EU Labour Governance and Europe's Single Currency

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Abstract

The thesis addresses the evolution of EU labour governance and its relationship to the Economic and Monetary Union (EMU) and the financial crisis. The thesis approaches EU labour governance as an essentially contested and structurally weak project of European integration. To this end, the thesis develops critical integration theory for analysing EU labour governance in relation to the EMU. Conceptually, the thesis stresses the role of institutional and global macro-structures and the importance of competing hegemonic projects in mediating structure and agency. Hegemonic projects allow diverse social groups and political leaders to develop comprehensive programmes of action that may transform existing structures of EU labour governance. Advancing a novel framework for studying the institutional and macro-structural conditions for political contestation in the EU, the thesis contributes to European Integration studies and International Political Economy. Empirically, the thesis analyses the relationship between EU labour governance and European monetary integration since the 1980s and highlights the enduring weaknesses and contradictions of the emerging project of EU labour governance. Over time, the thesis argues, EU labour governance has become a terrain of political contestation for Europe's competing hegemonic projects, most prominently social democrats and neoliberals committed to European integration. Given the enduring nature of these contestations, and the institutional structure of the EMU, EU labour governance has had only a weak and emergent character. Analysing the impact of the financial crisis on EU labour governance, the thesis highlights the contested nature of the neoliberal hegemonic project since the crisis. The thesis argues that enhanced creditor power within the Eurozone has allowed for much more intrusive labour governance in Greece and other programme countries. However, the thesis also argues that the structural weaknesses of EU labour governance persist in the period since the crisis.

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Contents

List of abbreviations

ANEL	Independent Greeks (Greece)
BEPGs	Broad Economic Policy Guidelines
BICC	Budgetary Instrument for Convergence and Competitiveness
CDU	Christian Democratic Union (Germany)
CSRs	Country-specific recommendations
DG ECFIN	Directorate-General for Economic and Financial Affairs in the European Commission
DG EMPL	Directorate-General for Employment, Social Affairs and Inclusion in the European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
ECSC	European Coal and Steel Community
EEC	European Economic Community
EES	European Employment Strategy
EIP	Excessive Imbalance Procedure
EMS	European Monetary System
EMU	Economic and Monetary Union
EPP	European People’s Party
EPSCO	Employment, Social Policy, Health and Consumer Affairs Council
ERT	European Round Table of Industrialists
ESM	European Social Model
ETUC	European Trade Union Confederation
FDP	Free Democratic Party (Germany)
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPE	International Political Economy
IR	International Relations
MIP	Macroeconomic Imbalance Procedure
MoU	Memorandum of Understanding
NAWRU	Non-Accelerating Wage Rate of Unemployment
NEG	New Economic Governance
OECD	Organisation for Economic Co-operation and Development
OMC	Open method of coordination
OMT	Outright Monetary Transactions
PASOK	Panhellenic Socialist Movement (Greece)
RQMV	Reverse qualified majority voting
S&D	Socialists and Democrats group
SGP	Stability and Growth Pact
SPD	Social Democratic Party of Germany
SYRIZA	Coalition of the Radical Left (Greece)
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union

Introduction

Whether and how much the European Union (EU) should get involved in the governance of domestic European labour markets is a hugely contested issue in European integration. EU labour governance is contentious because it concerns some of the most fundamental aspects of social and economic life: how many hours you work, how your pay is settled, whether you get sick pay during illness, etc. While the EU has successfully passed labour law to regulate working conditions and worker consultation, the EU has limited competence to interfere with issues of pay, benefits, and many other core elements of Europe's labour markets.

Despite the EU's limited competences over social and labour market policy, a framework for EU labour governance has emerged since the 1990s. Policymakers and observers have justified the emergence of EU labour governance on several grounds. First, EU labour governance may coordinate member states' efforts to modernise labour markets in the face of deindustrialisation and globalisation. Second, and relatedly, EU labour governance may enhance social inclusion and promote economic fairness as globalisation threatens to liberalise European market economies. Third, EU labour governance may help to improve the efficiency of labour market institutions, like benefits, retirement schemes, and collective bargaining, under the conditions of fiscal discipline and price stability that guides the Economic and Monetary Union (EMU).

In this thesis, I deploy a critical theory of European integration to analyse the evolution of EU labour governance since Europe's leaders embarked on the process of creating the EMU in the 1980s. The main research question(s) of the thesis is:

- *How and why has EU labour governance evolved since the conception of the Euro? What difference did the financial crisis make?*

Given its contentious nature, the advancement of EU labour governance has faced significant opposition. In reaction not least to the European Commission's plans for a common labour market policy and emphasis on social union, in 1988 Margaret Thatcher voiced her concern over EU protectionism and bureaucracy. Her government had 'not successfully rolled back the frontiers of the state in Britain, only to see them re-imposed at a European level with a European super-state exercising a new dominance from Brussels' (Thatcher, 1988). Vanguards of neoliberalism are not the only actors to express concern over the development of EU labour governance. In Denmark, for instance, social partners and parties across the political spectrum continuously oppose EU labour governance that may infringe with the ‘Danish Model’ of labour market flexibility, social security, and autonomous social partners. After the financial crisis, the EU’s enforcement of austerity and labour market deregulation in crisis countries has sparked concern, protests, and social unrest in the Eurozone periphery.

Effectively, political contestation shapes the degree and content of EU labour governance. For most of the history of European integration, domestic actors have fought over the regulation and institutions of labour markets. For long, direct EU involvement in domestic labour governance was low. In the recent evolution of European integration, there are examples of much greater involvement of EU and international actors in questions of domestic labour market regulation: in the case of Greece, for example, policy conditionalities attached to the bailout programmes of 2010, 2012, and 2015 initiated radical labour market reforms. Yet, these were extraordinary cases of EU intervention: as a framework for European integration, the institutional coherence of EU labour governance is relatively weak. Addressing the weakness of EU labour governance in assisting European integration, the thesis looks at an aspect that political and academic discussions often deal with only implicitly: the relationship between EU labour governance and the EMU.

This thesis analyses the EU’s governance of wages and labour markets as it has evolved within and in relation to the EMU over the last three decades. Despite the promise of greater convergence in living standards, the EU has seen a growth in economic inequality within and between EMU member states, which has sparked macroeconomic instability, social unrest, and further political contestation. The growing disparity in EMU income levels and the associated greater macroeconomic instability suggests that the EU should act to secure convergence and stabilisation. The direct way to address these problems would be by developing a framework for EU labour governance that supports income growth among Europe’s poorest, provides unemployment insurance in member states in crisis, and more. Alternatively, the EU could experiment with the kind of comprehensive labour market liberalization that – according to mainstream economic reasoning – could lead to convergence via the pressures of market competition. However, enduring political contestation has hitherto prevented the EU from developing either of these models of labour governance. This suggests a key contradiction in EU labour market: despite the importance of governing labour markets for the purpose of economic convergence and stability in the EMU, the EU cannot achieve either full liberalisation or supranational coordination.

