and the arguments advanced by the growth models scholarship. Our research finds that EU-induced export-led capitalist convergence theses (Johnston and Regan 2018; Scharpf 2021; Johnston and Matthijs 2022) overlook the changeability and variety of ideas espoused by expert institutions like the ECB. That these innovations passed unnoticed is puzzling given that European integration 'introduces a much wider array of international actors into the study of comparative capitalism' (Johnston and Regan 2018, 149), including the ECB. Despite its traditionally preference for sound budgets and fiscal austerity, after 2014 the ECB urged to use fiscal policy to support aggregate demand in the euro area. This rather Keynesian turn does not chime with the fiscal requirements of the export-led growth model (Hübscher and Sattler 2022).

The literatures on the linkage between growth models and central banks, and on the politics of macroeconomic policy choices, posit that monetary and fiscal policies are path dependent upon national growth models. For example, central banks are found to be 'skewed in favour of policy solutions to uphold and revitalize, rather than challenge, existing growth models' (Wansleben 2023, 17; Van Doorslaer and Vermeiren 2021). In a similar way, Hübscher and Sattler (2022, 401) claim that governments seem to 'subordinate their fiscal policy to the macroeconomic strategy of their country'. We do not dispute that through its monetary policy the ECB may have contributed to EMU's post-crisis 'liquidity-greased and export-led growth model' (Johnston and Matthijs 2022, 120; Van Doorslaer and Vermeiren 2021). Nor we challenge the claim that austerity is the preferred 'fiscal strategy [of] countries that pursue an export-led model' (Hübscher and Sattler 2022, 404). However, as we demonstrate, after 2014 ECB fiscal thinking shifted in a way whereby the ECB may, albeit inadvertently, walk the walk of entrenching EMU's export-led growth model, but no longer talks the talk that one would expect if euro area institutions are supposed to promote export-led growth for all its members.

These tensions and inconsistencies indicate the merits of a more nuanced approach to the study of growth models. They also highlight the pay-off of our constructivist institutionalist approach to analyse the political economy of European comparative capitalisms and its points of intersection with technocratic economic governance. The risk, otherwise, is that meaningful innovations such as the post-2014 ECB's Keynesian turn charted here may pass unnoticed. Although EMU's policy response to COVID-19 could be 'the straw that broke the camel's back on the E(M)U's export-led growth strategy' (Johnston and Matthijs 2022, 141), a key finding of our research is that EMU – and a pivotal institution in charge of its management – had abandoned its posited 'export-growth fetishism' (ibid.) much earlier.

The paper is structured as follows. The next section elaborates how constructivist institutionalism can provide valuable insights to study the agency of supranational actors – and the ECB in particular – within the political economy of European capitalist restructuring. The third section reviews the growth model literature that our research engages with and contributes to. In the fourth section we summarise the findings of our empirical analyses, highlighting the meaningful evolution of ECB thinking on fiscal policy and structural reforms. The fifth section elaborates on the political economy relevance of ECB ideas (and shifts thereof) to show why ECB ideational change matters for analyses of growth models and comparative capitalisms. The final section concludes.

Constructivist Institutionalism

Constructivist institutionalism (CI) understands institutions in non-deterministic terms, foregrounding an open-ended politics characterized by the contingent processes of institutional change and/or reproduction (Hay 2011, 2016; Schmidt 2008; 2010). This way, it seeks to reinsert politics, contingency, and a role for the politics of economic ideas into the analysis of the political economy of capitalist restructuring. Economic ideas emanating from powerful EU institutions such as the ECB can direct economic policy change and institutional reforms in particular directions. As such, the interpretative frameworks through which the ECB sees its member states and understands the political economic necessities of EMU membership are an important site of power in European politics, and a crucial part of the story of capitalist restructuring.

CI foregrounds how economic ideas and the intellectual framework within which economic policy issues are understood provide the 'guideposts for interpreting economic actions', as they constitute the 'grammar through which their actions can be understood', defining 'the terms of sound economic behaviour' (Best 2010: 203; see also Sinclair 2000; 2005; Barnett & Finnemore 1999; Blyth 2002: 11). We interpret ECB prescriptive discourse along similar lines.

The ECB has neither the legal mandate nor the formal power to monitor and ensure the implementation of sound fiscal policies and structural reforms of the labour market. And yet, by relying on its cognitive authority and policy commentary, the ECB has long been in the business of creating a discursive environment to 'fix meanings' (Barnett and Finnemore 1999) around what constitutes sound economic policy, and labour market institutions, inside the euro area (Mugnai 2022). In so doing, economic ideas in operational use within technocratic economic governance are integral to 'constituting the legitimate boundaries of policy-making' (Abdelal *et al* 2010: 10), establishing the limits of 'thinkable' policy (Seabrooke 2010: 141). Barnett and Finnemore refer to the 'productive power' of IOs in spreading norms about what constitutes sound economics (1999: 13-4; 2004: 58-60). This process 'actively works to constitute [actors] in new ways' (Best 2010: 196).

CI provides also useful resources to analyse the politics of ideational change within technocratic economic governance institutions. Constructivism's crucial starting point is the recognition that inter-relationships between actors, institutions and their social context are always ideationally mediated and contingent in nature (Hay 2016; Ruggie 1998). One key focal point is how actors 'make sense' of their environment, their role, institutional practices, and their interests within an historically specific 'meaning context' (see Hay 2008; Béland & Cox 2011; Schmidt 2008; Clift 2022, 2023). Consistent with the CI approach underpinning our analysis, this deep dive into ECB thinking enables the researcher to inhabit the lived-in space of ECB debates,[1] and see how ECB actors make sense of economic policy issues.

