

Publications

Interview With Andrew Martin and George Ross

Ryan David Griffiths

As part of its showcase of co-sponsored research, the Council for European Studies offers the following interview, a conversation between Ryan David Griffiths, CES Research Associate, and Andrew Martin and George Ross, co-editors of *Euros and Europeans: Monetary Integration and the European Model of Society* (Cambridge University Press, 2004).

RDG: Your book argues that the European social model has been threatened by the course of monetary integration culminating in Economic and Monetary Union (EMU). What do you mean by the “European social model”?

AM/GR: We use the term “European social model” as Europeans do in referring to the common features of European social policy and employment relations institutions and the norms they embody, as contrasted with the American, or Anglo-Saxon, social model. Conceived this way, social models are Weberian ideal types, aimed at capturing the essentials of how economic interdependence is socially constructed.

Actually, there are as many variants of the European social model as countries. Nevertheless, all except the British (decreasingly) and the Irish (increasingly) share features distinguishing them from the American model: higher taxes and transfers, more extensive labor market regulation, and more institutionalized negotiations between organized employees and employers. Notwithstanding large differences among the national variants, their overall net effect is lower poverty and inequality and more limited insecurity in the face of market vicissitudes and managerial power than in the American model.

RDG: Why do you say the course of monetary integration has threatened the European social model?

AM/GR: Essentially because it has perpetuated low economic growth and high unemployment. The European social model’s economic viability depends on high output and employment growth. First, high unemployment increases the burdens while diminishing the resources of social policy, reducing its capacity to reduce poverty, inequality, and economic insecurity. Second, it redistributes bargaining power in the labor market from employees to employers, impairing the capacity of unions and labor law to keep wages up with productivity growth and protect workers from arbitrary managerial power. In short, unemployment threatens to undermine the basic pillars of the European social model.

RDG: How has monetary integration tended to perpetuate high unemployment?

AM/GR: From the EMS [European Monetary System] through the run-up to EMU to the operation of EMU, monetary integration has been accompanied by restrictive monetary policies aimed at bringing and keeping inflation down. This not only increased unemployment during disinflation but also prevented the subsequent reduction of unemployment. After an extended period of disinflation in

which growth has been kept below its long-run potential and unemployment correspondingly high, a sustained growth spurt, keeping growth above its potential, is necessary to bring unemployment back to its pre-disinflation level. The persistent pattern of restrictive monetary policy — relaxing too little and tightening too soon — has prevented such growth spurts, causing unemployment to fluctuate around persistently high levels.

RDG: Why has European monetary policy followed this pattern?

AM/GR: First, monetary integration as such, particularly the creation of a single currency, did not necessarily entail a regime that perpetuates unemployment. On the contrary, monetary union could help cope with economic policy problems that were increasingly intractable for European countries with separate currencies, acting alone in the context of international instability and, especially, the restrictiveness of the German Bundesbank, which largely determined pre-EMU European economic conditions. Thus, monetary union could improve the prospects for reducing unemployment, and with it for reconfiguring the European social model to improve its equity and effectiveness rather than undermining it. But for this to happen, EMU would have had to be constructed differently.

The reason this road was not taken is that EMU was constructed when inflation was still thought to be the most important economic problem, particularly by the central bankers dominating the design of EMU. In the early post-WWII years, economic policy in most Western countries put top priority on preventing the return of the mass unemployment that contributed to the devastating war. While high growth and near-full employment was generally achieved, however, the postwar economic order was unable to reconcile low unemployment with relative price stability (which Keynes himself warned would be difficult), and inflation surged, aggravated by international instability following the Bretton Woods system's collapse.

Inflation was thus a real problem, to which there had to be a response, though price stability didn't have to durably replace full employment as the top priority. But that was what happened, with the Bundesbank taking the lead in the mid-seventies. Not all policymakers durably subordinated employment to price stability; the U.S. Federal Reserve (mandated to pursue growth and employment as well as price stability) is among the notable exceptions. But within Europe, Bundesbank policy dominated, politically as well as economically. There could be no monetary arrangements in Europe without German agreement, and there could be no German agreement to any arrangements that the Bundesbank opposed. Thus, the Bundesbank's veto power in the monetary integration process was the single most important factor shaping its course. The price it exacted for losing its power to the European Central Bank (ECB) was to make it the Bundesbank writ large — and even more powerful.

RDG: You suggest that centralizing monetary policy in the ECB while leaving authority over social model institutions in member states' hands could increase the European social model's vulnerability. Why?