Why is European integration in the field of labour market policy so difficult? The argument I pursue in this thesis suggests that the EU has hitherto failed to develop a procedure for converging labour markets and wage levels that acquires widespread consent and is at the same time politically and institutionally effective. In short, EU labour governance has been unable to secure hegemonic support across Europe. The effects of the underdevelopment of EU labour governance – an uncontrollable widening of inequalities in Europe - point to a deeper crisis of European integration itself. The devastating financial and Eurozone crises, which threatened to undermine the project of European integration itself, did not resolve the impasse of labour governance. With growing divergence, inequality, and instability, European integration is producing dysfunctional labour market outcomes. Rather than acting as guarantor for upwards convergence and stability, the emerging structure of the EMU and labour governance creates a series of dynamics, which actively undermines these core objectives of European integration. Therefore, this thesis studies EU labour governance as a politically contested and institutionally weak project of European integration. Structural and agential factors have worked against a coherent regime of EU labour market governance emerging, from the 1970s onwards. Following the Eurozone crisis, labour market reforms at the domestic and EU-level has in fact intensified, rather than lessened, Europe's problems of growing inequalities and deficient institutional frameworks.

This thesis emphasises, above all, the contestation between opposing political forces that has driven EU labour governance before, during, and after the financial crisis. Theoretically, Antonio Gramsci's writings on the relationship between economy, state, and civil society has inspired the thesis' interrogation of hegemony in EU labour governance and European integration (Gramsci, 1971). The thesis also draws on the concept of hegemony as developed in critical political and international studies (Jessop, 1983; Joseph, 2002).

Given the thesis' engagement with the hegemony in European integration, the thesis effectively also posits the relevance of applying social theory to the study of the EU. Hence, the thesis posits the ontological depth of European integration in which structural forces shape political contestation and practical policymaking. In line with this ontological depth and the role of structural forces, the thesis advocates the analytical utility of competing hegemonic projects and analyses political contestation over EU labour governance as competition among hegemonic projects. The structural context of European integration gives rise to competing hegemonic projects, which in turn are the mediating force between strategic policymaking and its structural conditions (Bulmer & Joseph, 2016)).

Deploying the concept of hegemonic projects, the thesis addresses the actors that have pushed EU labour governance forward since the agreement on the EMU and discusses their efforts to promote the governance of labour in the structural context of monetary integration and economic globalization. Given the institutional structure of the EMU, Eurozone economic crises were certain to put extraordinary pressure on labour. Within the framework of a single currency, which abolishes exchange rate adjustments between member states, wages, income, and employment are the key tools of economic adjustment to economic crisis. As severe economic crises are a recurring phenomenon of our contemporary global economy, I argue that the EMU contains a structural anti-labour component that reveals during crisis. This thesis' research question addresses the evolution of EU labour governance in light of the contested strategies to address the EMU's deficient framework for labour and macroeconomic governance. Contested strategies include the establishment of a supranational framework for labour market policy and the promotion of domestic liberalization.

The consequence of the political contestation over EU labour governance is not the status quo. With forceful interventions into labour markets in crisis countries, and largely ineffective governance of broader, European dynamics, EU labour governance deepens European divergence and inequalities. In order to appreciate the negative and unequal effects of the EU's weak and contested framework for labour governance, this thesis moves beyond existing approaches to EU governance.

Developing critical integration theory and drawing on the concept of competing hegemonic projects, I highlight the relations between the material basis of economic production, the institutional basis of European integration, and the ideational basis of governance. All three components are integral to EU labour governance. Critical integration theory focuses on the constraining roles of the EU's institutional structure as well as that of the macrostructures of the global political economy. Both set of structures are deeply social, dependent on the social relations of production, and essentially conflict-ridden. This means that they arise from social conflicts, facilitate political compromises, and give rise to new forms of social conflict and political contestation.

Focusing on the role of competing hegemonic projects, this thesis studies the conditions under which political and economic actors may facilitate the emergence of broad programmes of action. Hegemonic projects mediate the political/economic agency of European social groups, and the EU institutional and global macro-structures. Institutional and macro-structures shape the identities, interests, motives, and strategies of EU actors, which in turn coalesce into established or emergent EU programmes of action. I analyse EU labour governance as an emergent project of European integration driven by the contestation and compromises of social democratic and neoliberal (hegemonic) projects.

EU labour governance, therefore, rests on the active engagement of neoliberal and social democratic hegemonic projects. Over time, and despite its weak institutionalisation, EU labour governance has come to function as a strategic terrain for political contestation and hegemonic competition. Subject to continuous political contestation, EU labour governance has reproduced and, in some cases, worsened the trends in contemporary European capitalism towards greater inequality within countries, greater divergence in living standards and economic performance between countries, and greater macroeconomic instability. This way, the thesis highlights some of key reasons why the incomplete and crisis-prone character of European integration, particularly in the sphere of labour markets, is likely to continue.

In the remainder of this introductory chapter, I highlight the gaps in the existing theories of EU wage and labour governance, stress the need for a different approach based on critical integration theory (Bulmer & Joseph, 2016), and outline the methodology and the structure of the thesis. I first review the existing literature's approach to EU labour governance in the context of the single currency. Second, I introduce the thesis argument in brief. I introduce how the competition between Europe's hegemonic projects provides the framework for analysing the evolution of EU labour governance and argue that the EMU recurrently brings the question of labour and its governance to the centre of European integration. Third, I reflect on the methodology underpinning the research behind this thesis. Fourth, I outline the structure of the thesis, chapter by chapter.

Justifying the thesis and its contribution

Put succinctly, this thesis argues that competing hegemonic projects continue to contest the emergent project of EU labour governance, which is institutionally too weak to address the defects in the EMU and in contemporary European capitalism. The main contribution of this thesis is the deployment of critical integration theory to demonstrate the political contestation that shapes the evolution of EU labour governance and creates new tensions and crises at the heart of European integration. Advancing the notion of competing hegemonic projects in application to the subject of EU labour governance, this thesis contributes to studies of political conflicts in European integration, studies of the political and economic effects of EU governance, and studies of crises in the European political economy. In sum, the thesis is meant as a contribution to the existing literature on the interaction between European political economy and European integration (e.g. Ryner & Cafruny, 2017; Talani, 2016).

The thesis highlights the fraught nature of EU labour governance as caused by the enduring political contestation that underpins it. Highlighting the politically contentious nature of EU labour governance, and analysing its crisis-ridden, political-economic consequences as well, the thesis acts as a corrective to the predominantly functional and instrumental explanations offered in existing EU studies. The thesis' emphasis on the structured reality of society, and the importance of competing hegemonic projects, is crucial in the efforts to set apart the thesis from the existing literature on EU labour governance. This emphasis allows the thesis to analyse the causes behind the evolution of EU labour governance, as it uses the concept of hegemonic projects to highlight the enduring nature of the political contestation that shapes EU labour governance. The theoretical emphasis of the thesis also allows for an analysis of the consequences of EU labour governance, and of the relationship between this aspect of European integration and the crises of Europe's political economy. As such, the thesis should be of interest to readers with an interest in EU labour governance, but also to those interested in the dynamics of European political economy, including Europe's crisis-ridden economy, divergent economic performance within the Eurozone, and widening socio-economic inequality within and between European countries.