Constructivists analysing knowledge production within global finance, for example, reveal it to be a social process, suffused with power relationships and shaped by inter-subjective beliefs and shared understandings (Sinclair 1994; 2000; 2005; Seabrooke 2006; Clift & Tomlinson 2004, 2008; Widmaier 2003a&b, 2004; Widmaier *et al* 2007). Understanding this context within central banks, just as inside the IMF or World Bank, is crucial for making sense of what Jacqueline Best calls 'the practical life of [economic] ideas' and the 'messy and material process of their production and circulation' (2020: 3). The cognitive filters through which actors interpret their institutional environment and indeed their interests (Hay 2008; Schmidt 2010; Clift 2018), such as the ECB's default attachment to neo-classical economic ideas have a crucial place in CI interpretation.

ECB thinking and discourse on structural reforms are informed by distinctive assumptions and understandings of state/market relations, shaped by the intellectual prism of the underlying normative structure of ECB economic analysis. These, we find, are neither necessarily aligned with the preferences of euro area member states, nor are automatically informed by the functional necessities of EMU. Rather, they are endogenously constructed (Widmaier, Blyth, and Seabrooke 2007) within the ECB thereby reflecting its distinctive preferences, ideology and organisational culture (Mugnai 2022). This raises questions about how far they are likely

[1] The underpinning research combined qualitative analysis of relevant ECB publications between 2001 and 2019, triangulated with 27 research interviews conducted with ECB staff across different Departments in 2018 and 2019.

to align with, for example, the premises of capitalist restructuring along the lines of the export-led growth model.

Another telling insight from CI is that the construction of economic crises can be a particularly powerful and consequential political act (Hay 1996, Gamble 2009; Widmaier *et al* 2007). Constructivist political economy draws attention to 'the contingency of the moment of crisis itself' and, more importantly, to 'the political character of the process of interpretive contestation in and through which the ambiguity of the crisis is resolved' (Hay 2016: 528). The political economic significance of different crisis narrations is felt in their policy corollaries and the interventions they enable and support. For example, at the height of the GFC, hawkish ECB voices such as Trichet seized on rising debt and deficit levels to advocate ending stimulus and a prompt shift towards fiscal consolidation. The Eurozone crisis narration by the ECB continued in the same vein until around 2014.

Economic crisis and instability, CI underlines, can be an especially crucial catalyst for ideational change. Technocrats may have cause to revisit their models, their assumptions, and their thinking about the economy, as in the case of the ECB on fiscal policy and structural reforms. The GFC, the Eurozone crisis, and the Great Recession – with some significant time lags – disturbed prior settled ECB thinking. The ECB was confronted by dynamics that lay outside its models, and the buffeting the European political economy endured challenged settled meanings of what 'sound' economic policy looked like. This underlines how the ideas informing the way the ECB sees the euro area economy and its member states can change over time (Ban and Patenaude 2019; Ferrara 2019; Mugnai 2022). As we document, ECB staff reconsidered their prescriptive discourse on both the design of EMU economic governance and the trajectory of European capitalist restructuring. This indicates the scope for the contingent reconstruction of economic rectitude and understandings of 'sound' economic policy.

A CI lens therefore offers a distinctive take on the political economy of European capitalist restructuring. The combined insights of CI inform an approach to capitalist restructuring appreciative of pervasive uncertainty, the contested nature of economic ideas and institutions, the indeterminacy surrounding which ideas prevail, and the historical contingency of dominant orthodoxies and capitalist trajectories (see e.g. Hay 2016). CI reminds us that there is nothing teleological nor necessarily self-sustaining in the politics of growth models and capitalist restructuring, precisely because of these ideational factors and the uncertainties, contingencies, contestation, and changeability that they entail.

ECB ideational change and growth model analysis

Capitalist convergence towards export-led growth models?

Recent comparative capitalism scholarship argues that European integration has become increasingly biased towards export-led growth regimes associated with coordinated market economies (CME) like Germany. Aligning with Johnston and Regan (2018), Johnston and Matthijs (2022, 119) maintain that EMU's 'tolerance of growth model diversity' has 'radically changed' since 2010, as attested by its attempt 'to nudge all of its member states towards export growth strategies' (Johnston and Matthijs 2022, 131). Hence, the compatibility of diverse capitalist models within the Eurozone is posited to have become 'increasingly problematic' (Johnston and Matthijs 2022, 124; Johnston and Regan 2018).

One positive development with growth models analysis is a central focus on the macro policy regime (Blyth and Matthijs 2017; Baccaro, Blyth, and Pontusson 2022), countering VoC's blind spot regarding macroeconomic policy. However, albeit welcome, this macro focus is somewhat limited, stopping short of an in-depth engagement with EU macroeconomic policy institutions. Hence, European integration and national growth models scholarship struggles to pick up on important shifts, such as the ECB's journey from expansionary austerity to contingent Keynesianism charted in this article. Although ECB discussions of competitiveness, fiscal austerity, and export-driven recovery suggest some alignment with the claim that the EU promotes 'a German-style "ordoliberal" export growth model' (Johnston and Regan 2018, 154), a closer look reveals interesting tensions and inconsistencies between ECB thinking on capitalist restructuring and Comparative Political Economy (CPE) capitalist convergence theses.

