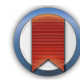
St Comp Int Dev (2018) 53:239–260
https://doi.org/10.1007/s12116-018-9261-6



Pathways from the European Periphery: Lessons from the Political Economy of Development

Sebastian Dellepiane-Avellaneda[1] · Niamh Hardiman[2] · George Pagoulatos[3] · Spyros Blavoukos[3]

Published online: 13 April 2018
© Springer Science+Business Media, LLC, part of Springer Nature 2018

Abstract The European economic crisis need not be considered as a problem that is sui generis. Drawing on literature from the political economy of development that centers on finance and monetary policy, we show that the economic vulnerabilities and policy predicaments facing the European periphery share many similarities with problems encountered by middle-income developing countries. Three main concerns guide our discussion: the politics of credible commitment, the significance of state capacity for stabilizing credibility, and the challenges of maintaining democratic legitimacy during times of financial volatility. Our analysis of the dynamics of hard currency pegs and monetary unions draws on lessons from the classic Gold Standard and on more recent experiences of financial crises in emerging markets. We consider how these may apply to the Eurozone periphery, before drawing out some implications for the problems of core–periphery relationships in European Monetary Union.

Keywords European periphery · Financial crises · Emerging markets · Credibility of monetary commitments · State capacity

Introduction

The papers in this Special Issue have considered various aspects of the development challenges faced by different regions of the European periphery in the context of the Global Financial Crisis. In this paper, we look at the dynamics of core and periphery

✉ Niamh Hardiman
Niamh.Hardiman@ucd.ie

[1] University of Strathclyde, Glasgow, UK
[2] University College Dublin, Dublin 4, Ireland
[3] Athens University of Economics & Business, Athina, Greece

المنارة للاستشارات

from the perspective of monetary and exchange rate policy. We also bring in a broader perspective from other developing regions.

The Eurozone was known from the outset to be considerably less than an optimal currency area, and the institutional design of European Monetary Union (EMU) was intentionally minimalist. Strong assumptions were made about the capacity of domestic political systems to respond to asymmetric shocks. The seeds of the Eurozone crisis were sown during the good times between the mid-1990s and the mid-2000s, but this was not solely because of deficiencies in domestic policy management. The perverse implications of member states' sudden convergence on low interest rates and the glut of credit that followed were not fully appreciated at the time. Indeed, it is striking how unprepared European policy-makers were for what happened.

That said, the EU's long-term achievements in terms of peace, democracy, and prosperity should never be taken for granted. The EU project has been an inspiring model of cooperation for other regions. Nonetheless, parochialism in whatever shape can be a hindrance to understanding (Sartori 1970). This basic rule of good comparative research suggests that there may be much to be gained from bringing perspectives from the global peripheries to bear upon our current European predicaments. This paper argues that a more nuanced comparative and historical perspective could have better informed the architects of EMU of a broader range of potential hazards than they had actually envisaged. Imbalances between core and periphery have been enduring features of attempts to institutionalize financial relationships between countries in the past. The problems faced by EMU are not essentially different from those experienced by countries in many other regions of the world.

This paper draws on a financially based approach to conceptualizing core and periphery that invites us to reflect on historical experiences of hard currency pegs and monetary unions, particularly the Gold Standard. We also look at recent and contemporary struggles for currency stability in "emerging markets."[1] Moving away from Eurocentric preoccupations and extending the geographical scope of core–periphery dynamics can provide some rather unexpected insights.

Peripheral countries encounter particular kinds of problems within a fixed exchange-rate regime that make them vulnerable to disproportionate upward swings in the good times and excessive wealth destruction when the inevitable downturn arrives. We consider three of these in turn: credible commitment, state capacity, and democratic legitimation. We first outline the theoretical and empirical implications of these themes in the light of historical and contemporary experiences. We follow this with some reflections on the consequences for our understanding of the vulnerabilities of the Eurozone periphery, before concluding with some implications for our current European predicament.

Debates about the way forward are sometimes couched in terms of "more Europe" as opposed to "less Europe," where the main options are viewed in terms of the scope and speed of allocating increased powers to the European institutions. We argue that this is too simple a way to frame the issues that are at stake. By widening our frame of reference we gain new perspectives on the dynamics of core and periphery in the Eurozone.

[1] "Emerging markets," like "periphery," sometimes lacks clarity. But the concept may usefully let us draw upon an established literature on financial vulnerabilities and monetary dilemmas.

المنارة للاستشارات

Rethinking Core and Periphery in an "Emerging Markets" Perspective

Despite its intuitive appeal, ideas about core and periphery in contemporary Europe remain under-theorized and poorly substantiated in empirical terms. The inconvenient fact is that some countries are simply more "developing" or "emerging," both economically and institutionally, than previously assumed. According to Bordo and Flandreau (2003: 461), a key distinction between core and periphery is their respective levels of "financial maturity," that is, their perceived creditworthiness. Schwartz (2003: 468). distinguishes between "capital-rich" (core) and "capital-poor" (periphery) countries. Dyson (2014: 159), in his *tour de force* on the history of debt in Europe, argues that "the distinction between rulers and states who are creditworthy and those who are not points to a key differentiator between European core and periphery."

Core–periphery relations are ultimately about systemic interdependence, linked through a web of trade, financial, and political relationships. Spatial metaphors and hierarchical analysis often feature. Cohen (1998), for example, refers to "currency pyramids," and Reinhart and Rogoff (2009) distinguish between "creditor clubs" and "regions of vulnerability." International league tables of "default virgins" and "serial defaulters" show a good deal of continuity (ibid). European debtor–creditor patterns are rooted in deep historical processes that can be traced back to the rise and decline of European empires, and before them, to the fortunes of city-states. There are striking parallels between the "historic arc of default" across southern and eastern Europe and the distribution of credit risk during the Euro crisis. This pattern points to a configuration of states that "shared chronically weak state capacity, limited willingness to pay creditors, and periphery and super-periphery status" (Dyson 2014: 144).

And yet the inventory of "saints and sinners," "redeemers," and "fallen angels" is regularly reconfigured, sometimes in rather surprising ways. The cultural and geographical boundaries of peripherality are not as historically invariant as the path-dependent account outlined above might suggest. Creditworthiness, and by implication the boundary between core and periphery, is not only based on assessments of objective economic evidence but is also shaped by socially constructed interpretation and evolving power structures (Dyson 2014: 58; Brazys and Hardiman 2015). At issue is the shifting capacity of states to generate and sustain credibility in world markets that are themselves in flux. For example, the financial reputation of countries now accepted as having "core" status such as France, Finland, and Austria, and most notably Germany, fluctuated considerably over the last two centuries. Then again, some conspicuous members of the historic arc of default, such as Portugal and Spain, avoided full-scale sovereign defaults in the twentieth century through their sometimes dramatic experimentation with devaluation, inflation, and financial repression.[2] More recently, emerging-market dysfunctions disrupted the economies and politics not only of Spain and Greece, but of ostensibly well-functioning economies such as Ireland and Iceland. The concepts of core and periphery and their respective defining characteristics should be treated as (moving) variables rather than (fixed) constants. Intermediate categories and typologies, suitably interpreted, may offer further conceptual refinement, such as,

[2] This development is an important part of the story in its own right, as these policy options are no longer possible within EMU.

المنارة للاستشارات

for example, Wallerstein's (1974) classic idea of "semi-periphery" and Sokol's (2000) more recent notion of "super-periphery."

How do countries come to gain credibility in financial markets? Firstly, they need to be able to make credible commitments to sustainable financial management; secondly, they need to have the domestic capacity to absorb shocks without rupturing their external commitments; and thirdly, they need to be able to do this without causing a political backlash that would undermine monetary and exchange rate commitments.

The Challenge of Sustaining Credible Commitments

A short-cut to financial credibility that often appeals to periphery countries involves pegging their currencies to a strong and visible external anchor, securing themselves to core countries with extra-strong "glue" to avoid exclusion from the benefits of modern forms of integration (Bordo and Flandreau 2003: 418). Political motives are also relevant: governing elites can thereby tie domestic constituencies into the desired political economy path, biasing policy choices and ensuring the irreversibility of a given reform process (Dyson and Featherstone 1999).