The thesis deploys critical integration theory as a novel approach to EU labour governance, based on Bulmer and Joseph's (2016) advancement of the term. The thesis uses – in particular – the structures of European integration and Europe's competing hegemonic projects to explain the evolution of EU labour governance since the conception of the Euro currency. In developing this emerging approach to European integration, a secondary contribution of the thesis is to use the case of EU labour governance to demonstrate the utility of critical integration theory for EU studies.

How does the existing literature explain the evolution of EU labour governance? What mechanisms does the existing literature offer as explanations for the historical and recent development of EU labour governance? In the academic literature, there exists extensive work on policies that fall within EU labour governance, including the EU's social and employment policy (Goetschy, 1999; Mosher & Trubek, 2003; Zeitlin, 2008). In addition, there is an extensive body of literature on the political economy of the Euro, especially monetary, financial and fiscal policy (Hall, 2012; Jones, 2013; Mabbett & Schelkle, 2007; McNamara, 1998; Talani, 2016). This thesis builds on both bodies of literature but addresses the existing scarcity of critical studies of labour governance in the context of the EMU.

There exists some work on the political economy of labour under the EMU. In particular, this work comes from a branch of the Comparative Capitalism literature asserting the existence of distinct national growth models, with distinct industrial relations, corporate governance structures, finance and banking sectors, and welfare states (Hancké, 2013;

Johnston, 2016a; Nölke, 2016). The institutional evolution emphasised here is useful but insufficient for this thesis, given the emphasis on political contestation. Moreover, economic studies have studied the role of wages within the EMU. Mainstream economics asserts that in a currency union without political union, labour markets bear a great burden of adjustment in case of serious shocks to the economy (de Grauwe, 2014; Mundell, 1961). Arguably, this was the reality across the Eurozone's periphery following the financial crisis. In mainstream economics, the evolution of EU economic governance to include wage developments and labour markets is seen as something almost natural, given the market disequilibria laid bare by the Eurozone crisis (Belke & Gros, 2017). In this thesis, I argue that the broadening of EU labour governance has not responded naturally to economic demands. Instead, the development of EU labour governance has taken place through ruptured processes, which are fraught with contestation and prone to crisis.

A notable and problematic feature of the Comparative Capitalism and the economics literature on labour in the EMU is the lack of theorising about European integration. When mainstream economists explain change in EU governance, they look for market forces, not social or political forces. Within the Comparative Capitalism literature, many are sceptical about the EMUs ability to centralise monetary policy and constrain fiscal policy among Europe's diverse political economies (Johnston & Regan, 2016). From their perspective, the EMU is likely to experience the recurrence of political and economic crises. In this sense, the literature offers a minimal theory of integration, in which the centrifuging pressures of Europe's political economy are greater than the integrating efforts of European politics. Actor preferences and institutional complementarity explains the diversity among Europe's growth models, but the Comparative Capitalism literature, I contend, presents their effect on European integration in functional terms: as the inevitable outcome of institutional incompatibility.

Focusing solely on the interaction between actor preferences and institutional complementarity, the Comparative Capitalism literature ultimately depoliticise the social and distributional struggles that underpin European integration and provides therefore an insufficient framework for analysing the evolution in EU labour governance. Critical integration theory, conversely, forefronts those social struggles and the resulting political and hegemonic contestation that shape EU labour governance (Bulmer & Joseph, 2016). Emphasising the role of hegemonic projects to explain the evolution of EU labour governance, I stress the role of policymakers and social groups involved in EU integration and governance, as well as their structural context. I address how strategic agency may seek to change the direction of European integration and EU labour governance, the political conflicts they engage in, the structural conditions they inhabit, and the hegemonic projects that mediate structure and agency.

I now turn to a broader range of literature on European integration, addressing the way they deal with the question of EU labour governance. Taking its cue from intergovernmental theories of integration, one model of explanation for the evolution of EU labour governance focuses on the preferences, power and coalitions of the most powerful member state governments and their engagement in the European Council, the Council, and the Eurogroup (Maricut & Puetter, 2018). The most powerful member states in the EU, this explanation claims, set the limits on European integration. Generally, European governments have exerted their preference for predominantly intergovernmental solutions to the crisis and have limited the empowerment of supranational institutions (Bickerton et al., 2015b).

Intergovernmentalism treats the politics and institutions of European integration as organized by European governments. EU institutions, fundamentally, are designed the way governments want them, and EU political conflicts depend on the preferences of member states and the strategies of their governments. Intergovernmentalism, in its varying appearances, asserts the ability of leading European governments to set the tone, agenda, and limits for the evolution of European economic and monetary integration, including the policy response and governance reforms in the wake of the financial crisis (Puetter, 2012; Schimmelfennig, 2015). New Intergovernmentalism focuses on governments' insistence that EU social, economic, and labour governance operates through intergovernmental, decentralised, and open-ended procedures (Bickerton et al., 2015a). Since the outbreak of the Eurozone crisis, member state governments have expanded the EMU governance framework to include macroeconomic questions of wages and labour markets. The alliances pursued by the German government were particularly effective for initiating change. Overall, the 'institutional design [of Eurozone crisis governance] reflected the preferences of Germany and its allies' (Schimmelfennig, 2015, p. 179).

Intergovernmentalism would explain EU labour governance through member state preferences and alliances between like-minded member states. Limiting its analytical scope of recent events in European integration, and in line with the self-identification as a parsimonious theory, intergovernmentalism 'offers no specific propositions to account for the crisis as such' (Schimmelfennig, 2015, p. 178). Effectively, this rules out a comprehensive analysis of the relationship between EU governance and the European political economy. Instead, the theory points to preference constellations among governments that allowed for more integration in areas perceived as vital to the survival of the common currency: 'financial assistance, fiscal surveillance and banking regulation' (Schimmelfennig, 2015, p. 191). Conversely, as intergovernmentalism expects governments to conceive EU labour governance as less vital, more fractured integration is expected in these areas. The rational, intergovernmental approach of e.g. the German government would be to resist deeper integration of European wage systems and labour markets. Yet, recently the German government has shown considerable interest in pushing forward the agenda on EU labour governance. A prominent recent example of this interest is the Euro-Plus Pact for competitiveness proposed by German Chancellor Angela Merkel and French President Nicolas Sarkozy (Chapter 5). The challenges for intergovernmentalism in explaining recent evolution in EU labour governance comes, in part, from its assumption of a neat separation of state and civil society, whereby governments are able to aggregate and effectively solve contradictory preferences of potentially antagonistic social groups. Conversely, critical integration theory deploys the concept of hegemonic project to highlight the integrated nature of state and civil society actors. This provides a different explanation of how governments respond to the shifting preferences of domestic actors. In critical integration theory, intergovernmental negotiations reflect fragile outcomes of domestic social conflict rather than the rational and functional solution to those conflicts.