AM/GR: This separation breaks the political link between the two policy domains. When decisions affecting social models are made in the same political arena as decisions about macroeconomic policy, the latter remain subject to influence by political constituencies with stakes in the social models whose viability depends on supportive macroeconomic policy. National central banks were partially insulated

from those constituencies, as they became increasingly “independent,” but they still operated in policy arenas where they shared authority over economic policy with powerful institutions that are directly accountable to electorates, including those constituencies.

In EMU, by contrast, there are no politically responsible institutions with fiscal policy authority at [the] European level with which the bank must interact, if only tacitly, to set a Eurozone-wide policy mix. Moreover, while making price stability the ECB’s primary goal, the Maastricht Treaty leaves it entirely up to the bank to define it and its relation to the growth and employment also specified as EU goals. ECB policy is therefore immune to challenge unless member states unanimously agree to revise the treaty. Power to set the macroeconomic conditions on which the European social model depends is thus centralized in the world’s most powerful central bank, more completely insulated from the constituencies with stakes in the national variants of that model than any national central bank ever was. From this position of strength, the ECB not only threatens the model indirectly by perpetuating high unemployment but also directly by pressuring member states to remove the labor market “rigidities” it attributes to much of the model, thereby making it more like the American social model.

RDG: Was this intended by those who designed EMU and supported its adoption?

AM/GR: It is clear that some saw European integration generally and monetary union in particular as ways of realizing a neoliberal vision. But some who saw EMU as an external constraint (*vincolo esterno*, in the Italian case) sought to use it to modernize the national variants of the European social model rather than undermine them. Some even saw monetary union as a way of supporting its viability in the face of economic instability they believed could not be overcome in the absence of monetary union, particularly as long as the German Bundesbank dominated monetary policy within the increasingly integrated European economy. In the German case, the increasing pressures EMU has recently been putting on German economic and social policy are unanticipated consequences of the design German negotiators had insisted on, welcomed by some but not others.

RDG: How do you distinguish between the effects that monetary integration and other external pressures, such as those from globalization, have on social model changes from the effects of internal pressures, such as those from the shift toward services, changing household structures, and aging populations to which you refer?

AM/GR: First, we think the exogenous pressures from European integration, including market opening as well as monetary integration, have greater impact than those from globalization, given the greater economic linkages among EU members than between them and the rest of the world. We tried to analyze the interaction of monetary integration and domestic pressures for change in several ways. The six national case studies show whether and, if so, how successive steps in monetary integration have impinged on domestic political responses to social model issues raised by endogenous pressures for change. Similarities and differences in the relation between exogenous and endogenous pressures from several perspectives are analyzed in the comparative chapters. One focuses on the uses to which monetary integration and European integration more generally are put by various domestic political actors in efforts to achieve social model change that would be harder without the resources provided by

integration. Two other chapters look across countries at how change in social policy and employment relations institutions, respectively, has been affected by monetary integration. A chapter comparing the different sequencing of integration and welfare state development in Europe and America provides yet another perspective. Summarizing these findings, the conclusion points out that the impacts of monetary integration depend a lot on the role particular countries played in the politics of integration and the timing of their entry into the successive stages of the process.

RDG: The most recent EU enlargement saw the addition of ten new countries with less commitment to the European social model than the existing members. Will this exacerbate existing pressures to implement neoliberal reform?

AM/GR: First, a clarification: there is a tendency on both Left and Right to equate “neoliberal” and social model “reform.” We think, on the contrary, that there are many different ways in which the national variants of the European social model need to be made more flexible and competition-friendly, but that this can be done by reforms that preserve and improve their “European” character rather than by “neoliberal” reforms that undermine it. There are plenty of examples of this from smaller EU member states like Denmark, Sweden, and the Netherlands, and more of it than is recognized in larger states like France. Finding these kinds of “European” reform paths is, to us, one of the more urgent tasks facing EU Europe today.

We only briefly consider EU enlargement, largely because our research was done before its completion. But you are right, enlargement could alter the ways in which the politics of social model change are likely to be affected by Europe, less in terms of EMU than of EU decision-making. Thus, the addition of several new — albeit small — member states that haven’t [followed], and probably won’t follow, Western European social model lines will make it harder for any progressive “Social Europe” proposals at EU level to be adopted. The weight of these countries in EU market flows may also encourage “social dumping” and “regime shopping” from West to East, even though Western employers may find even more promising places to pursue these things outside the EU altogether.