The case of the historical Gold Standard is relevant here (Acena and Reis 1999; Eichengreen 2008; Ogren and Oksendal 2012). Indeed, "for students of the Gold Standard, it is striking how familiar the modern view sounds, if only we look at the record carefully" (Bordo and Flandreau 2003: 432). While the Gold Standard was geared toward generating stability at the core, it also involved a great deal of instability at the periphery (Eichengreen 2008: 37–41). "There was a core that followed the high road of more or less complete gold convertibility, and an *infamous periphery* that had trouble pegging but resented floating" (Bordo and Flandreau 2003: 418, emphasis added). Peripheral economies had poorly diversified productive profiles, weak fiscal capacity, and fragile financial systems. They were extremely vulnerable to fluctuations in the terms of trade and to destabilizing shifts in international monetary flows. Interestingly though, the "rules of the game" of the Gold Standard were less heavily regulated and more flexibly enforced, especially in the periphery, than is often assumed (Ogren and Oksendal 2012). But the periphery countries lacked the political and social resources that supported the system at the center.

Economic historians have always distinguished between a European capitalist core and its many peripheries, the latter characterized by relative socio-economic backwardness, a series of distinctive policy and institutional weaknesses, and latecomer status (Maddison 2001; Lains 2003; Eichengreen 2007). Contemporary developing economies are often exposed to very similar asymmetries in managing capital flows and currency instabilities (Cardoso and Faletto 1968; Prebisch 1981; Dosman 2008). Financial crises have been a regular feature of so-called emerging markets in recent decades. Indeed, "emerging markets learned the truth about financial markets from their painful experiences in the 1980s and 1990s" (Wolf 2014: 321; see also Santiso 2003). "Globalization appears to mean surprisingly consistent things in the periphery, but radically opposite things in the core" (Bordo and Flandreau 2003, p. 418).

What then are the implications for "peripheries," drawing on our historically and comparatively informed reflections on the issue of sustaining credible commitments in financial markets? One of the besetting problems of periphery economies is the

المنارة للاستشارات

inability to borrow abroad in their own currency, and they may even struggle to raise domestic funds in local currency at long maturities. This "original sin" (Eichengreen and Hausmann 1999) is one of the intrinsic fragilities of emerging markets. In contrast, Switzerland and Luxembourg emerged as global financial hubs through many iterations of crisis in Europe, during which they built up a durable reputation for financial security, not to say secrecy. Redemption from original sin is a long and uphill struggle, beset by many contingencies. Nations at the lower strata of the international finance league do not climb the ladder easily (Hausmann and Panizza 2003).

A related key feature of emerging markets is a pervasive "fear of floating" (Calvo and Reinhart 2002). Governments in the periphery are often reluctant to let their currencies fluctuate because they lack credibility in foreign markets to sustain their currency's valuation. This is to some extent rooted in original sin and the threat of huge currency mismatches (that is, external debt that is issued in hard currency, while national fiscal revenues are denominated in soft currency), which in turn may lead to fiscal crises, banking panics, and sovereign defaults. The reputational handicap and the potential currency mismatches (which are related phenomena) make fear of floating an enduring characteristic of emerging markets. This helps explain the attractiveness of hard pegs to governments lacking credibility.

In the debt game, though, some countries are more equal than others. Many developing nations suffer from debt intolerance, as the result of their financial history and evolving credit records. Periphery countries may experience financial distress once they reach debt levels that would look manageable by the standards of core countries. For example, Argentina defaulted in 2001 while broadly meeting the Maastricht criteria, as did Mexico in 1982 with a debt-to-GDP ratio that was lower still. On the other hand, some advanced economies can afford to accumulate big debts without seriously compromising creditworthiness, notably Japan, but also Belgium and even Italy.

Debt intolerance is a syndrome associated with weak institutional structures and problematic political systems (Reinhart et al. 2003; Reinhart and Rogoff 2009: 21). Yet what is considered a sustainable or unsustainable debt is a historically bounded, socially constructed phenomenon. Power relations involving core–periphery dynamics are always a relevant consideration in building and sustaining credibility (Dyson 2014).

The Key Role of State Capacity

Credible commitment and state capacity are mutually interdependent (Gourevitch 2008). Core countries tend to have a stronger political ability to mobilize fiscal and financial resources, and stronger and more robust means of coping with economic shocks. But they also have a hinterland of institutional and organizational resources to manage the good times, making it possible to absorb rapid growth into productive channels without fatally undermining fiscal or financial stability. Conversely, periphery countries are usually associated with weak fiscal and state capacity. The absence of effective institutional buffers to accommodate external shocks—both good and bad—is the Achilles heel of many emerging economies (Rodrik 1998b).

Financial immaturity and weak state capacity are analytically distinct but empirically interrelated. Periphery status entails a mix of self-reinforcing economic vulnerabilities and political weaknesses. As Besley and Persson (2011) show, the political economy

المنارة للاستشارات

underpinnings of the core are strongly “clustered,” prompting functionalist explanations in which characteristics are inferred from outcomes, and vice versa. For example, the USA and UK were seriously exposed to the financial crisis, but their governments managed to steer a course out of the crisis in ways that would be well beyond the capacity of the periphery. For example, US Treasury Secretary, Timothy Geithner, was able to use “overwhelming” US financial and fiscal firepower to underpin commitment during the financial crisis (Geithner 2014). Similarly, the British government, supported by the Bank of England, was able respond decisively to the failure of Northern Rock (Darling 2011). Financial credibility in world markets is intertwined with an institutionally well-developed capacity for effective and well-coordinated policy response.

A capacity for state activism is key to explaining the growth strategies involved in various “pathways from the periphery” (Haggard 1990), and even more so when we consider the sustained growth trajectories of the so-called “developmental states” of East Asia (Rodrik 1994; Evans 1995; Stiglitz 1996; Amsden 2001; Cingolani 2013). State capacity—fiscal, productive, and administrative—is critical for ensuring a prudent and productive absorption of capital in the good times, as well as a buffer against negative shocks in the bad times.

Peripheral economies frequently face a serious challenge in managing large inflows of international capital. External indebtedness can be productive or unproductive (Dyson 2014), but ensuring that capital inflows are productively used is highly problematic. Productive use means that resources are wisely invested to expand the productive and social capacity of the country. In unproductive use, credit is used to fund superfluous and unsustainable consumption patterns. States vary in their capacity to engage economic and social actors in a growth strategy based on “intensive” higher-level skills and technological innovation, as opposed to an “extensive” approach that relies on increasing the volume of the same factors of production, particularly in the form of labor power (Eichengreen 2007).

Recent scholarship has noted the vital role the state has played historically in the economic development of the currently most developed societies, linking financial and productive capacities (Chang 2002, 2008). Mazzucato (2013) and others have renewed intellectual inquiry into the activist role of the state in supporting leading sectors of technological innovation in the most advanced economies. Development literature is replete with instances of growth-promoting policy experimentation outside conventional orthodoxies. For example, Chile’s apparently successful use of capital controls generated some recent policy learning, not least within the IMF (Moschella 2015). A nuanced reading of theories of “peripheral development” (Prebisch 1981) would suggest that emerging economies, engaging with globalization within the constraints of existing power relations, must be able to design a policy mix to suit local conditions, needs, and social preferences (Cardoso 2009).

As we have noted, an external anchor provides an “external solution” to problems of cooperation that are difficult to manage at a domestic level (Taylor 1987; Della Paolera and Taylor 2001). But sustaining a domestic coalition of support behind this policy can be problematic. The preference structures of the key social and economic actors would need to change in order to internalize the behavioral constraints required by the anchor, which in turn would have to be supported by new institutional practices and stable policy commitments. These interdependencies or complementarities are not pre-given, and must be built up and sustained over the long haul. But their sustainability is only

المنارة للاستشارات

put to the test in the throes of a crisis, and a storm in mid-ocean is, proverbially, no time for shipbuilding.