While intergovernmental explanations acknowledge and centre on the power of Germany, they rarely talk explicitly about hegemony. Unlike EU studies, the concept of hegemony is integral to (neorealist) International Relations (IR) theory. In neorealist IR, hegemony refers to the imposition of the interests and preferences of a dominant power with the purpose of stabilizing the world or regional system (Gilpin, 1981; cf. Waltz, 1979). In EU studies, Thomas Pedersen (2002, p. 678) offers an explicit, 'modified realist … theory of co-operative hegemony' that asserts the importance of power-sharing among the region's most powerful states (Germany and France in Europe's case). Otherwise, the hegemony of powerful member states in European integration is an implicit assumption in most intergovernmental accounts.

In contrast to the intergovernmental focus on member states' reluctance to concede power, neofunctionalism asserts the pressures on EU institutions from European integration and economic development. The scope and scale of the Eurozone crisis, understood as a crisis of unbalanced financial integration and competitiveness losses in the Eurozone periphery, must inevitably lead to some reform of the EMU. The major contribution of neofunctionalism to the study of European integration lies in the concepts of 'spillover', whereby a combination of functional pressures and transnational advocacy coalitions push forward European integration, sometimes seemingly at odds with the interests of some member states. A functional spill-over from the 'significant functional dissonances that arose from the incomplete EMU architecture created at Maastricht' (Niemann & Ioannou, 2015, p. 212) has advanced EU economic integration after the crisis. At times, this even happened against the reluctance of member states. Neofunctionalism correctly identifies that supranational institutions have successfully bypassed member states' reluctance to concede authority. After the crisis, the reinforced economic governance framework left the Commission with considerable discretionary scope in defining the parameters and determining which member states experienced excessive fiscal deficits and macroeconomic imbalances (Bauer & Becker, 2014).

However, there are also limitations to the explanatory power of neofunctionalism. Given the emphasis on functional explanations, neofunctionalism often explains integration *with* integration – integration and spillover are simultaneously *explanans* and *explanandum* (Chapter 1). In neofunctionalism, the pressure coming from integration is what facilitates further integration. Unlike intergovernmental explanations, European politics is not reduced to isolated national preference formation and intergovernmental deliberation. Rosamond (2019, p. 34) argues, persuasively, that neofunctionalism is indeed able to study European integration as 'expressions of broader dynamics' in European political economy. Nonetheless, it is rare in neo-functional accounts to find much consideration for the impact of the global (economic) structures for the degree and direction of integration pursued by European actors.[1] Compared to critical integration theory, for instance, neofunctionalism does not provide a framework for analysing the impact of global transformations on European integration. In this thesis, I construe economic globalization as a global macrostructure that has reshaped the competition of hegemonic projects. This way, global transformations become part of the explanations of the evolution of EU labour governance.

Historically, intergovernmentalism and neofunctionalism developed in the context of the European Economic Communities. Since the signing of the Maastricht Treaty, there has been an explosion of competing approaches to the study of the EU. In this era, perhaps the biggest contribution of neofunctionalism has been the inspiration it has provided for a range of political sociologists and empiricist studies of EU governance. These studies, constitutive of the '"governance turn" in EU studies' (Kohler-Koch & Rittberger, 2006, p. 32), tend to rest on an implicit theory of pluralism, in which EU (state) institutions and interest groups engage in continuous bargaining over EU policy. Over a longer period of time, the literature asserts, EU

[1] This does not rule out the possibility that the core concepts of neofunctionalism 'could be divorced from their Eurocentric grounding' (Rosamond, 2005).

labour governance has developed through institutional spillover (Strøby Jensen, 2000), experimental governance (Sabel & Zeitlin, 2008), transnational advocacy coalitions (Johansson, 1999; Mailand, 2010), and policy entrepreneurship (Copeland & James, 2014).

In all of these accounts, there is little consideration of the possible structural power of e.g. capital (either as social relation or source of political power), and the literature runs the risk of neglecting both the broader EU institutional framework and global macrostructures, such as global financial networks. Instead, it traces empirical changes to governance practices. Commenting on the limitations to empiricist governance studies, Owen Parker and Robbie Pye argue that while a different strategic orientation of supranational institutions, like the European Commission, could 'radically challenge a neoliberal reality', long-term transformation of 'the EU's constitutional asymmetry' depends on 'radical re-politicisation' of European governance (Parker & Pye, 2018, pp. 808, 820). This way, Parker and Pye open the analytical and political space for assessing change in EU governance. In this thesis, I argue that enduring hegemonic competition explains the piecemeal and fragile development of EU labour governance in recent decades.

Moving beyond the main theories of European integration and the compatible empiricist studies, historical institutionalism provides a competing approach to European integration and EU labour governance (Bulmer, 1998, 2012). Here, focus is on the institutional path-dependencies that shape and condition the development of the EU labour governance framework and practices (de la Porte & Heins, 2015a; Scharpf, 2016). In institutionalism as applied to European integration and EU labour governance, attention is on the institutional factors that explain the preferences and decisions of member state governments, EU institutions, and other actors. For Fritz W. Scharpf (2016, p. 18), the disciplinarian post-crisis regime for macroeconomic governance cannot be explained solely as 'a consequence of hardball bargaining by Germany and its Northern allies', as suggested by more intergovernmental observers. What then explains the development of a regime that Scharpf (2016, p. 29) views as highly asymmetric and politically explosive? All EU institutions and all member states, also in Southern Europe, supported the policy response to the crisis, Scharpf (2016, p. 19) asserts, because it was 'inevitable' for the 'purpose of defending the common currency and preventing another euro crisis', the overriding concern of all actors. In other words, imposing social and economic deterioration on member states in the Eurozone periphery was the rational thing to do for actors committed to preserving the euro. Further, Scharpf (2016, p. 19) writes, once this policy response was initiated, it was difficult to change course:

> *'... once the initial requirements of fiscal retrenchment and supply-side wage compression for the crisis states were in place, the subsequent euro regime was largely shaped by path-dependence. (...) relaxing the downward pressures on unit labour costs would have prevented the intended improvements of export competitiveness. In other words, changing the original approach would have counteracted the program that had just been imposed on crisis countries and, perhaps even more important, would have meant having to deny the economic assumptions and expectations on which these conditionalities had been based.'*

Thus, Scharpf emphasizes how actor preferences and the existing institutional framework gave the crisis response a rational and path-dependent character. Institutionalist explanations may also emphasise the role of German industrial relations in shaping the evolution of EU labour governance (Baccaro & Benassi, 2017). Because the German model of corporatism and sectoral bargaining has been capable of securing wage developments conducive to price and macroeconomic stability, there has been little appetite to complicate this relatively well-functioning system by adding a layer of European-level labour governance. Related studies in historical institutionalism also emphasize how actors' commitment to the EMU shape 'acceptable solutions' (Verdun, 2015, p. 231) and how institutional change often happened through processes of 'institutional layering' whereby 'new policy [was] grafted onto an existing institutional framework' (de la Porte & Heins, 2015a, pp. 13, 11). Yet, the institutionalist explanations are unable to account for role of global macrostructures in shaping the preferences and strategies of European actors. Critical integration theory has the crucial advantage of studying the interactive relationship between global macrostructures, European institutions, European leaders, and domestic social groups. It is this relationship that hegemonic projects mediate.