There are also tensions between ECB thinking on labour market institutions and the findings of the CPE literature. CPE scholars highlight that to thrive inside EMU one needs coordinated rather than decentralised wage bargaining, high rather than low trade union density, and a sufficiently big, exposed sector relative to the rest of the economy (Baccaro and Pontusson 2016; Johnston 2016; Hancké 2013b; Höpner and Lutter 2018). By contrast, ECB discussion of competitiveness and export-led growth comes from a purely neoclassical economics (NCE) perspective. Hence, it is not coordinated wage settings and those neocorporatist arrangements that deliver competitiveness and growth, but free and flexible markets. Positing an idealised NCE textbook vision of a flexible economy, the ECB assumed that sufficient wage and price flexibility could automatically bring the economy back to equilibrium. If a shock occurs, pushing output above potential, 'this will lead to domestic inflationary pressures' and a 'deterioration in external competitiveness' (ECB 2008a, 80). The resultant 'decline in demand for the country's output will tend to restore output to its potential level and to dampen previous inflationary pressures' (ibid.). Following this logic, it is flexible market adjustment conceived in de-institutionalised terms – not CPE's institutional complementarities (Hall and Soskice 2001; Hall and Gingerich 2009) – that delivers economic growth.

This way, the desire of EMU technocrats to enforce 'structural convergence' onto the 'Northern model' of capitalism (Scharpf 2021, 163) is predicated on problematic premises. CPE has taught us about the 'comparative institutional advantage' (Johnston, Hancké, and Pant 2014) that EMU granted to export-led CMEs due to their coordinated wage bargaining structures. Why then, do ECB economists advocate reforming wage bargaining structures in the opposite direction, stripping out the comparative institutional advantage through deregulation of employment protection rules, and the weakening of unions and collective bargaining?

Our research inside the organisation reveals how the ECB tends to 'prefer market-based solutions to economic problems'[2] and has a rather strong 'scepticism against any form of ex-ante economic policy coordination between the central bank, the fiscal authority and social partners'[3]. The ECB has grudgingly acknowledged that social pacts and 'explicit tripartite agreements' in the 1990s and early 2000s delivered 'overall moderate developments in wages and labour costs' and thereby 'facilitated the […] maintenance of price stability in the euro area' (ECB 2007, 69). However, it has never considered them a valuable instrument to correct intra-EMU imbalances.[4] The ECB thus ignores how in the run-up to EMU such social pacts and tripartite agreements enhanced the capacity of Eurozone's demand-led growth regimes to preserve their competitiveness by emulating the institutional complementarities of CMEs like Germany.

Contradictions between capitalist convergence theses and ECB ideational change, evident in the realms of labour market structural reforms, are even more jarring in the case of fiscal policy and Eurozone's economic governance. For example, according to Johnston and Regan (2018, 153), the EU's bias towards export-led growth can be found in the 'strict and austere fiscal policy guidelines' established during the Eurozone crisis. Key examples are the European Semester, the 'two pack' and 'six pack' regulations, the Stability and Growth Pact (SGP), the Macroeconomic Imbalance Procedure (MIP), and European Stability Mechanism (ESM) conditionality – see also Scharpf (2021) and Johnston and Matthijs (2022). The fiscal framework of EMU, so the argument goes, through its restrictive stance on public spending curtails domestic demand and favours convergence with the export model.

To be clear, we do not dispute that the ECB has traditionally been a staunch advocate of sound budgets, fiscal austerity, and rules-based economic governance. However, ECB thinking has changed in recent years, making EMU economic governance less coherent, and crucially, less closely aligned with the export led growth model. Specifically, the ECB has retreated from its earlier expansionary austerity thinking and embraced some Keynesian notions like the use of available fiscal space to support aggregate demand, and the creation of a common euro area fiscal capacity against asymmetric shocks. Moreover, the ECB criticised the SGP as being too asymmetric, and acknowledged the mistake of pursuing fiscal consolidation during a recession.

Evolving post-crisis ECB economic thinking therefore no longer 'narrowly promotes a single path to economic and employment performance' (Johnston and Regan 2018, 156). Although a plausible story until 2014, our research finds that thereafter this is no longer the case. Thus, far from having 'championed export-led growth strategies' until 2020 (Johnston and Matthijs 2022, 141), the ECB had abandoned EMU's posited obsession with export-led growth much earlier. Our findings complement recent research on the evolving economic discourse of

[2] ECB Senior Official, personal interview, 22/08/2018.

[3] ECB Official, personal interview, 16/08/2018. This observation was shared also by ECB Official, personal interview, 02/08/2018.

[4] ECB Official, personal interview, 02/08/2018.

another EMU technocratic economic governance institution, that is, the European Commission (Miró 2020; Crespy and Vanheuverzwijn 2019)

Growth models, central banks, and the politics of macroeconomic policy choices

Their different focus and theoretical underpinning notwithstanding, the literatures on 'the linkage between central banking and growth models' (Wansleben 2023, 5; Van Doorslaer and Vermeiren 2021) and on the fiscal stances of particular growth regimes (Hübscher and Sattler 2022) share the view that central banks and fiscal authorities alike subordinate their decisions to the requirements of national growth models, thereby leading to their reproduction. Our findings on ECB ideational change speak directly to these scholarships and, we hope, can augment them in meaningful ways.