The implication of these reflections is that the institutional capacity to deal with financial market volatility is put to stronger tests in the periphery, yet institutional resilience tends to be more fragile than in the core, testing state capacity up to and even beyond breaking point. Emerging-market economies are frequently exposed to brutal reversals of international capital flows known as "sudden stops." In periods of high international liquidity, money flows to the periphery of the global economy where high returns are available. These financial flows can reverse rapidly in the face of negative economic shocks and swings in investors' mood. The emerging-market gamble often creates massive opportunities for the emerging economies. But it also exposes them to the vulnerabilities associated with "casino capitalism," the high-risk stakes of the gambler rather than the steady investment and wealth accumulation of the stable bourgeoisie. The "animal spirits" released in speculative frenzies are notoriously hard to control. Allocating borrowed resources prudently and productively is extremely challenging, and requires a deep and mature infrastructure linking financial and productive functions. A sudden drying-up of funding sources exposes all these vulnerabilities in peripheral economies, with no place left to hide.

The literature on sudden stops gained traction following the Mexican and Argentine defaults, and especially perhaps after the East Asian and Russian crises in the late 1990s (Calvo 1998). In good times, core markets are saturated and do not offer high-enough returns; hot money flies to successful peripheral countries, including the "miracle" nations of the time, "to cash in where growth is today, and for the foreseeable future" (Rapoza 2011). Capital inflows induce Dutch disease and even "resource curse." Highly leveraged debt induces a financial version of the "paradox of plenty" (Ross 1999). But then in the all-too predictable bad times, capital "flies to quality" regardless of the fundamentals in the periphery. Peripheral countries typically lack sound institutional buffers and are left exposed. This cycle is not only financial, but pervades the entire political economy. Indeed, the major problem in developing countries is not lack of growth in good times, but the amount of "growth destruction" during crises (North et al. 2009).

Peripheral economies are also structurally exposed to the export of movable capital by domestic elites, and this can exacerbate the effects of sudden stops. The ready exit option favors core countries with well-established financial centers: think of wealthy South Americans' bank accounts in Miami, or southern European assets held in Cyprus or in London. As Hirschman notes (2013), differential patterns of capital flight among core and peripheral countries may raise not only economic but also political challenges. The formation of pro-capitalist coalitions and free market ideologies in peripheral states is even more problematic when capital flight is the preferred and easy choice by local elites.[3]

The accumulation of these vulnerabilities means that financial immaturity, or the lack of financial depth, is one of the structural features of developing and emerging countries; it is both a cause and effect of these processes. Financial immaturity can be thought as a cluster concept combining a range of emerging-market characteristics (Bordo and Flandreau 2003). Securing financial maturity is a slow-moving, path-

[3] Similar problems arise in relation to other exit strategies such as emigration.

المنارة للاستشارات

dependent process that may take a very long time. By extension, graduating from crisis also takes time (Reinhart and Rogoff 2009). Climbing the international financial ladder involves ups and downs, false starts, and even reversals. The very volatility of emerging markets may even create the illusion of graduation, and the list of failed erstwhile "economic miracles" is ever-growing. But confidence, in the end, is fickle, and confidence games in emerging markets are truly contentious (Santiso 2003). Peripheral countries are vulnerable to self-fulfilling crises. Indeed, the possibility is exacerbated by the possibility of multiple equilibria in potential outcomes, in which both debt sustainability and sovereign default are perfectly possible outcomes, quite independently of the underlying macroeconomic fundamentals. Lack of state capacity reinforces the challenges of credible commitment.

Technocratic Policy in Tension with Democratic Legitimation

Political commitment to democratically legitimated decision-making in the periphery can be severely tested in a world in which financial, monetary, and fiscal policy options are constrained. Where regional reputation or neighboring states present negative externalities (that is, compromise investor confidence in other economies in the region), governments may need to signal credibility by going overboard on their own policy commitments (Rodrik 1998a). During the 1990s, for example, Portugal successfully boosted its market credibility from a low starting point by introducing stringent fiscal measures; similarly, Argentina managed to decouple itself from the poor market ratings of Mexico through strong domestic disciplines. But over-commitment and over-adjustment also come at price, involving political costs in the short-term and leading to economic imbalances in the long run.

Successfully implemented external anchors may themselves unleash unpleasant and unintended consequences, activating a perverse political economy cycle. As we have noted above, the adoption of a successful monetary commitment can open sizeable financial opportunities, leading to paradox-of-plenty effects that are hard to control. The avalanche of easy money, if not properly managed, distorts public finances and biases the growth model, compromising sustainability. But the effects are not confined to the economic domain. They spill over into the politico-administrative system itself: monetary abundance corrupts the political system, undermining good governance. The circle of adverse consequences is then closed, often following a sudden credit crunch, with an "institutional cascade" of dysfunctionality, however well-conceived the original institutional configuration may have been. Commitment to the external anchor may well be quickly abandoned, or more likely may collapse, in the face of insurmountable economic imbalances and intensifying domestic political resistance. This vicious sequence has haunted many emerging countries, not least Argentina around the turn of the millennium (Della Paolera and Taylor 2001; Dellepiane-Avellaneda 2005).

Looking further back, the Gold Standard was also vulnerable to the increasing politicization of the policy process in the periphery. But ultimately, the political base of the Gold Standard also crumbled at the core, under pressure from popular mobilization against the distributive consequences of policy choices that were made in order to stick to the targets (Polanyi 1944/2001). If anything, we would expect questions regarding the democratic viability of external commitments, in both core and peripheral countries, to be even more pressing today (Rodrik 2012).

المنارة للاستشارات

From the Gold Standard to the current phase of globalization, then, the politics of monetary commitments poses serious challenges to the periphery. The mode of insertion of sovereign nations into the international monetary system, and the terms on which they are able to do this, are not symmetrical for core and peripheral countries. While developed countries with a good reputation have been able to manage a flexible exchange rate, fear of floating has been more pervasive in the periphery (Bordo and Flandreau 2003: 432). And yet emerging markets that use an external anchor to get to the high road of international finance often find themselves "straining at the anchor" because of the domestic discontent generated by the policy itself (Della Paolera and Taylor 2001).

Monetary anchors, after all, are ultimately political anchors, and the solution to monetary dilemmas involves further political dilemmas. Sustaining external commitments in the context of democratic representation and territorially defined political accountability can become highly problematic. Economies lacking control over exchange rates must manage adjustment through flexibility in relative costs (including wages), or in the level of economic activity (including employment levels), with implications for the well-being of those most exposed to market fluctuations (which may include producer as well as employee interests). The interests of the exposed sectors tend to run directly counter to those of owners of assets and resources (land, capital, savings) who benefit from maintaining the external anchor. The implications for distributive conflict and social antagonisms are obvious. As we have noted, peripheral countries often have a limited institutional capacity to support effective growth-promoting policy; they typically also lack sufficient social compensation measures to build and sustain broad-based "reform coalitions" over the long term (Etchemendy 2011). In this context, political contention and social unrest is all too predictable a consequence of a hard-currency policy.

The European Periphery as Emerging Market Economies?

These reflections suggest that an "emerging-marketization" of the European periphery shaped the pathways to crisis and constrained the range of policy options available during the Great Recession. As Wolf (2014: 214) notes, "[In the Eurozone periphery], the flows reversed at the first sign of trouble, as one would expect of capital flows to emerging economies."

The crisis-prone countries of the Eurozone are more closely aligned with the developed world than with any global periphery experiences: we do not wish to stretch these concepts unduly (Sartori 1970). Moreover, within the Eurozone periphery there is considerable variation in the structural features of their political economy, the dynamics of their adaptation to EMU, and the challenges and prospects they face in accommodating to the new post-crisis order. But our more expansive periphery perspective may nonetheless shed some new light on the broader dynamics of the Eurozone core and periphery, since earlier aspirations toward convergence have been so thoroughly disappointed.