Beyond the role of governments, supranational actors, and/or existing institutional structures, we may hypothesize that dominant ideas and ideologies about labour, the economy, and European integration, has decisively shaped the evolution of EU labour governance. This argument would find support in a range of constructivist and discursive studies of European integration (Checkel, 1999; Hay & Rosamond, 2002). In the post-crisis era of European economic governance, Mark Blyth and Vivien A. Schmidt, among many others, have forcefully argued for the necessity of interrogating the resilience and power of neoliberal discourses on welfare, austerity, governance, etc. (Blyth, 2015; Matthijs & Blyth, 2018; Schmidt, 2010; Schmidt & Thatcher, 2014). This scholarship on the role of neoliberalism may also incorporate studies of the specific role of *ordoliberal* ideas in structuring EU integration and economic and labour governance (Matthijs, 2016). Yet, neo-/ordoliberalism is not the only idea informing EU labour governance. Rather, I argue, core concepts of EU labour governance transcend hegemonic projects and become new discursive terrains for political contestation. One such concept is the idea of the European social model(s), which has decisively informed European welfare and labour market politics (Jepsen & Serrano Pascual, 2005). The idea that Europe's social models are capable of combining economic performance with social quality and inclusion acts as a positive reference point to distinguish the EU from (the neoliberal) American model. Original interviews for this thesis confirmed that the perceived positive duality or triangle between productivity and fairness (and stability) is important for EU institutions (e.g. Interviewee #15).

Finally, a Marxist approach would interrogate class relations to explain the evolution of EU labour governance. A number of critical and Marxist theories of EU governance have emphasised the relational aspects of European integration and capitalist development. Here, EU labour governance depends on the global-economic structural constraints on European integration. Concretely, critical/Marxist theories highlight the important role of capitalist pressures in shaping European leaders' evolving interests, identities, and ideas over European integration, and thereby help identify the forces driving change in EU labour governance. From the perspective of critical/Marxist theories, changes to EU labour governance depend not only on political leaders, EU institutions, and the EU legal constitution (the *acquis communautaire*), but also economic macro-structures of the global economy, such as the rise of financial markets over recent decades. The macro-structures of the global economy that gave rise to the financial crisis in the first place have also shaped the EU's response and the reinforcement of EU economic governance after the crisis.

Two of the most influential Marxist approaches in EU studies are Open Marxism and neo-Gramscian International Political Economy (IPE). Open Marxism has highlighted how class relations are inherent to the European project of managing rivalry and dependency of capitalist classes in different member states (Bonefeld, 2002). It follows from this logic that the scope and scale of EU labour governance depends on the ability and necessity of Europe's capitalists to manage class relations and enable capitalist reproduction.

Neo-Gramscian IPE is arguably the most prominent critical/Marxist approach to European integration. Neo-Gramscian IPE maintains the importance of class struggle, but introduces a radical open-endedness to European integration by highlighting the equally important aspects of domination and resistance (Bieler & Morton, 2003; van Apeldoorn & Horn, 2018). This body of literature includes the Amsterdam school of transnational historical materialism (van Apeldoorn, 2002), Andreas Bieler and Adam David Morton's labour-oriented approach (Bieler, 2005a, 2005c; Bieler & Morton, 2001), and Alan Cafruny and Magnus Ryner's positioning of European integration in the dual context of US neoliberal and German ordoliberal hegemony (Cafruny & Ryner, 2007; Ryner, 2015). What unites these approaches is the conviction that a class-relational perspective strengthens the analysis of power and change in European integration and EU governance. In terms of the evolution of EU social, economic and labour governance, there is a shared understanding of the importance of locating the social purpose of governance in the class interests and -compromises of capital and labour. According to this logic, EU labour governance has evolved in accordance to the interests of (the most transnational fractions of) the European capitalist class, increasingly organized at the transnational level, with labour struggling to assert their interest on European integration/governance (Holman, 2004; van Apeldoorn & Hager, 2010).

Notwithstanding these differences, Marxist approaches see EU labour governance as the expression and outcome of enduring class struggle, mediated and shaped by domestic, regional, and global structures. The Marxist approaches do not deny the importance of Germany, given its importance for the integration and transnationalisation of European economic relations. As European economic relations have transformed, the preferences of German capitalists and state institutions have evolved. Thus, the German strategy for EMU has evolved from one seeking to make monetary and fiscal conservatism the governing principle, to one aiming at enforcing structural convergence among the EMU member states' economies (Germann, 2018). More recently, an autonomous Marxist approach to disruptive subjectivities has criticized neo-Gramscian and critical IPE for overly relying on relations of domination at the expense of resistance (Bailey et al., 2018; Huke et al., 2015).

Marxist accounts of capitalist development constitute an important element of the version of critical integration theory advanced in this thesis. One explanation for Europe's deep economic crisis is the rise of global economic competition, which puts the EU's role as an 'economic giant' in world politics under pressure (cf. Mark Eyskens, in Whitney, 1991). A Marxist variant of this argument focuses on the transformations of structures in contemporary European capitalism, in which 'the alternation of epochs of material expansion… (and) phases of financial rebirth and expansion (…) constitute a full systemic cycle of accumulation' (Arrighi, 1994, p. 6). The process of financial expansion has overall increased debt levels and heightened market volatility leading to financial instability and ultimately financial crash and economic recession (Keen, 1995). In other words, capitalist 'impulsions' towards capital accumulation has caused financial expansion and the creation of cheap credit which fuelled the Eurozone crisis (Macartney, 2011, pp. 25–31).

Building on institutionalist and Marxist approaches, this thesis advances a critical integration theory that analyses the evolution of EU labour governance as the outcome of hegemonic competition in EU politics. Critical integration theory focuses on the competing hegemonic projects forming the basis of political contestation over European integration. The EU' competing hegemonic projects share the condition of operating within the EU institutional structure and responding to the evolving dynamics of global macro-structures.

Focusing on hegemonic projects, critical integration theory draws extensively on neo-Gramscian IPE, and breaks with the functional optimism of mainstream integration theories, the pluralism of public policy studies, and the market fetishism of mainstream economics. Instead, this thesis argues that social forces - with often-antagonistic material interests and uneven material capabilities - struggle over the development of EU labour governance. EU labour governance is an open-ended process, and while constrained by the EU institutional framework and global macro-structures, ultimately depends on the strategies of social forces, their ability to develop hegemonic projects at the EU level, and their dominance over or compromise with other projects.

