The Imbalance of Capitalisms in the Eurozone

Can the North and South Converge?

Aidan Regan

UCD School of Politics and International Relations

Scoil na Polaitíochta agus na nGnóthai Idirnáisiúnta UCD
Puzzle

- The politics of adjustment in EMU:
  - No monetary tools
  - No fiscal tools
  - No labor market tools
  - Conflicting national interests

- Membership = internal devaluation
But....

- Can all member-states in a semi-closed trading area pursue export-led growth?
  - Or to be more precise

- Is economic convergence between north and south of the Eurozone possible?
Theoretical debate

• Euro technocrats: yes
  – *Tweak the economy*

• Euro integrationists: yes
  – *Delegate decision-making*

• Euro political economy: no
  – *Take variation seriously*
Heuristics

1. The attempt to join together different varieties of capitalism (VofC) is the real source of the Eurozone crisis: *profit-export and domestic-demand*.

2. The one-size-fits-all adjustment is exacerbating this imbalance of capitalism. It is a demand not a competitiveness problem.
Framework

1. From domestic institutions to *growth regimes*

2. From business firm to *political coalitions*

3. From liberal intergovernmentalism to *VofC*

This paper is mainly concerned with (1)
## Macro economic growth regimes

<table>
<thead>
<tr>
<th></th>
<th><strong>North</strong></th>
<th><strong>South</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>Hard – low inflation</td>
<td>Soft – high inflation</td>
</tr>
<tr>
<td>Monetary</td>
<td>Stability-oriented</td>
<td>Adjustable-oriented</td>
</tr>
<tr>
<td>Fiscal</td>
<td>Counter-cyclical</td>
<td>Pro-cyclical</td>
</tr>
<tr>
<td>Labour</td>
<td>Corporatist</td>
<td>Non-corporatist</td>
</tr>
<tr>
<td>Macroeconomic</td>
<td>Profit-export</td>
<td>Domestic-demand</td>
</tr>
<tr>
<td>Eurozone</td>
<td>Interdependence of financial institutions in both regimes</td>
<td></td>
</tr>
</tbody>
</table>
Empirics

- How would we observe this imbalance?
Current account

[Graph showing the current account for Germany, Netherlands, Portugal, Spain, and Greece from 1995 to 2012.]
Real Harmonized Competitiveness Indicators

[Graph showing the trend of real harmonized competitiveness indicators for Germany, Netherlands, Portugal, Spain, and Greece from 1995 to 2012.]
Conclusion

• One-size-fits-all EMU rather than export-competitiveness is the problem

• Intergovernmental summits of Eurozone = regional defense of national VofC

• This is exacerbating the asymmetry of growth regimes in north and south of Europe.

• Emergent research program: rethinking the political economy of European integration.