As argued by Wansleben, 'functionality, from a growth model perspective, does not yet explain the causes for institutional configurations and policy choices' – not least because 'central banks constitute relatively autonomous organizations' (2023, 7). A focal point of our research is the insight that ideational factors inform and mediate the trajectory of capitalist restructuring, thereby the need to reinsert politics, contingency, and ideas into the analysis to counter functionalist presuppositions that efficient institutions are 'called forth' by economic imperatives. This requires understanding how technocratic economic governance institutions make sense of their environment and 'actively adapt their interventions to context rather than following some generic policy script'. For this purpose, a closer look at what occurs 'inside central banks' is indeed warranted (Wansleben 2023, 20).

Wansleben (2023, 3) offers a rather sociological perspective on 'the growth model imperatives for central banking'. In his view, 'organizational sense-making' is 'a key resource for finding policy solutions that re-positioned central banking vis-a-vis structural pressures within different growth models' (ibid.). 'Since central bankers had formed these sense-making patterns in particular growth model contexts', during critical junctures 'they employed understandings of monetary stability and economic prosperity that were informed by such models' (Wansleben 2023, 8). Consequently, Wansleben (2023, 18) concludes that 'central banks' deeply engrained institutional identities' and 'patterns of sense-making' inform monetary policy choices in a way that maintains existing national growth models 'despite clear signs of crisis'.

Albeit moving from different theoretical premises, Van Doorslaer and Vermeiren find that 'growth models and their underlying institutions […] have shaped how monetary policy expansion in general […] affected different components of aggregate demand by activating some transmission channels and constraining others' (Van Doorslaer and Vermeiren 2021, 798). Thus, the expansionary monetary policy of the ECB 'primarily worked to bolster export-led growth by depressing the nominal exchange rate of the euro' (ibid.). A similar claim is made by Johnston and Matthijs (2022, 120) when maintaining that, by weakening the euro vis-à-vis other currencies, the ECB's accommodating monetary stance contributed to a 'new ECB liquidity-greased and export-led growth model'.

On the fiscal policy side, Hübscher and Sattler (2022, 417) find that 'austerity policies vary greatly across countries and in line with a country's growth model'. Export-led strategies require 'that governments limit fiscal deficits – that is, by implementing fiscal austerity – in order to promote cost competitiveness and, hence, to enhance export opportunities for domestic firms' (Hübscher and Sattler 2022, 401). By contrast, 'governments in demand-led models should be less concerned about fiscal deficits because they need fiscal flexibility to manage domestic demand' (ibid.). Consequently, austerity 'is the preferred fiscal strategy' of countries pursuing export models (Hübscher and Sattler 2022, 404).

Hübscher and Sattler (2022, 401) find that 'growth models dominate voter preferences', as 'governments tend to favor the fiscal policies that reinforce their country's growth model even if these policies stand in conflict with the preferences of voters'. This is because fiscal policy 'adjustments mostly follow the need of the particular growth models and vary less according to political ideology' (Hübscher and Sattler 2022, 404). Thus, 'from a growth-models perspective, […] the main macroeconomic policies should be "locked in," either institutionally, ideationally, or politically' (ibid.).

The evolution of ECB economic ideas presented in the next section reveals some puzzling discrepancies between the findings and claims of these literatures and the way technocratic economic institutions think about and act for capitalist restructuring. For example, if central banks form their 'sense-making patterns in particular growth model contexts' (Wansleben 2023, 17), and if the Eurozone has an export-led growth model that ECB monetary policy contributed to further entrench, one expects the ECB to articulate a fiscal policy discourse consistent with the fiscal requirements of the export model. Why instead does the new post-2014 ECB fiscal stance point in a different Keynesian direction, which is more aligned with the requirements of demand-led growth models?

We contend that these contradictions can be explained only by analysing the economic ideas, strategic agency, and constructivist role of supranational technocratic institutions within the political economy of European comparative capitalisms. The risk, otherwise, is to postulate a politics of growth models – and their underpinning macroeconomic policy choices – that is mainly domestic in its focus and path-dependent in its unfolding (Baccaro, Blyth, and Pontusson 2022, 29).

The evolution of ECB ideas on fiscal policy and structural reforms

The shifting construction of European fiscal rectitude

When EMU began, ECB prescriptive discourse on appropriate fiscal policy conduct maintained that Keynesian theories do not 'provide a sound justification for fiscal discretionary fine-tuning' (ECB 2001a, 49). Contrary to Keynesian thinking about counter-cyclical demand management, the New Classical view (and indeed NCE) posits that fiscal policy is powerless (Barro 1989; Sargent and Wallace 1975), as it 'would only redirect resources' from the private to the public sector, resulting in 'full crowding-out' of consumption and investment (ECB

2010, 68). Echoing Public Choice's emphasis on binding economic policy constraints (Kydland and Prescott 1977), the ECB (2004) emphasised the need for an effective rules-based fiscal framework to ensure the pursuit of 'sound fiscal policies' by euro area governments.