Yet, compared to neo-Gramscian IPE accounts of the post-crisis EU landscape, including the governance of wages and labour, this thesis seeks to give the EU institutional framework more consideration, and to allow more autonomy to those institutions vis-à-vis structures of European and global capitalism. As neo-Gramscian scholars have noted, the extent to which EU integration and governance serves the interests of different social groups depend on their ability to organise at the transnational level (Bieler, 2005b). Yet, this also highlights the importance of the institutional determinants of transnational organization. Whereas neo-Gramscian scholars tend to study the uneven relationship between capital and labour in European integration as reflecting neoliberal globalisation (Bieler, 2005c), this thesis has slightly different emphasis, and is primarily concerned with how political and economic actors assert their interest through the EU institutional structure in light of global macrostructural processes.

Thesis argument in brief

In brief, this thesis argues that despite the high structural pressure on developing a framework for EU labour governance that is fit to face the challenges of the EMU, Europe's leaders have hitherto not been able to deliver. Instead, the evolution of EU labour governance has taken place at the margins of the EMU institutional framework, unable to address the crisis tendencies of the EMU. EU labour governance suffers from the perseverance of diverse preferences of political forces and the absence of deeper political hegemony in European integration. Political contestation and weak institutionalisation prevent the development of modes of governance adequate for governing labour in the EMU.

Therefore, I argue that the financial crisis exposed both the structural deficiency of Europe's single currency and the inadequacy of EU labour governance. The Eurozone had experienced an acceleration of macroeconomic imbalances in the lead-up to the financial crisis, which signalled a widening in the competitiveness gap between member states and regions. The imbalances caused enormous ruptures to the European economy when global financial markets dried up during the crisis. Yet, at a more fundamental level, I posit, the Eurozone crisis was a structural crisis of European integration. Economic divergence, imbalances, and competitiveness gaps all reflect the inability of Europe's leaders to deliver on the key promise entailed in the creation of the EMU: that monetary integration would eventually produce the necessary convergence in living standards to ensure stability and progress for Europe's peoples across the continent.

One of the big questions that have permeated European politics since the signing of the Maastricht Treaty is whether Europe's single currency can function without a central mechanism for economic stabilisation. Labour and labour markets, I argue, play a constitutive role for providing macroeconomic stabilisation within the EMU. Or rather, economic stabilisation in the EMU runs through labour. The EMU depends on member states accepting the loss of monetary policy instruments. The institutions and rules of the EMU supposes that fiscal discipline is sufficient to compensate for the centralisation of monetary policy. Yet, in the instance of crises, workers bear the main burden of adjustment by accepting lower wages if an EMU member state is required to restore their external position. Despite the importance for providing macroeconomic stabilisation, in the EMU there is a marked degree of political evasiveness on labour markets.

The EMU's deficient institutional structure, unable to address the tendencies of contemporary capitalism towards inequality, divergence, and instability, persists in the era following the financial crisis (Talani, 2016). Therefore, there remains strong structural pressure on reforming the EMU and its relationship to Europe's labour markets. Competing hegemonic projects have advocated at least three different reform paths: first, pro-European social democrats have advocated for the EU to expand supranational economic governance; second, Eurosceptic projects have argued that the EU should place greater fiscal policy space and some currency adjustment capacity back in the hands of governments; and third, the neoliberal project mostly insists that the EU should focus on marked-based solutions and push for financial integration and labour market reforms. On any of these reform paths, there are serious political and economic obstacles.

First, various policymakers and institutions have promoted a path towards much more supranational economic, social, and labour governance. Especially for the social democratic actors pushing this prospect, it could take the form of a fiscal union with a much larger common budget, and a social union with common European unemployment benefit funding. It would help align labour, fiscal, and monetary policy at the EU level, and ensure that efforts to stabilise the EMU economy through monetary policy was coordinated with efforts to create convergence among EMU economies. However, neoliberal actors have ferociously resisted plans for supranational spending and transfer power. Located most strongly in the Eurozone core, these actors oppose a fiscal union for EMU members because they fear it would incentivise fiscal recklessness and they oppose a social union on the ground that it hinders Europe's necessary modernisation.

Second, actors more critical of the prospect of advancing European integration to solve the problems with the EMU advocate the enhancement of the fiscal, monetary, and currency policy space of EMU member states. This would align more policy competence at the national level. This is currently unfeasible, as it would amount to a politically unacceptable roll-back of monetary integration (Scharpf, 2016). Yet, in case of another deep crisis, the choice between fiscal union and currency decentralisation may become inevitable, and either scenario become much more likely. There is already diverse, if scattered political support for opening up the national policy space: the Party of the European Left have long advocated the abolition of austerity measures in the EU, while e.g. the recent Italian government of the *Lega* Party and the Five Star Movement sought to challenge the EMU's fiscal rules.

Third, most neoliberal actors (and some social democrats in the EZ core) seem happy to let the EU continue its current trajectory of pushing market-based solutions, such as wage bargaining decentralization and labour market liberalization - perhaps with the addition of some funding tied to domestic reforms. Yet, the current trajectory is far from risk-free, as European economic divergence remains high, growth rates are low, and political dissatisfaction is likely to continue.

That any reasonably thinkable solution to the structural deficiencies of the EMU is highly contested is nothing new. As such, this thesis shows how dilemmas over centralisation/decentralisation, liberalization/re-regulation, etc., have shaped European integration and EU labour governance since the conception of a monetary union in the 1980s. The EMU has a fragile institutional structure for dealing with the recurrent issues of wages and labour markets in the common currency.

This institutional fragility comes in part from the way the political leaders set up the EMU in the first place. As Mody notes, European economic leaders had warned about the risk that structurally weaker economies would fall further back compared to advanced economies like Germany (Mody, 2018). An example is the German industry federation, which in 1989 expressed fear that while wage flexibility would be the right solution to this problem, there would be great political demand for fiscal transfers at the EU-level (Mody, 2018, p. 70). This concern, firmly embedded in the Bundesbank, translated into a German insistence that a common European currency would not require an enlarged central EU budget, but could use rules on fiscal discipline as a mechanism of stabilization.

Using fiscal discipline as a substitute for economic stabilization, the political compromise reached in Maastricht in 1991 neatly avoided confronting the social issues facing Europe, issues that greater fiscal integration could potentially address. Europe's leaders initially restricted the governance of monetary union to monetary and fiscal rules. The institutional and rules-based framework of the EMU, centred on the Maastricht convergence criteria, avoided the popular qualms about unemployment and inadequate welfare states. Committed to the principles of sovereignty over taxation, social spending, and wages, Europe's governments left open the future of Europe's social models. The French government had particularly championed the idea that a common currency would provide the framework of stability required for social and economic prosperity. Against this perspective many observers, trade unions, and others expressed strong discontent against the lack of a social and political union to balance the EMU's imposition of fiscal discipline on member states.

In the decades preceding the financial crisis, actors sympathetic to more neoliberal visions for European integration showed little consideration for the social consequences of the kind of adjustments required from workers within the EMU in case of crisis. Instead, in the pre-crisis years, they focused on market liberalization to improve member state adjustment to global competition and potential economic recessions. Conversely, social democrats and other left-leaning actors starkly divided over whether to strengthen EU social and labour market policy or preserve member states' rights to decide on key issues of domestic welfare state politics. Policy-makers eager for sweeping reforms in Europe's labour markets, hoping to follow the Anglo-Saxon path to economic renewal, were left disappointed. So were trade unions, hoping for a spillover of 'soft' wage and employment policy coordination into firmer modes of labour governance. In the pre-crisis period, at least, neither ever materialised.