The Volatility of Financial Flows and the Paradoxes of Credible Commitment

The ever-present challenge of credible commitment is at the heart of the political economy of the European periphery. The motivation of these countries for joining

المنارة للاستشارات

EMU stems directly from the classic problem of managing a weak currency in a floating regime, or even semi-floating, as in the case of EMS. Indeed, European governing elites faced these dilemmas from the outset, particularly with respect to the "cohesion countries" of the periphery (Barry 2003). From the Werner Report of 1970 to the current critical juncture, the challenge has been one of developing a sound institutional framework to ensure monetary cooperation in the ever-evolving "brave new monetary world" (Eichengreen 2008).

According to Bordo and Flandreau (2003: 420), "the meaning of financial globalization varies a lot depending on the type of country—core (advanced) or periphery (emerging)—and the type of regime (floating, fixed) we consider." EMU emerged from quite divergent motivations and expectations (Sandholtz 1993; Dyson and Featherstone 1999). Economists noted the non-optimality of this currency area from the outset, but the political drive came from leaders of core countries who were committed to the belief that this radical move would eventually strengthen convergence in the "real" economies of the weaker member states (Marsh 2011). Peripheral countries had a strong economic motivation to tie themselves to an external anchor that was guaranteed by the credibility of the DM. The full implications of these contrasting incentives and expectations for the viability of the Euro were initially overlooked by most (though McKay 1999 was a notable exception).

Some incentive problems associated with the paradox of pre-commitment were also neglected. Credibility strategies are bound to mean different things for core and peripheral countries, precisely because they are providers and buyers of reputation, respectively (Dellepiane-Avellaneda 2005, 2013). In the periphery, governments tend to overestimate the short-term payoffs of "tying one's hands," and to underestimate the longer-run risks. The question of what would happen if the gamble went wrong was hardly considered. Greece's problems with maintaining its credibility on international markets were the most extreme in the Eurozone, but they are only the furthest point on a continuum on which the other peripheral countries also found themselves (Dellepiane-Avellaneda 2015).

Political conditionality imposed from outside did indeed support domestic internalization of the Maastricht disciplines (Franco 1998). But what followed disrupted its long-term institutionalization, in ways that now look quite predictable in the light of historical and comparative experiences. The periphery suddenly gained credibility in the international markets that it had not earned for itself, and this "borrowed credibility" gave it access to a superfluity of cheap credit. The surge of speculative capital to less-developed areas where the returns on investment were high was all but irresistible, generating classic speculative bubbles built on both private credit and (especially in the case of Greece) public borrowing.

The myth that the crash in the Eurozone was occasioned by excessive fiscal debt has been widely discredited. The growing consensus view is that this was first and foremost a financial crisis, and only later did the ensuing banking crisis turn into a sovereign debt crisis (Baldwin and Giavazzi 2015). Fiscal crisis did not cause the credit crisis, but followed it as revenues collapsed and deficits rose. The crash was an absolutely classic instance of a sudden stop (Merler and Pisani-Ferry 2012). What ensued was an equally classic flight to quality, as capital re-migrated to the safe havens of the core.

This was not supposed to happen. The institutional design and policy commitments of EMU explicitly ruled out the possibility of financial crisis. The repudiation of the

المنارة للاستشارات

very possibility of sovereign defaults, a constant feature of emerging markets, is an obvious case in point. The potential implications of sudden stops were also ignored. Intra-EMU current account imbalances were also supposed to be inconsequential. Policymaking elites across Europe internalized this thinking. The official narrative was that the Eurozone would not be undermined by the asymmetries and vulnerabilities common to center–periphery relations and familiar from the experiences of other regions and other times.

The original sin syndrome has now become a persistent issue within EMU. The latent fragmentation of the Eurozone is reflected in interest-rate differentials between core and peripheral countries, and in the fact that some Euro deposits are more equal than others (Cyprus being the most dramatic case). This has tested the idea of a single currency severely. The boom years had only created the illusion of financial graduation.

But nothing, let alone a monetary commitment, is actually irreversible in the world of sovereign states (Cohen 1998). In the earlier good times, the possibility of countries reverting to their original currencies was supposed to be minimal, but the desire to do so was arguably negligible anyway. Yet the unthinkable has a nasty habit of emerging into view in hard times. Regardless of formal arrangements and politicians' repeated commitments to the rules of the game, markets started betting on an institutional reversal, unmasking in the process the hitherto hidden boundaries between core and periphery.

It is evident in hindsight that claims about the exceptional nature of monetary integration in Europe were overstated.[4] As always, this time was not so different. Emerging-market dynamics played out in an all too familiar way in the now rediscovered European periphery.

Institutional Capacity at National and European Levels

Without strong and resilient institutional capacities, we have noted that peripheral nations are vulnerable to extreme financial volatility, with paradox-of-plenty diseases in good times and painful growth-destruction in hard times. The surge of capital to the Eurozone periphery during the boom years of the 2000s caused precisely the kind of paradox of plenty that is so hard to manage in countries with weak institutional capacity. State capacity is key for understanding not only how countries buffer negative economic shocks, but also how they absorb positive ones.

This is evident in three institutional arenas: productive investment and resource allocation, politico-administrative systems, and macroeconomic stabilization. We see these effects playing out in the Eurozone periphery along readily comprehensible lines. Firstly, the reason why these countries are peripheral in the first place is because they have limited access to capital and weakly developed abilities to direct investments into productive areas. It was all too easy for a new flood of cheap money to be misallocated to non-productive assets such as construction or consumption goods. Since this appeared to create nominal wealth and to raise living standards quickly and at little visible cost, it was supported by strong coalitions of interest across the society and was

[4] Dyson (2014) argues that international organizations such as the IMF have incentives to downplay the perceived weaknesses of advanced countries, and recent IMF soul-searching appears to endorse this (IMF Independent Evaluation Office 2016).

المنارة للاستشارات

politically hard to resist. The direction and size of capital flows in the Eurozone resembled all too closely the patterns observed in volatile emerging markets: in Ireland and Spain, in the Baltic nations and Slovenia, and indeed in Iceland (outside the Eurozone), hot money inundated the periphery, inducing Dutch disease symptoms and even the resource curse.

Secondly, the boom in turn degraded those institutional resources that do function reasonably stable manner, slackening vigilance over risk-taking, and opening the doors to the emergence of new political constellations of rentiers with a vested interest in keeping the taps flowing (such as banks, developers, and builders). Corruption scandals in Spain, for example, cannot be understood without considering the governance effects of easy money.

Thirdly, the challenges of macroeconomic management overwhelmed the institutional resources available to policy actors, whether in the form of fiscal policy or labor market policy. Sudden capital inflows gave rise to large balance-of-payments imbalances with the core and with the rest of the world. Domestic inflationary pressures were imported through just such massive over-heating. In the context of average low inflation across the Eurozone, the inflation differential resulted in extremely low and even negative interest rates in the periphery in the first half of the 2000s, further intensifying the incentives for capital surges to the periphery and extensive borrowing on domestic markets. Rising inflation and increasingly unaffordable house prices strained the capacity of wage-setting systems (Johnston and Regan 2017). The view that consumption and thus demand could be dampened through fiscal interventions simply lacked credibility. Peripheral governments that had not previously run large fiscal surpluses could not readily introduce counter-measures of sufficient magnitude (Scharpf 2011).

Of course country experiences varied. Membership of EMU did indeed shelter its peripheral members against the full blast of financial failure, unlike Argentina or Iceland (Boyes 2010; Dellepiane-Avellaneda 2015). European institutional capacity insulated peripheral countries from “debt-intolerance” effects. Notwithstanding the rhetoric of “no bailout,” crisis interventions were mobilized, followed by moves to establish permanent support facilities. Ireland, for example, took on new debt equivalent to about 100% of GDP to recapitalize the banks and keep the government afloat, and despite suffering the worst economic collapse in the state’s history (and one of the worst financial crises ever), was not expelled to the class of “debt sinners” in the global economy. Peripheral countries could afford to run deficits and to accumulate debts that would be unthinkable in the outer peripheries. Without these buffers, however hastily constructed, the financial systems and hence the economies of the weakest members of the Eurozone would have imploded *à la* Argentina.