The GFC, and even more so, the Eurozone crisis reinforced ECB convictions about the need to put national fiscal houses in order. The ECB diagnosed the crisis plaguing the Eurozone as being caused by *both* fiscal profligacy, *and* weaknesses of EMU's fiscal rules designed to enshrine sound public finances (Stark 2011b). According to the ECB, the 2005 SGP reform added too much discretion into EMU fiscal framework, undermining its credibility and strict enforcement (Stark 2009, 2011a). As a remedy, the ECB urged to 'implement to the letter' the fiscal framework of EMU that was reformed in 2011 (Draghi 2013b, 2013a; Praet 2012; Cœuré 2012c), maintained that there is no 'trade-off between fiscal austerity and growth' (Draghi 2011, 2012; Asmussen 2013b; Cœuré 2012b), and emphasised the 'particular responsibility' of member states to pursue 'sound fiscal and structural policies' (Asmussen 2013a; Cœuré 2012a; ECB 2011).

Until 2014 ECB fiscal interventions remained rather stable in their content. Thereafter, however, a gradual yet meaningful evolution occurred in ECB fiscal doctrine. Specifically, the ECB acknowledged the mistake (and failure) of excessive fiscal tightening between 2010 and 2013, criticized the SGP as being too asymmetric and thus unable to steer the euro area fiscal stance, urged a more active use of fiscal policy by euro area member states with available fiscal space, and advocated the creation of a euro area fiscal capacity as part of a wider discourse on public risk sharing inside EMU.

During the 2014 central bankers' retreat in Jackson Hole, ECB President Draghi (2014b) argued that high unemployment can threaten social cohesion. He outlined the need to implement supply-side structural reforms alongside policies supporting aggregate demand both at the national and European level. This new emphasis on demand was accompanied by a wider reflection on the 'limits of a sound fiscal framework', as 'keeping one's fiscal house in order' is not 'enough to ensure market access and ward off contagion' (Draghi 2014a). Draghi (2014b) also mentioned the concept of a euro area fiscal stance (ECB 2016b), that is, 'the idea of thinking about fiscal policy not only in terms of single countries but to look at the euro area as a whole, which implies that countries having fiscal space should use it'[5].

This new thinking, we argue, reveals a more flexible and self-reflexive approach towards fiscal policy in general and EMU fiscal framework in particular[6]. The ECB recognized that the SGP's asymmetric nature 'guides Member States towards achieving sound fiscal positions' but 'does

[5] ECB Official, personal interview, 20/02/2019.

[6] Consistent with these reflections are the analysis and policy recommendations made in a recent working paper, wherein ECB staff offers a remarkable reflection and critique of the SGP debt rule as the latter 'appears predestined to fulfil the role of debt anchor. However, [...] its existing design gives rise to a pro-cyclical bias that has hampered its implementation in the low-growth low-inflation environment' (Hauptmeier and Kamps 2020, 1).

not oblige those countries with fiscal room for manoeuvre' to use it. This explains the SGP's ineffectiveness in steering 'an appropriate aggregate euro area fiscal stance' (ECB 2016b, 69). Thus, the ECB urged to create a 'macroeconomic stabilisation function to cushion large country-specific shocks' (ECB 2016b, 87), because national fiscal policies 'can become overwhelmed if country-specific shocks are very large' (ECB 2016b, 85),

The ECB also reconsidered its scepticism about activist (i.e. Keynesian) use of fiscal policy. Although 'discretionary fiscal policies are generally considered a weak macroeconomic stabilisation tool during normal circumstances', under exceptional circumstances 'the effectiveness of a discretionary fiscal stimulus is generally larger' (ECB 2016b, 73; de Guindos 2019). Compared to the tone and content of previous ECB leaders and publications, this new flexibility and differentiation between normal and exceptional times is a remarkable instance of policy learning.

More recently, ECB President Lagarde (2019) urged to convert the Eurozone into 'an economy that makes full use of Europe's potential to unleash higher rates of domestic demand and long-term growth'. To achieve this goal, Lagarde (2021) advocated (1) to pursue private and public investments in areas like the green and digital sectors, (2) to make sure that, 'unlike the great financial crisis', the support of fiscal policy is not prematurely withdrawn, and (3) to recognise that 'even when governments need to consolidate their finances, we have a common interest in maintaining sufficient levels of public investments' (Lagarde 2019), thereby 'the need to follow a rules-based governance framework that underpins both debt sustainability and macroeconomic stabilisation' (Lagarde 2021).

The shift in ECB's fiscal policy position charted here altered quite significantly the relationship between the ECB, the politics of growth models, and the political economy of European capitalist restructuring. Previous emphasis on austerity, and strict and binding pro-cyclical fiscal rules had aligned with an export-led growth strategy, thereby supporting the argument that EU technocrats favour convergence towards the export model (Johnston and Regan 2018). The new ECB Keynesian macro stance, instead, urges governments 'that have fiscal space […] to use it' (Draghi 2014b) to support aggregate demand in the euro area. This is at odds with both the preferences of powerful creditor member states (Matthijs and McNamara 2015; Clift and Ryner 2014) and the fiscal requirements of their export-led growth regimes (Hübscher and Sattler 2022).

Diminished expectations on European structural reforms?

Comparing United States unemployment rates with the euro area, in the early days of EMU the ECB identified the former as a benchmark, indicating a set of best practices for European policy makers. High unemployment plaguing Europe in the 1990s was posited to result from 'overly rigid' labour markets preventing 'the necessary adjustment to changes in the economic environment' (ECB 2000, 71). The ECB thus urged to reform national labour markets to reduce 'structural rigidities in euro area economies' (ECB 2001b, 61), seeing 'enhanced price and wage flexibility and greater mobility of production factors' as 'prerequisites' for a 'smooth functioning' EMU (ECB 2005, 84).