Hegemonic competition over the degree and content of EU labour governance resulted in a number of policy initiatives seeking to promote labour market liberalization and wage moderation in the 1990s. Notwithstanding this spur of initiatives, the EU's institutional structure preserved the competence over wage and other labour policies at the national level, and kept separate EU labour governance and the EMU. The EU's pre-crisis labour strategy - embodied in the 2000 Lisbon agenda - developed through a web of experimental governance practices without much bite. For a long time, political contestation over EU labour governance therefore channelled through the Lisbon Strategy and the European Employment Strategy (EES). These strategies conveyed a project of wage moderation and labour market liberalisation in the quest for competitiveness and employment. Mostly, these strategies gathered broad political support. Critical integration theory, as deployed in this thesis, analyses this political support as the result of hegemonic competition. The strategies for competitiveness and employment that emerged at the EU-level in the 1990s became terrains of political contestation as both neoliberal and social democratic forces competed to shape the evolving agenda on EU labour governance.

Notwithstanding hegemonic competition over EU labour governance, European leaders and institutions silently agreed to treat macroeconomic imbalances with 'benign neglect' up until 2008. A nagging policy question since the launch of the EMU, EU leaders had mostly ignored the Eurozone's problems with current account deficits, labour costs differentials, and adjustment channels (Blanchard & Giavazzi, 2002; Collignon, 2013). The consensus view suggested that current accounts would rebalance as soon as less developed, peripheral member states started to catch up with the standards of living in the Eurozone core. In the lead-up to the global financial crisis, the Commission outlined reform plans to address the accelerating Eurozone imbalances. Linking Eurozone macroeconomic imbalances to the long-standing EU concern for Europe's global competitiveness, European leaders tied the new regime of macroeconomic governance to the governance of labour market structural reforms. Politically, the Commission's proposal for an enhanced EU governance framework to deal with the Eurozone's imbalances received broad support. The economic consensus on the importance of imbalances in causing the Eurozone crisis helped foster a political demand from across the political spectrum, including trade unions and business, for stronger governance on macroeconomic matters, with wages and labour markets at its core.

The consensus on the importance of governing macroeconomic imbalances rested on the technical economic consensus on the importance of financial credit flows for the accumulation of debt within a currency union. It was, to a large degree, a technical consensus, and not a recipe for political hegemony. The emergence of macroeconomic imbalances on the political agenda was conducive to the major reorganisation of EU governance after the financial crisis, epitomised in the new Macroeconomic Imbalance Procedure (MIP). Yet, the political identification of imbalances as a cause of the crisis was an insufficient condition for a general, radical transformation of the institutional framework for EU labour governance.

More broadly, the inability of the EMU to stimulate convergence and greater economic coordination in the pre-crisis years highlighted a deeper crisis of real political and economic integration. The crisis of political integration also materialised in European leaders' difficulties in charting a way out of the crisis. The results were devastating. The financial crisis, prompting governments across Europe to bail out failing banks and induce fiscal stimulus to prevent complete economic meltdown, made a total of 24 member states subject to the EU's excessive deficit procedure, and prompted the efforts to address the perceived problem with fiscal profligacy in Europe. Austerity, it seemed, was the panacea for government deficits, putting a range of expensive labour market institutions under pressure across Europe. In the aftermath of the financial crisis, we have seen the hitherto most ambitious efforts to develop a framework for EU labour governance, as European leaders sought to release a programme of internal devaluation to suppress wages in crisis countries.

Since the crisis, the EU's strategy for labour governance has attained some of the disciplinarian enforcement tools otherwise characterising EMU fiscal governance. This has particularly been true in the case of member states receiving financial assistance from the EU and the International Monetary Fund (IMF). In Greece, as well as in Ireland and Portugal, governments have implemented sweeping labour market and social security reforms on the insistence of the EU/IMF. No contractual agreements could dictate structural labour market reforms and wage cuts in countries not threatened by imminent bankruptcy. Yet, in the context of wages, employment, and labour market regulation, the EU has pursued wide-ranging reforms across EMU member states. In principle, countries experiencing excessive macroeconomic imbalances, such as a very large current account deficit, could be required to correct those imbalances through structural reforms to labour and product markets, or face fines (European Commission, 2010h). However, the revised EMU governance framework functions in practice much as a continuation of the EU labour governance that preceded the crisis, albeit in the shadow of potential sanctions.

Since the reforms to the EMU economic governance framework, significant reform plans have stalled. Since the European Central Bank's (ECB) declaration of intent to do whatever it would take to save the euro, efforts to stabilize the Eurozone economy by developing a Eurozone budget have met severe political contestation, while plans to provide stabilisation by building new financial markets have experienced considerable delay (Financial Times, 2019; Khan, 2019). Further, the combination of economic recession and fiscal austerity in the wake of the crisis meant that Eurozone member states' current accounts rebalanced. No member states have received fines due to excessive imbalances. Last, the original idea in the Euro-Plus Pact, to establish a clearly defined procedure for concrete policy reforms such as the abolition of minimum wage indexation, never happened.

Methods and methodology

The research project culminating in this PhD thesis started to take shape in late 2015. The question that has guided the research addresses the changes to EU labour governance over time, and specifically addresses the possible effects of the financial crisis. This thesis strongly emphasises the role of theories and historical processes for the analysis of the evolution in EU labour governance. The discussions of the theories of European integration and governance heavily inform the analysis of the practice, significance, and context of EU labour governance, while the historical processes should make clear how changing constellations of actors, institutions, and economic structures develop over time to shape EU labour governance.

Based on the contention that the EU's governance in different policy areas should be studied as integral to the processes of European integration, I stress the importance of engaging with the main theories of European integration, thereby contributing to the development of a distinct 'critical integration theory' (Bulmer & Joseph, 2016; Pye, 2018). Studies of EU governance in the tradition of public policy often neglect the general questions of European integration in favour of empirical case or quantitative studies. This leaves aside the seemingly unresolvable questions of power and authority permeating theories of European integration. While such studies may enhance our understanding of the concrete practices of governance and the preferences of the individuals involved, the proliferation of public policy studies has marked a more general neglect of social theory in EU studies.

In response, this research project starts from a set of ontological premises about the social world, based on the philosophical approach of critical realism. A key factor in critical realism, as interpreted by scholars such as Douglas V. Porpora, Margaret Archer, and others, is the 'riddle of "structure and agency"', which requires ontological disentanglement prior to empirical research (Archer, 1998, p. 191). In this thesis, I start from Porpora's concept of social structure as 'systems of human relations among social positions' (Porpora, 1998, p. 343; Chapter 1). Social positions refer to the relationships inherent in social structures, whether parent-child of the family, ruler-ruled of the state, employer-employee of the workplace, or capital-labour of capitalist production. The emphasis on social positions implies the materiality of these human relations.