The shelter afforded by EMU, however, came at a considerable price and with a decidedly leaky roof that left some parts of the suffering periphery a good deal more exposed than others. The reason for this is, of course, the “unfinished architecture” of Europe’s economic union (Schmidt 2010). EMU intentionally lacked the policy instruments appropriate to a currency union, such as fiscal transfers to compensate for asymmetric shocks, a banking union to manage insolvent banks, or even a common financial regulation framework to control risk and monitor lending practices. It had relied all too confidently on fiscal rules whose malleability had already been demonstrated in 2003 and 2004, and which were in any case quite irrelevant to the roots of the

المنارة للاستشارات

crisis in trade and financial imbalances. But in addition, deficits in institutional capacity were matched by a dearth of political capacity among the European elites even to devise credible and sustainable policy solutions or to implement them decisively. Minimal measures to meet immediate crises, while postponing hard decisions by "kicking the can down the road," notoriously became the *leitmotif* of the EU approach to crisis management.

Unable to do what was necessary to deal decisively with the crisis, the EU, like the proverbial drunkard looking for his lost keys under the streetlight because that was where he could see, turned all the more enthusiastically toward what it was able to do—that is, intensify the rules governing fiscal policy. Monetary anchors have often ended up being overwhelmed by policy inconsistencies (Sandholtz1993; Dyson and Featherstone 1999), and the Euro, it turned out, was no different. The Delors Report had noted that the monetary policies of EMS member states were "overburdened" by a lack of fiscal coordination and by country-specific institutional diversity. EMU fiscal rules were meant to control this problem, but the rules themselves were then obliged to bear most of the system's credibility. Institutionalized conditionality proved to be most problematic precisely in the area of fiscal policy (Blavoukos and Pagoulatos 2008; Hallerberg et al. 2009).

A widespread consensus among professional economists counseled against matching private-sector recession with public-sector austerity. But this was precisely what European policy-makers did while trying to secure better controls over national fiscal discretion. A wave of new rule-making, and the ex ante and ex post monitoring consequent upon the European Semester, the Two-Pack, the Six-Pack, and the Fiscal Compact, strengthened the systemic deflationary bias to the system. The "one size fits all" fiscal framework prevents counter-cyclical intervention in response to fluctuations in the economic cycle. Yet flux is more common in the periphery than in the core, and the in-built deflationary bias is pro-cyclical in recessionary conditions. Deficit-hawk priorities in EU official circles are damaging to the periphery, but congruent with German-inflected "ordoliberalism." The triumph of one ideational framework over others can be due to many factors, but the approach proposed here prompts us to be alert to manifestations of geographical and political differentials in power relations between core and periphery. Economic geography still matters in unexpected ways (Krugman 1998).

Democratic Legitimation in EMU

The inherent tension between international capital mobility and democracy was meant to be resolved within the EMU by precluding the possibility of floating exchange rates (Eichengreen 2008: 232). The competing claims of market efficiency, social cohesion and political legitimacy would now need to be managed within the existing rules of the game. In the context of perceived prohibitive exit costs, countries would be tied to the mast of Maastricht.

But institutional solutions to credible commitment are subject to credibility problems (Bardhan 2005), and these in turn are only possible in democracies when political support can be sustained. Institutional design needs to be backed up by supportive economic and social coalitions. In many emerging countries, the domestic constituency

المنارة للاستشارات

supporting monetary and fiscal stability is structurally small. This is precisely why these countries may "need" a disciplining external agency in the first place. The tension is not easily resolved after the self-binding has taken place, resulting in endless struggle of "rules versus men" (Kindleberger 1999). This tension between technocratic governance and democratic deliberation is key to understanding Europe's current woes and indeed the future of the Euro project (Sandbu 2015).

The crisis brutally exposed the fudging that lay behind this balancing-act (O'Rourke 2011). There are compelling reasons why a decisive shift to some form of federal policy capacity would be desirable to solve the coordination problems that have emerged. But there is evidently little appetite for far-reaching transnational consolidation of the locus of power. To the contrary, there are signs of a growing trend toward retreat inside national borders in a manner that would endanger the economic and political gains of coordination and cooperation. Brexit is the most advanced and dramatic instance of this; right-wing populist and far-right nationalist forces gather momentum elsewhere across Europe around similar though equally ill-specified themes of "taking back control," albeit with varying degrees of hostility to EMU itself. While anti-system challenges gather pace in the core, the crisis-hit periphery has suffered fragmentation of their party systems (Hardiman et al. 2017). All of this must be the subject of extreme concern to defenders of the European project.

Implications for the Political Economy of European Integration

The crisis exposed a whole range of unresolved issues in the political economy of the Eurozone. Some countries of the European periphery, we find, are more "emerging, both economically and politically, than previously assumed." In a world of globalized finance, even "the old core is becoming more peripheral" (Wolf 2014: 16).

Contemporary debates about possible ways forward in the wake of the Global Financial Crisis are often framed in terms of a choice between "more Europe" or "less Europe." As Bruszt and Vukov note in the Introduction to this Special Issue, either option is highly problematic. Drawing on Rodrik's (2012) trilemma of global governance, the options are not merely about degree of engagement with "Europe" but about the relative weight given to national democratic accountability and political federalism in the context of deep economic integration.

The three broad themes that have guided our reflections suggest that the current malaise of EU politics may usefully be analyzed in terms that broaden the debate further, so we can at least understand what is at stake.

The first concerns the politics of credible commitment. A better understanding of the credibility dilemmas underpinning monetary institutions may shed new light on the institutional sources of the Euro crisis and help clarify debates about the reform of European institutions. Like Mauro (2011), we can no longer assume that painful financial crises accompanied by political instability are the domain of developing countries. "Systems are tested on their margins" (Bordo and Flandreau 2003: 418). Those countries that graduated from bailouts (Ireland, Portugal, Spain) face new problems of rebuilding their credibility; but the eruption of crisis in Cyprus and worries about Italian banks, as well as the unending travails of Greece, show that vulnerabilities are never far from the surface.

المنارة للاستشارات

The on-again, off-again possibility of a forced or a voluntary "Grexit" in recent years shows forcefully that EU policy elites may be willing to view EMU as a currency union rather than as a device for full monetary integration. This indicates that a fuller appreciation of both the merits and the limits of an external anchor is necessary. These matters should not be subject merely to the pragmatic calculations or ad hoc accommodations of a particular moment. In this context, the doubling-down on centralized fiscal discipline looks highly problematic. Budget constraints in a monetary union need to be credible; but hard surveillance breeds resentment and is the antithesis of domestic internalization of sustainable targets. It is not self-evident that tying countries more firmly to the mast of fiscal and other performance targets will produce more stability: rules have already proven to need periodic though ad hoc flexibility, and "conditionality is barely working" anyway (Featherstone 2016: p.49). Credible commitment needs to be built in ways that permit some domestic flexibility. What is required then is "smart" rules, perhaps, rather than "stronger" ties (Blanchard et al. 2016). Sometimes, it seems, more institutional flexibility is needed precisely in order to sustain the same level of policy performance (Mahoney and Thelen 2010; Thelen 2014).

Furthermore, the "one size fits all" approach to recovery privileges countries that can generate growth through export performance. Strong budgetary and wage disciplines to increase the relative advantage of internationally traded goods and services can support a feasible recovery strategy. This suits Germany admirably. Ireland, through its cultivation of US investment, has also found that it can build a path to recovery along these lines. But this is just one potential "recipe" for dealing with the insertion of an economy into global markets, and a limited one at that (Rodrik 2012). For if there are exporters, there must be importers, so the unilateral quest for relative advantage must result in a beggar-my-neighbor outcome from a Europe-wide perspective. Moreover, competitiveness-centered, trade-based adjustment is spectacularly lopsided at a European level. Germany's trade balances run well over the 6% EU Macroeconomic Scoreboard guidelines, while the weaker economies have deficits much worse than the 4% indicated (already an asymmetrical target). All of this would seem to point toward the need for better macroeconomic policy coordination at the European level. But perhaps this may not come about until German policy-makers—and voters—face up to the unsustainability of a growth model that constrains domestic investment and consumption so dramatically.