As to EMU, it will be some time before the new members actually join it, perhaps even longer than expected. Since they are not members of EMU, they are not so heavily constrained by ECB policy, even if they are constantly monitored by the ECB and are subject to the Stability and Growth Pact like all EU members. However, they depend on demand in their Eurozone trading partners — largely determined by the ECB — and insofar as they want to join EMU, they need to comply with the fiscal and monetary requirements for membership. And as in the original EMU members, meeting the requirements of EMU membership is used by some leaders to press for changes in directions they seek anyway, while others opposed to those changes resist membership in EMU.

RDG: In your conclusion, you discuss two potential scenarios for the future of the European social model. In the positive scenario, its national variants are reconfigured to meet new needs and make labor markets more flexible while more fully realizing the norms embodied in the European social model. In the negative scenario, low growth and high unemployment make such reconfiguration

difficult, eroding support for the European social model and its national variants and facilitating their replacement by neoliberal alternatives. Which scenario is more likely?

AM/GR: We make no predictions, but we are pessimistic about the prospects for the European social model. The existing EMU straitjacket makes it difficult for EU member states to make the social model adjustments they might otherwise contemplate, because it turns any such adjustments into “lose-lose” games that democratic politicians try hard to avoid. You see this at work in events like the 2005 French and Dutch referendums on the EU constitution, and the more recent German elections, where popular hostility to social model reforms of any kind was widespread. To the degree that low growth and high unemployment thus make reform more difficult, stalemate at national level is likely to increase. Alas, from our perspective, such stalemate may allow opponents of European social models to argue for tearing things down altogether, i.e., to take the full neoliberal route. The highly charged political confrontations that we have begun to see also make it easier to overlook needs for reform that have little to do directly with social model change — the EMU architecture itself, for example, suboptimal macroeconomic policymaking arrangements at EU level, and self-protective tactics of many political and economic interests that have little to do with social model issues or seek to use them for their own purposes. All this would lead us to expect something that looks like medium-term trench warfare.

RDG: What were some of the more unexpected findings of your research?

AM/GR: Perhaps our most unexpected finding was how central monetary integration has really been in European integration over the past quarter century. Arguably it has been the driving policy area in much of what has happened since the 1980s. Another sobering discovery, and here perhaps we ought to have known better, was the extraordinary fallibility of multilateral dealings at establishing reasonable and effective mechanisms of transnational governance. The whole process of European monetary integration biased things toward a “German” outcome which has not turned out to be particularly rational or effective for anyone, not least the Germans. Many Europeans themselves now know this; the SGP has been marginally modified, for example. But nothing has been done to remedy the fundamental flaws in the economic governance of the Eurozone. (The failed constitution project didn’t even grasp that nettle.)

There are good reasons to fear that many of the distressing things about EMU are locked in. A third finding might be the extraordinary amount of social model reform and change that has in fact already occurred, even though very little of it has been acknowledged in the “neoliberal” press. A fourth would be the tremendous variety in national elite and other strategies concerning monetary integration and EMU.

RDG: What new research agendas does this book open up? Which of these agendas do you intend to pursue?

AM/GR: Unsurprisingly, more research is needed about a lot of things. Some concern the political processes that have reinforced the ECB’s ability to abdicate responsibility for unemployment. For example, what happened to cut the initially included demand side out of the European Employment Strategy, turning it into an exclusively supply-side program that rules the effects of monetary policy off

the table? And what is the role of the important but little-known Economic and Financial Committee, and why does it “consciously refrain from discussing the conduct of monetary policy”? More generally, we need to know more about the politics shaping the direction of social model change in Europe. Who are the actors pressing for changes moving European social models into approximations of the American model, and who are seeking instead to reconfigure the European social model consistently with the norms embodied in it? And who are the ones resisting any change? What are the interests at stake in the divergent pressures? What ideas about social causality and social justice are advanced in support of the conflicting positions? What strategies are pursued by their proponents in national and European arenas? How are the choice of strategies and degree to which they succeed influenced by the distribution of authority in different policy domains in the Eurozone’s political structure? What conditions advantage the alternative social model change goals? To what extent does all this confirm our expectation of stalemate and prolonged trench warfare? And to further sort out the impacts of monetary integration and internal pressures, we need to compare the politics of social model change in EMU member states and EU member states that are not in EMU. We’ll chip away at these questions, but getting answers will obviously need the work of many hands.

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