ECB early ideas on structural reforms also reveal a strong preference for economic rules to ensure economic policy coordination among euro area member states. This was a consequence of EMU's multilevel system of governance whereby competence over fiscal and structural policies remained at the national level (Dyson 2008), but responsibility for monetary policy was moved to the EU level (ECB 2001b). Such multilevel governance framework affects 'the price formation mechanism in the euro area' and has 'an impact on the outlook for price stability' (ECB 2001b, 52). The ECB therefore emphasised the need for 'joint rules' and to 'closely' monitor 'developments in labour costs' and 'other indicators of competitiveness' (ECB 2008b, 59).

Moreover, because 'responsibilities for labour market and employment policies' were left at the national level (ECB 2001b, 51), the ECB urged euro area governments to become 'increasingly aware of the necessity to implement structural reforms' (ECB 2007, 75), and commit to 'wage developments […] consistent with price stability' (ECB 2001b, 59). EMU's economic policy framework, the ECB noted, 'is viable and capable of producing coherent policy outcomes for the euro area as a whole, *provided that*[7] all policy-makers fully assume their responsibilities, respect existing rules and […] "internalise" the requirements of EMU' (ECB 2001b, 51).

When the euro crisis began in 2010, the ECB diagnosed it as caused by member states' failings to honour these responsibilities (Matthijs and McNamara 2015; Ferrara 2019). Had national policymakers reformed their economies, they would have preserved their competitiveness, avoided the build-up of excessive imbalances, and improved their resilience. Yet, apart from Germany (Stark 2011a; Asmussen 2013b), domestic structural reforms were not commensurate to the requirements of EMU. According to Trichet, the crisis 'offered the opportunity and the obligation to seize the moment' (Trichet 2009). ECB leadership also argued that 'growth models […] based on ever-rising public spending, or a particular booming sector, are over', as growth 'has to be through a more competitive, export-led model' (Asmussen 2013b).

Ireland's successful crisis recovery reinforced ECB belief in 'the cost of high rigidities' (Cœuré 2014c). Because 'the correction in relative wages and prices occurred immediately after the 2008-09 recession […] all the nominal adjustment had already been made before Ireland entered the financial assistance programme in late 2010' (Cœuré 2013a). As a result, so the ECB argued, 'in Ireland, an export-driven recovery started back in 2011 [and] the unemployment rate started to decline in 2012' (Cœuré 2014c). This way, EU technocrats were able to claim 'that their prescribed fiscal adjustment strategy has worked' (Regan 2014, 26).

Since 2015 ECB discourse on structural reforms has been characterised by an incoherent amalgam of changes and continuities revealing the capacity of ECB officials for policy learning

[7] Author's emphasis.

and cognitive dissonance. On the one hand, the ECB kept arguing – albeit with decreasing intensity after 2019 – that structural reforms 'boost productivity and employment and reinvigorate growth' (ECB 2015a, 1), improve the ability of countries to rapidly adjust to shocks (ECB 2016a), increase competitiveness by enhancing wage and price flexibility (ECB 2015b), and bring a 'double dividend by raising individual countries' wellbeing and improving the smooth functioning of EMU' (ECB 2016a; Draghi 2017). On the other hand, the ECB recognised that 'even the most flexible and efficient markets cannot fully absorb very large shocks without imposing economic hardship on a considerable number of people' (Cœuré 2018). Increasing attention was thus given to the right sequencing and distributional impact of structural reforms (ECB 2016a; Draghi 2017), the importance of country ownership to make reforms politically palatable (Cœuré 2018), and the possibility to use available fiscal space to alleviate reforms' social costs (Praet 2017).

Another instance of ECB's shift towards a more Keynesian world-view is provided by ECB former vice-President Constâncio (2015), who argued that 'while supply-side reforms are desirable', in the short run they 'can dampen aggregate expenditure'. Hence, 'an economy that has a surplus can adopt macroeconomic policies to increase domestic demand' because it has available 'fiscal space to be used to help closing the existent output gap' (Constâncio 2015). This way, the ECB repositioned itself closer to the IMF (Ban 2015; Clift 2018), urging more symmetric adjustment between surplus and deficit countries. This was a remarkable departure from the previous approach requiring adjustment from deficit countries only.

The significance of the ECB ideational change described so far is also attested by recent interventions of ECB President Lagarde emphasising the importance of aggregate demand for a more balanced growth path in the euro area (2019, 2021). Looking back at the experience of the Eurozone crisis, Lagarde (2019) recalled that 'if internal demand is too weak and inflation too low' intra-EMU rebalancing 'becomes harder', as it requires more 'vulnerable countries to reverse their imbalances by increasing net exports outside the euro area'. In a remarkable shift from Asmussen's (2013b) claim that demand-led growth models 'are over', Lagarde (2021) urged 'to reconsider whether [Europe's] growth model was sufficiently balanced', given that 'in the decade before the pandemic, [it] tended to import demand from the rest of the world', as 'reflected in [its] persistent current account surplus'.