The second area that invites further research is the closely related issue of state capacity—not just the institutional design of EMU itself, which has attracted some attention in recent times, but the political and administrative capacity for strategic action at both EU and national levels. The crisis exposed the poor capacity of peripheral countries to buffer negative shocks. Perhaps more critically, institutional coordinating capacities proved to be inadequate in good times too, at both EU and national levels. It seems that institutional fragilities are stubbornly persistent even in the face of economic catch-up. The long-term challenge of building policy and administrative capacity was forcibly brought home to European policy-makers in the context of their efforts to ensure Greek compliance with the terms of loan agreements, but as yet with little clear sense of how to address this systematically (Featherstone 2016).

A historical and comparative perspective exposes the continuing gap between the economics and the politics of European integration. An emphasis on market-deepening,

المنارة للاستشارات

backed by fiscal discipline and structural adjustment, makes it difficult to construct feasible pathways from the periphery. The practice of strengthening national-level adaptation of institutions and practices takes time, but it may also require more adaptive latitude than current policy framework permits. Just as smart fiscal flexibility may be a better strategy, we might also suggest that public finances might be permitted to be deployed more flexibly for investment and development purposes. European institutional capacity might be drawn on to guide rather than control national frameworks of capital formation. Fabbrini (2016: 278) notes that Juncker's modest EU-led investment plans may have some potential for growth by inducing a private-sector multiplier effect. This would be powerfully boosted by a recalibration of what is considered on or off the public balance sheet to enable better-quality productivity-enhancing public investment.

Some further implications for the growth prospects of the periphery emerge as we broaden our range of vision beyond Europe. The IMF has, it seems, come to see that Europe is no different from developing countries in needing significant debt restructuring, especially in Greece (IMF 2016). The need to develop sufficiently flexible but sufficiently powerful transnational mechanisms to tame financial excesses and promote growth prospects is clearly pressing (Rajan 2010). EU investment vehicles are small, limited, constrained—at nothing like the scale that would be required by a systematic development strategy. But this does not at all eclipse the need to build state capacity at the national level, not just to manage adjustment to externally set objectives, but to devise policy choices, appropriate to the conditions of their own economy, that would enable a sustainable pathway from the periphery.

EU member states, and *a fortiori* Eurozone members, have progressively accepted a narrowing of policy options for their domestic polities. The emerging-economies literature shows that the arsenal of national-level state strategies to support development is diverse. Most of the policy options associated with the conventional developmental state are precluded by the rules of the Single Market or of EMU. But there is no reason why new institutional capacities to support imaginative policy solutions could not be devised in the distinctive framework of multi-level European governance.

The challenge is one of sustaining externally anchored pathways from the periphery while permitting the scope for diversity in domestic democratic preferences that is the basis of ongoing system stability. Added to this is the importance of allowing policy scope to build sustainable coalitions of support among domestic actors, and the distributive measures to support shared growth, that are a prerequisite for maintaining external commitments. The experiences of both the Gold Standard and of emerging economies caught in global core–periphery dynamics forcibly underline the political costs of pursuing a technocratic economic management policy that is divorced from, and even at odds with, a broad spread of popular preferences.

On the other hand, institutional innovation and policy entrepreneurship in response to crisis have in fact been in evidence in the EU in different institutional arenas. Without Draghi's "whatever it takes" intervention, first in 2012, then with the loosening of monetary policy to counteract tight fiscal measures, the EMU may well have disintegrated by now. But European policy-makers face structural challenges in transcending the trade-offs inherent in intergovernmental bargaining in order to develop policy measures appropriate to system-wide problems. This is what makes it so difficult to devise and implement macroeconomic policy with a Europe-wide frame of reference (Jones et al. 2016). Without an active political commitment to explaining to national

المنارة للاستشارات

voters the rationale for—and tangible benefits from—proposed moves toward European coordination, there will be no durable capacity-building at European level.

This brings us to the third theme we have highlighted, that of maintaining democratic legitimacy in the context of a non-accommodating monetary regime and with limited scope for fiscal compensation. There is evidence of a good deal of commonality in policy preferences across Europe as a whole (Hale and Koenig-Archibugi 2016). Habermas is among the most forcible in arguing for a push toward building stronger state and political capacity at European level. Our analysis suggests that domestic legitimation is a variable commodity. The Eurozone peripheral countries had, by and large, internalized the constraints of their external anchor during the 1990s. It was the good times that undid these commitments, both economically and institutionally; it was the bad times that really tested the politics of consent. It will not easily be rebuilt without a new European-level impetus.

The peripheral countries currently face a challenge of managing adjustment through piecemeal policy change in the hope that the painfully slow rate of growth will help offset the budgetary disciplines they have to implement. But the domains of national preference articulation and of EU priority-setting only partially intersect. Mair (2013, 2014) made valuable contributions toward our understanding of this ungoverned space between democratic responsiveness and technocratic responsibility. Of course the EU policy-makers are themselves accountable to their own national electorates. But the old specter of nationally grounded power imbalances hovers over the EU decision-making framework. Greece discovered this at great cost through direct confrontation: indirectly, the German electoral cycle is frequently a key determinant of the timing of EU initiatives.

Transnational governance of interdependence would suggest the need for a transnational arena of accountability for European policy-makers. Bruszt and Vukov (Introduction) make the case for moving toward a strengthened transnational democratic forum to support policy-making for a Europe-wide polity. Innovations along these lines, however, similar to the progress made in boosting the powers of the European Parliament vis-à-vis the Commission in recent reforms, while undoubtedly important, do not address more fundamental problems.

What would be the incentives for voters to engage seriously with representation in a borderless polity that does not (yet) exist? European states are not mere regions of a European federal entity: they are “rooted configurations of power and identity” (Fabbrini 2016: 279). Furthermore, we might here invert the slogan of the early American independence movement to suggest that there is no meaningful representation without taxation, and that there can be no possibility of increasing taxation without genuine contestation over how it is raised, on whom it is levied, and how the revenues are to be deployed. But European decision-making and policy administration systems were designed to be devoid of politics, that is, of contestation over competing policy objectives and over the methods and means of policy implementation. Greece tested this to the limit in 2015. But it was Greek resolve that was broken, and the integrity of the institutional elites that prevailed (Featherstone 2016). This, for many, was the ultimate proof of a “Europe entrapped” (Offe 2014), fettered to a modern version of the Gold Standard.

So while we agree with Bruszt and Vukov’s view that stronger input legitimacy in EU decision-making would be desirable, the key tension in Rodrik’s terms is between

المنارة للاستشارات

the need to strengthen transnational governance capacities (and to resolve the tensions between the multiple, overlapping EU and EMU modes of governance), while also according serious weight to national democratic political capacity.

"Output legitimacy" is clearly central here (Scharpf 2013). The European authorities anticipate that renewed growth will follow from domestic structural adjustment alongside strong fiscal disciplines. For the periphery though, the implications of liberalization, deregulation, and privatization all point in the same direction: continued high unemployment, "internal devaluation," declining living standards. As de Grauwe (2015: 101) notes, "from an economic point of view, flexibility is the solution; from a social and political point of view, flexibility is the problem." And as Rodrik (2012) has noted, "When globalization collides with domestic politics, the smart money bets on politics."

Without a clear pathway out of crisis, comparative experience clearly points toward mounting problems of maintaining sufficient consent to keep the policy commitment in place. Sustaining or renewing consent to the European project now appears to require, all the more urgently, visible and tangible success as its measure. If citizens of Eurozone member states cannot see a pathway out of prolonged stagnation, a viable strategy for renewed growth, and a visible end to the years of austerity and unemployment, ongoing democratic consent cannot be presumed indefinitely.

There have been welcome if still limited recent initiatives in financial system regulation, and proposals have been mooted on matters such as safe bonds for EMU-level risk-pooling, a European-wide benefits safety net, and mechanisms that would strengthen both national fiscal capacity and European-level investment capabilities. All these would increase the European capacity for effective and well-coordinated policy response. But much more is required. At a minimum, this implies a rededication to the Delors-era priorities of "Social Europe." Many aspects of political capacity in key areas can and should be strengthened at the European level. But this is no straightforward prescription in favor of "more Europe."

In conclusion, a broader theoretical framework, drawing on the comparative and historical experiences of pathways from the periphery, would suggest that, in our current European situation, there is no necessary or linear connection between monetary union and political union *simpliciter*.

References

Acena PM, Reis J. Monetary standards in the periphery: paper, silver and gold, 1854–1933. Basingstoke: Palgrave; 1999.

Amsden A. The rise of "the rest": challenges to the west from late-industrializing economies. Oxford: Oxford University Press; 2001.

Baldwin R, Giavazzi F. The eurozone crisis: a consensus view of the causes and few possible solutions. eBook, voxeu.org; 2015.

Bardhan P. Scarcity, conflict, and cooperation: essays in the political and institutional economics of development. Cambridge: MIT Press; 2005.

المنارة للاستشارات

Barry F. Economic integration and convergence processes in the EU cohesion countries. J Common Mark Stud. 2003;41:897–921.
Besley T, Persson T. Pillars of prosperity: the political economics of development clusters. Princeton: Princeton University Press; 2011.
Blanchard O, Rajan R, Rogoff K, Summers LH. Progress and confusion: the state of macroeconomic policy. Cambridge: MIT Press; 2016.
Blavoukos S, Pagoulatos G. The limits of EMU conditionality: fiscal adjustment in southern. Eur J Publ Policy. 2008;28:229–53.
Bordo M, Flandreau M. Core, periphery, exchange rate regimes, and globalization. In: Bordo M, Taylor A, Williamson J, editors. Globalization in historical perspective. Chicago: University of Chicago Press; 2003. p. 417–72.
Boyes, R. Iceland's meltdown: how the global financial crisis bankrupted an entire country. Bloomsbury Publishing; 2010.
Brazys S, Hardiman N. From "Tiger" to "PIIGS": Ireland and the use of heuristics in comparative political economy. Eur J Polit Res. 2015;54:23–42.
Calvo G. Capital flows and capital markets crises: the simple economics of sudden stops. J Appl Econ. 1998;1: 35–54.
Calvo G, Reinhart C. Fear of floating. Q J Econ. 2002;117:379–408.
Cardoso FH. New paths: globalization in historical perspective. Stud Comp Int Dev. 2009;44:296–317.
Cardoso FH, Faletto E. Dependencia y desarrollo en America Latina. Siglo Veintiuno; 1968/2003.
Chang H-J. Kicking away the ladder: development strategy in historical perspective. London: Anthem; 2002.
Chang H-J. Bad Samaritans: the guilty secrets of rich nations and the threat to global prosperity. London: Random House Business Books; 2008.
Cingolani L. The state of state capacity: a review of concepts, evidence and measures, MERIT working paper no. 53. Maastricht: United Nations University; 2013.
Cohen B. The geography of money. Ithaca: Cornell University Press; 1998.
Darling A. Back from the brink: 1,000 days at number 11. London: Atlantic Books; 2011.
De Grauwe P. Design failures of the Eurozone. In: Baldwin R, Giavazzi F, editors. The Eurozone crisis: a consensus view of the causes and a few possible remedies. London: CEPR/ VOX; 2015. p. 99–108. http://voxeu.org/.
Della Paolera G, Taylor A. Straining at the anchor: the argentine currency board and the search for macroeconomic stability, 1880–1935. Chicago: University of Chicago Press; 2001.
Dellepiane-Avellaneda S. Institutional credible commitments: the political economy of Argentina's convertibility law, 1991–2001. PhD Dissertation. Colchester, University of Essex; 2005.
Dellepiane-Avellaneda S. Gordon unbound: the heresthetic of central bank independence in Britain. Br J Polit Sci. 2013;43:263–93.
Dellepiane-Avellaneda S. Credibility dilemmas during financial crisis: Greece in the argentine mirror. In: Karyotis G, Gerodimos R, editors. The politics of extreme austerity: Greece in the Eurozone crisis. Basingstoke: Palgrave; 2015. p. 198–221.
Dosman E. The life and times of Raul Prebisch, 1901–1986. Montreal: McGill-Queen's University Press; 2008.
Dyson K. States, debt & power: "saints" and "sinners" in European history & integration. Oxford: Oxford University Press; 2014.
Dyson K, Featherstone K. The road to Maastricht: negotiating economic and monetary union. Oxford: Oxford University Press; 1999.
Eichengreen B. The European economy since 1945: coordinated capitalism and beyond. Princeton: Princeton University Press; 2007.
Eichengreen B. Globalizing capital: a history of the international monetary system (2nd edition). Princeton: Princeton University Press; 2008.
Eichengreen B, Hausmann R. Exchange rates and financial fragility. Washington DC: NBER Working Paper No 7418; 1999.
Etchemendy S. Models of economic liberalization: business, workers, and compensation in Latin America, Spain, and Portugal. Cambridge: Cambridge University Press; 2011.
Evans P. Embedded autonomy: states and industrial transformation. Ithaca: Cornell University Press; 1995.

المنارة للاستشارات

Fabbrini S. New institutional dynamics in the European Union. In: Caporaso JA, Rhodes M, editors. The political and economic dynamics of the Eurozone crisis. Oxford University Press: Oxford; 2016. p. 258–82.
Featherstone K. Conditionality, democracy and institutional weakness: the euro-crisis trilemma. JCMS: J Common Mark Stud. 2016;54(Suppl S1):48–64.
Franco F., editor. Challenges ahead for the Portuguese economy. Lisboa: Imprensa de Ciencias Sociais; 1998.
Geithner T. Stress test: reflections on financial crises. New York: Crown; 2014.
Gourevitch P. The role of politics in economic development. Annu Rev Pol Sci. 2008;11:137–59.
Haggard S. Pathways from the periphery: the politics of growth in the newly industrializing countries. Ithaca: Cornell University Press; 1990.
Hale T, Koenig-Archibugi M. Are Europeans ready for a more democratic European Union? New evidence on preference heterogeneity, polarisation and crosscuttingness. Eur J Polit Res. 2016;55(2):225–45.
Hallerberg M, Strauch R, von Hagen J. Fiscal governance in Europe. Cambridge: Cambridge University Press; 2009.
Hardiman N, Dellepiane-Avellaneda S, Blavoukos S, Pagoulatos G. Austerity in the European periphery: the Irish experience. In: Heffernan E, McHale J, Moore-cherry N, editors. Debating austerity in Ireland. Dublin: Royal Irish Academy; 2017. p. 78–95.
Hausmann R, Panizza U. On the determinants of original sin: an empirical investigation. J Int Money Financ. 2003;22:957–90.
Hirschman A. The essential Hirschman. Princeton: Princeton University Press; 2013.
IMF Independent Evaluation Office. The IMF and the crises in Greece, Ireland, and Portugal: an evaluation by the independent evaluation office. Washington DC: IMF, www.ieo-imf.org; 2016.
Johnston A, Regan A. Global finance, labor politics, and the political economy of housing prices. Polit Soc. 2017;45(3):327–58.
Jones E, Kelemen RD, Meunier S. Failing forward? The euro crisis and the incomplete nature of European integration. Comp Pol Stud. 2016;49(7):1010–34.
Kindleberger C. Comparative political economy: a retrospective. Cambridge: MIT Press; 1999.
Krugman P. What's new about the new economic geography? Oxf Rev Econ Policy. 1998;14:7–17.
Lains P. Catching-up to the European core: Portuguese economic growth, 1910–1990. Explor Econ Hist. 2003;40:369–86.
Maddison A. The world economy: a millennial perspective. Paris: OECD; 2001.
Mahoney J, Thelen K. Introduction: a theory of graduate institutional change. In: Thelen K, editor. Mahoney J. Cambridge: Cambridge University Press; 2010. p. 1–37.
Mair, P. Smaghi versus the parties: representative government and institutional constraints. In: Schaefer A, Streeck W, editors. Politics in the age of austerity, 143-68. Cambridge: Polity Press; 2013: p.143-68.
Mair, P. Ruling the void: the hollowing-out of western democracy. London: Verso; 2014.
Marsh D. The euro: the battle for the new global currency (2nd ed). New Haven, CT: Yale University Press; 2011.
Mauro P, editor. Chipping away at public debt: sources of failure and key to success in fiscal adjustment. London: Wiley; 2011.
Mazzucato M. The entrepreneurial state: debunking public vs private sector myths. New York: Anthem Press; 2013.
McKay D. The political sustainability of European monetary union. Br J Polit Sci. 1999;29:463–85.
Merler S, Pisany-Ferry J. Sudden stops in the Euro area. Bruegel Policy Contribution, Issue 2012/06, www.bruegel.org; 2012.
Moschella M. The institutional roots of incremental ideational change: the IMF and capital controls after the global financial crisis. Br J Polit Int Relat. 2015;17:442–60.
North D, Wallis J, Weingast B. Violence and social orders. Cambridge: Cambridge University Press; 2009.
O'Rourke, K. H. A tale of two trilemmas. Bretton Woods, NH: Institute for New Economic Thinking, http://ineteconomics.org; 2011.
Offe C. Europe entrapped. London: Polity Press; 2014.
Ogren A, Oksendal L. The gold standard peripheries: monetary policy, adjustment and flexibility in a global setting. Basingstoke: Palgrave; 2012.
Polanyi K. The great transformation: the political and economic origins of our time. Beacon Press; 1944/2001.