Crucially, Lagarde also broadened the concept of economic resilience articulated hitherto by the ECB (2016a, 2020). On the one hand, she argued that resilience rests upon 'having firms that are competitive globally and can export to the world when domestic growth falls' (Lagarde 2019). This way, she stressed the merits of competitiveness, but of firms and not necessarily of countries. On the other hand, Lagarde (2019) emphasised that 'having a strong internal economy which can sustain demand when the global economy weakens' is an insurance against shocks, because 'stronger domestic demand puts economies in better position to withstand swings in the global business cycle and disruptions in world trade'. Consequently, 'rebalancing' the European economy can 'strengthen the domestic economy', because 'more dynamic internal growth' can 'improve the functioning of the euro area' and 'accelerate crisis recovery' (Lagarde 2019).

In sum, the trajectory of ECB ideational change analysed in this section suggests that the ECB has abandoned the narrow focus on competitiveness and export-led recovery typical of the euro crisis, and no longer advocates the single-minded pursuit of only one model of growth. The emphasis on domestic ownership, and national specificities, indicates a softer approach to capitalist restructuring anticipating differentiation and hybridisation of European capitalisms rather than a 'one size fits all' approach. Hence, far from being a stubborn convergence inducing architect eroding national differences in favour of a uniform model of capitalism, the ECB seems to have realised the impossibility of such effort, diminishing its expectations for inducing convergence on a single model of growth.

Seeing like the ECB on European capitalist restructuring

How do the shifts in ECB's economic thinking documented so far matter for the politics of growth models and European comparative capitalisms? The answer to this question is both theoretical and empirical.

Theoretically, Broome and Seabrooke (2012, 1) argue that by "seeing like an IO", we can increase our understanding of the cognitive and organisational environment that guides an IOs' actions and informs its policy advice to states', thereby enabling a 'more comprehensive picture of how the everyday business of global governance works'. The 'activities of IOs', Broome and Seabrooke (2012, 4) remind us, are geared not simply towards achieving member state compliance with specific policy regimes, but also aim at encouraging broader institutional change within member states and fostering new ways of thinking about economic and social governance'. Thus, 'how IOs "see" the social environments in which they seek to effect economic reforms […] constitute an indirect exercise of political power over distinct social, economic and political systems' (Broome and Seabrooke 2012, 2).

Building upon these insights, we maintain that 'by seeing like the ECB' we can increase our understanding of the agential role of a pivotal technocratic economic governance institution within the political economy of European capitalist restructuring. As much as other IOs, the ECB makes a strategic use of its ideas and cognitive authority to influence 'intersubjective understandings of appropriate economic policy conduct' (Clift 2018, 15) inside the euro area. As Barnett and Finnemore (2004, 31) claim, an important source of IOs' power is their capacity to 'fix meanings in ways that orient and establish boundaries for acceptable action' (Barnett and Finnemore 2004, 32). Aligning with these literatures, we contend that the ECB has played a pivotal constructivist role in defining and enacting the ideas and practices that drive the European economy (Weaver 2010).

Empirically, to highlight the relevance of ECB ideational change for the study of European growth models, we rely on 'the distinction between common and single market-making in the history of the European project', which are seen as different 'exercises in defining the boundaries of "Europe" as an economic space' (Mudge and Vauchez 2022, 588). The 'common market-making mode, characteristic of pre-1980s European formation, drew a line between that which was "internal" and "external" to Europe, but in an asymmetrical way'. That is, 'from the outside economic Europe was unitary, but from the inside Europe's economic fields remained multiple and nationally centred' (Mudge and Vauchez 2022, 588). The single market-making of the 1980s and 1990s, instead, 'imagined an economic Europe that was unified externally and internally, thanks not only to a new currency […] but also a merging (or "convergence") of national economic fields' (Mudge and Vauchez 2022, 589).

When EMU began, the ECB thought in terms of 'the euro area economy'[8] as if national economies no longer existed. As former ECB President Trichet once put it, because the ECB is 'the central bank of the euro area, at the ECB we look at euro area aggregates'[9]. As recalled by an interviewee, 'this way of thinking, this big focus on euro area aggregates, can partially be explained because of the history' of the ECB, whereby the Bank sought 'to go away from a situation where the German member of the Executive Board thinks about Germany, the French Board member thinks about France, and so on'[10]. Accordingly, to construct 'a one-size-fits-all monetary policy for a heterogeneous currency union', ECB economists urged Eurozone governments to remove those 'structural barriers [that] delay macroeconomic adjustment', such as 'rigidities affecting the price and wage formation mechanism' (Issing 2005). Through these policy interventions, we argue, the ECB sought to construct the euro area as 'a *unified* space (a European economy) […] *cleanly separated* from national […] administrative, political and legal institutions' (Mudge and Vauchez 2022, 585).

And yet, the 'genesis' of such a European 'economic field' was not an easy task (Mudge and Vauchez 2022, 585). Because the ECB targets average inflation rates across the euro area (Enderlein 2006), it could use its monetary policy neither 'to deliver inflation convergence' among diverse capitalist models (Johnston and Regan 2016, 328), nor to 'deter national wage increases with threats to tighten its monetary policy' (Hall 2018, 10). Hence, due to their different wage-setting institutions (Höpner and Lutter 2018) in the context of a 'relatively restrictive one-size-fits-all monetary policy' (Hancké 2013a, 91), EMU's Northern CMEs 'systematically improved their competitiveness', whereas Southern economies 'ran into severe balance of payments problems' (ibid.). If the ECB conducts its monetary policy with 'the primacy objective of price stability in the euro area as a whole' (González-Páramo 2005), how then to deal with the challenges posed by a heterogeneous currency union?