المنارة للاستشارات

Prebisch R. La periferia latinoamericana en el sistema global del capitalismo. In: Prebisch R, Gurrieri A, Weinberg G, editors. Revista de la CEPAL. Santiago de Chile: Naciones Unidas; 1981. p. 163–72.
Rajan RG. Fault lines: How hidden fractures still threaten the world economy. Princeton NJ: Princeton University press; 2010.
Rapoza, K. 19 Reasons why emerging markets belong in your portfolio. *Forbes,* 7 August; http://www.forbes.com; 2011.
Reinhart C., Rogoff K. This time is different: eight centuries of financial folly, Princeton University Press; 2009.
Reinhart C, Rogoff K, Savastano M. Debt intolerance. Brook Pap Econ Act. 2003;34:1–74.
Rodrik D. King Kong meets Godzilla: the World Bank and the East Asian miracle. CEPR discussion paper no. 944. London: Center for Economic and Policy Research; 1994.
Rodrik D. Promises, Promises: credible policy reform via signaling. Washington DC: NBER Working Paper No. 2600; 1998a.
Rodrik D. Where did all the growth go? External shocks, social conflict, and growth collapses. NBER Working Paper No. 1998b;6350
Rodrik D. The globalization paradox: why global markets, states, and democracy can't coexist. Oxford: Oxford University Press; 2012.
Ross M. The political economy of the resource curse. World Polit. 1999;51:297–332.
Sandbu M. Europe's orphan: the future of the euro and the politics of debt. Princeton, NJ: Princeton University Press; 2015.
Sandholtz W. Choosing union: monetary politics and Maastricht. Int Organ. 1993;47:1–39.
Santiso J. The political economy of emerging markets. Basingstoke: Palgrave Macmillan; 2003.
Sartori G. Concept misformation in comparative politics. Am Polit Sci Rev. 1970;64:1033–53.
Scharpf FW. Monetary union, fiscal crisis and the preemption of democracy. Cologne: MPIfG discussion paper 11/11; 2011.
Scharpf FW. Political legitimacy in a non-optimal currency area. In: Cologne: MPIfG discussion paper 13/15; 2013.
Schmidt VA. The unfinished architecture of Europe's economic union. Governance. 2010;23:555–9.
Schwartz A. Comment on Bordo M, Flandreau M. Core, periphery, exchange rate regimes, and globalization. In: Bordo M, Taylor A, Williamson J, editors. Globalization in historical perspective. Chicago: University of Chicago Press; 2003. p.468–472.
Sokol M. Central and Eastern Europe a decade after the fall of state-socialism: regional dimensions of transition processes. Reg Stud. 2000;35:645–55.
Stiglitz J. Some lessons from the east Asian miracle. World Bank Res Obs. 1996;1:151–77.
Taylor M. The possibility of cooperation. Cambridge: Cambridge University Press; 1987.
Thelen K. Varieties of liberalization and the new politics of social solidarity. Cambridge: Cambridge University Press; 2014.
Wallerstein I. Dependence in an interdependent world: the limited possibilities of transformation within the capitalist world economy. Afr Stud Rev. 1974;17:1–26.
Wolf M. The shifts and the shocks: what weLondon have learned—and have still to learn—from the financial crisis: Allen Lane; 2014.

Sebastian Dellepiane Avellaneda (PhD, Essex) is Senior Lecturer in the School of Government and Public Policy at the University of Strathclyde. He studied economics and political science in Buenos Aires, Argentina. He has held research positions in several European universities, including Essex, Antwerp, and UCD. He teaches regularly at the Essex Summer School, the Institute of Development Policy and Management in Antwerp, the Maastricht Graduate School of Governance, and the German Development Institute in Bonn. His research interests centre on political economy, institutional design, and economic development. He has written about credible commitment issues in currency policy, central bank regulation, the ideational turn in political economy, housing crises, among other issues.

Niamh Hardiman (DPhil Oxon) is Professor of Political Science and Public Policy at the School of Politics and International Relations, at University College Dublin (UCD), and a Fellow of UCD Geary Institute for Public Policy. She was formerly Tutor and Fellow in Politics at Somerville College, Oxford. Her research and publishing interests span comparative European political economy, and Irish politics and public policy. This

المنارة للاستشارات

paper arises from a co-authored book on the political economy of the European periphery, analysing the growth trajectories of Ireland, Spain, Portugal, and Greece, to be published by OUP.

George Pagoulatos (DPhil Oxon) is Professor of European Politics and Economy at the Athens University of Economics & Business (AUEB), and visiting professor at the College of Europe in Bruges. He is a member of the Board of Directors of ELIAMEP and the European Policy Centre (EPC), and a regular columnist in the Sunday edition of Greek daily Kathimerini. His publications focus on EMU governance and the EU, and the political economy of Greece and Southern Europe. He has published in leading journals such as *West European Politics, Journal of Common Market Studies, Journal of Public Policy, Public Administration, European Journal of Political Research, Government and Opposition*.

Spyros Blavoukos (PhD, Essex) is Assistant Professor at Athens University of Economics and Business. His research focuses on the structural features of the international and European political economy system and the international interactions of the EU, especially with other International Organizations. He has published in Review of International Studies, West European Politics, Cooperation and Conflict, Journal of Common Market Studies, European Journal of Political Research, Journal of Public Policy, European Union Politics. George Pagoulatos (DPhil Oxon) is Professor of European Politics and Economy at the Athens University of Economics & Business (AUEB), and visiting professor at the College of Europe in Bruges. He is a member of the Board of Directors of ELIAMEP and the European Policy Centre (EPC), and a regular columnist in the Sunday edition of Greek daily Kathimerini. His publications focus on EMU governance and the EU, and the political economy of Greece and Southern Europe. He has published in leading journals such as *West European Politics, Journal of Common Market Studies, Journal of Public Policy, Public Administration, European Journal of Political Research, Government and Opposition*.

المنارة للاستشارات

Reproduced with permission of copyright owner.
Further reproduction prohibited without permission.

المنارة للاستشارات