Between the start of EMU and the euro crisis, the ECB followed the single market-making logic of economic integration, assuming the possibility of creating 'the unification of European economic space' (Mudge and Vauchez 2022, 589) through the restructuring of EMU's comparative capitalisms. Because inflation differentials have their origins in structural factors like 'rigidities in wage and price-setting' (González-Páramo 2005), according to the ECB reforming national political economies – and their labour markets in particular – was the only

[8] ECB Official, personal interview, 22/08/2018. This point was shared also by ECB Official B, personal interview, 28/08/2018 and ECB Official, personal interview, 22/11/2019.
[9] Ibid.
[10] ECB Official, personal interview, 22/08/2018.

way to ensure that different European capitalisms are compatible *irrespective of* the monetary regime (ECB 2008a). 'To the extent that persistent inflation dynamics reflect country-specific inefficiencies, these features should be addressed by national structural policies and they should not be accommodated by monetary policy' (ECB 2008a, 83). That is, because in EMU monetary policy is indivisible and the euro 'simply cannot fail' but 'must succeed', there is only one available option: 'one size *must* fit all' (Issing 2001, 459).

The experience of the Eurozone crisis forced the ECB to curtail its expectations of capitalist convergence and reform. Having recognised that European comparative capitalisms come in varieties, the ECB adjusted its cognitive strategy in a way that represents a strange hybrid of '*common* and *single* market-making' logics (Mudge and Vauchez 2022, 589). On the one hand, the rigid universality of the 'single market-making' approach and the idea that an internally unified euro area economy can be achieved are still part of ECB's economic thinking. After all, the ECB (2020) keeps looking at the euro area as a unified whole when thinking about EMU deepening. On the other hand, notions that are now part of ECB economic policy doctrine, such as the need to ensure country ownership of reforms, to consider national specificities, and to rebalance the Eurozone's growth model, suggest that the Bank has increasingly appreciated the multifaceted character of European capitalisms, treating their diversity as something to be acknowledged rather than ignored.

The ECB has therefore naccepted that 'a one size must fit all!' approach *a la* Issing (2001, 2005) does not work, reorienting its thinking and discourse towards 'the *common* market-making mode' (Mudge and Vauchez 2022, 588) of economic integration. Hernce, albeit still seeing the euro area as a totality, EU central bankers have recognised that EMU's domestic capitalisms need to be understood in their own terms[11], paying increasing attention to their diverse political economic contexts. These findings chime with recent ECB's efforts to 'embed a resilient EMU from the top down' (Mugnai 2022).

Conclusion

Successive waves of comparative capitalisms and European integration scholarship can at times neglect the strategic agency of pivotal EU institutions like the ECB, and the constitutive power of economic ideas held by these organisations within processes of European capitalist restructuring. As we detail in this article, the guiding economic ideas and narratives that prevail within of EU institutions are not necessarily stable, nor they align entirely with accounts of capitalist convergence advanced in growth models or VoC debates in CPE.

After the euro crisis the ECB abandoned its narrow conception of fiscal rectitude, and decreased its emphasis on a 'one size fits all' approach to structural reform. The ECB also urged creation of euro area fiscal capacity, critiqued the SGP's asymmetric character, and

[11] This point was shared also by ECB Official B, personal interview, 28/08/2018, and ECB Official, personal interview, 31/08/2018, and ECB Official B, personal interview, 6/09/2018.

bemoaned its ineffectiveness in achieving an optimal euro area fiscal stance. It moved towards a more variegated narrative emphasising national specificities, and the possibility to use fiscal policy to compensate the short terms costs of reforms. Evolving ECB thinking about 'resilient' economic structures came to appreciate the social embeddedness of capitalist institutions.

Having edited its now more contingent prescriptive discourse in this way, the ECB looks less like a convergence-inducing actors within European capitalist restructuring. EU central bankers have toned down the functionalist and economistic premises of their earlier convergence thinking, which viewed efficient economic institutions being 'called forth' by economic imperatives. National ownership of structural reforms will more likely lead to hybridisation rather than alignment with a single model of growth. Rather than having an overarching export-led growth model in mind, the ECB is attaching more importance to the demand side of the economy. This suggests an age of diminished expectations for European capitalist restructuring at the ECB.

By leveraging its ideas and cognitive authority, we argued, the ECB crafted an evolving 'constructivist strategy' (Best 2010, 196) aimed to 'redefine what it means for governments to be good economic subjects' (ibid.) inside the euro area. This way, through its discourse on fiscal policy and structural reforms, the ECB tried to 'institutionalize a particular set of practices as well as a specific vision of economic order' (Best 2010, 200), thereby revealing 'the close connection between political power and institutional expertise' (ibid.).

Just as the politics of ideas occurring within IOs is an important site of power in global politics (Barnett and Finnemore 2004; Broome and Seabrooke 2012), so it is within Europe. The politics of growth models (or perhaps better the politics of capitalist restructuring) within EU institutions, we conclude, have significant implications for European economic governance. What ideas prevail within internal struggles at the ECB matter for the future trajectory of European integration and the political economy of European capitalist reform.

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