Critical realism and critical theory have also informed the way I have approached the analysis of empirical resources in the research process. My empirical analysis has developed through analysis of EU policy documents, using descriptive statistics, and through original interviews with key stakeholders in EU labour governance. In the early phases of the research project, I developed the research primarily through engaging with existing theories and empirical studies of European integration, wage and labour governance, and the Eurozone crisis. Based on the theoretical engagement with the existing literature, I began the empirical research by analysing EU policy documents.

In particular, I have focused on European Commission white papers and important reports (e.g. European Commission, 1993, 2008a), Commission and Council proposals and decisions, and ECB reports and notes (e.g. European Central Bank, 2010). In addition to this set of key reports, proposals, and decisions, I have analysed public speeches by e.g. former Commissioners, position papers by social partners, etc. The purpose of the extensive engagement with the selected reports and other publications was to gain insight into the technical as well as political thinking - particularly in EU institutions, but also in political parties, among social partners etc. The analysis of EU institutional publications has focused on the rhetorical and strategic considerations that underpin the development of EU institutions' and institutional actors' political proposals. A key challenge in analysing EU institutional and EU leaders' documents has been the identification of hegemony and hegemonic projects. For this purpose, I have analysed how the documents address key issues of EU labour governance, such as employment, competitiveness, and the relationship to the EMU. I have then discussed the documents' approach to these key issues in light of the ideological differences and evolution of key EU leaders and political parties.

To substantiate the content analysis of these documents, I compiled relevant descriptive statistics based mostly on the European Commission's AMECO database, and where necessary, ECB, Eurostat, IMF, and OECD databases. Descriptive statistics have helped contextualising the rhetoric and the strategic considerations of EU institutions and European leaders. In particular, the statistics on the development in labour costs, wage shares, etc., allowed me to compare and discuss the EU's focus on e.g. competitiveness in light of the available statistical indicators.

In the next phase of the research project, I arranged for a set of interviews with policy stakeholders in Brussels in autumn 2017. The purpose of what turned out to be the first of two rounds of interviews was particularly to target the contesting political and economic forces shaping the EU's governance of wages and labour markets since the financial crisis. In total, I conducted 20 in-depth interviews during 2017-18. The interviews were all semi-structured, and I had distributed the research brief and interview questions in advance. I developed the prepared interview questions over time in response to the advancement of my research and experiences in conducted interviews. This allowed for interviews that generally addressed the specific knowledge of the interviewees, but it also complicated any comparative analysis of the interviews.

When I started the first round of interviews, my document analysis had suggested that social democratic and neoliberal forces were most prominent in contesting EU labour governance and that the involvement of social partners was a key source of legitimacy for EU institutions as well as European leaders. Therefore, I focused on interviewing officials/advisers in the EU's social partners as well as MEPs and advisers in the European People's Party (EPP) and the Socialists and Democrats (S&D) group in the European Parliament. To contextualise the interviews with representatives from these key organisations, I also interviewed an adviser at the Greens/European Free Alliance group, and an official at a Brussels-based NGO. In the first round of interviews, I also interviewed three European Commission officials in winter 2018. Based on an initial analysis of these interviews, I decided to return to Brussels for a second round of interviews in autumn 2018, this time focusing solely on European Commission officials. Given the focus on EU labour governance, and specifically its relation to the EMU, I conducted interviews with six officials in the Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) and two officials in the Directorate-General for Economic and Financial Affairs (DG ECFIN).

Thesis chapter outline

Chapter 1 develops a critical integration theory suitable for this thesis. Based on Bulmer and Joseph's (2016) coining of the term, the chapter engages the main theories of European integration as well as major contributions in IPE. The main takeaway point is that it is worth developing theories of European integration, also for critical observers of the EU. While not a theory of European integration per se, critical IPE helps situate European integration in the context of global economic structures, and via neo-Gramscian scholarship, provides the important concept of hegemonic projects. Invoking European institutional structures, global economic structures, and hegemonic projects, the chapter argues that political contestation, rather than e.g. German dominance or neoliberal hegemony, has shaped European integration.

Chapter 2 turns to the apparent imbalance that exists between the supply and demand of EU labour governance in the context of Europe's single currency. The chapter argues that mainstream economic assessments of the Eurozone's deficiencies are right to argue that the EMU lacks political-economic adjustment mechanisms. However, arguing that pre-crisis government was too narrowly oriented on fiscal policy and too laxly enforced, mainstream economics neglects Europe's underlying economic instability. Conversely, mainstream public policy studies ignore the structural forces that shape EU labour governance. Drawing on critical integration theory, I argue that the key problem has been the inability to create political hegemony in EU labour governance. The chapter then turns to four heterodox, institutional, and critical approaches to analyse political contestations over labour governance.

Chapter 3 analyses European leaders' preparations of Europe's monetary union and addresses the role – if any - that questions of labour and wages played in this process. In the chapter, I argue that even though questions of distribution motivated Europe leaders to pursue monetary integration, avoiding questions of labour and wages was a precondition for agreeing on EMU. The European Commission successfully pushed the economic argument for EMU: reaping the full benefits of the single European market required a monetary union with a single currency. This helped shore up consent for EMU among most major political parties in Europe. Yet, there was a persistent popular dissatisfaction with the constraints of the EMU rules and Europe's associated socio-economic woes. In response to popular scepticism of European monetary integration, European leaders did not pursue the development of an integrated framework to align monetary integration with popular demands for job creation and wage growth. Instead, an incoming wave of social democratic leaders started to build a framework for governing European labour by use of performance management techniques like benchmarking and other 'new modes of governance'.

Chapter 4 analyses the first decade after the introduction of the Euro, which ended in the deep economic recession that followed the global financial crisis. While the EU had agreed on the Lisbon Strategy for growth, competitiveness, and social cohesion, EU labour governance was unable to address the negative and unintended processes of economic divergence within the EMU. Domestic strategies of wage moderation had caused a gradual redistribution from labour to capital since the mid-1980s, which continued into the EMU's first decade. As the EU was unable to address the adverse effects of this redistribution, macroeconomic imbalances accelerated in the lead-up to the crisis. In the immediate aftermath of the crisis, EU leaders sought to shore up the governance of the Eurozone and labour by building a new framework for addressing macroeconomic imbalances.

Chapter 5 analyses how the EU has governed labour in the post-crisis era and discusses what post-crisis labour governance reveals about the status of hegemonic competition in the EU. In the chapter, I argue that post-crisis labour governance reflects an unstable political compromise in the absence of deeper political hegemony. I advance this argument by analysing institutional reform to the EU governance framework, and EU labour governance in France, Italy, and Greece. In terms of political-economic implications, I suggest that while labour market liberalization in Greece has come at severe social and economic costs, the Eurozone as a whole is unlikely to experience extensive labour market liberalization because of EU labour governance. Far-reaching institutional reforms at the supranational level are equally unlikely. Instead, the EU continues with a fragile consensus of combining structural reform and investment, which leaves the Eurozone crisis-prone in case of future economic turmoil.

In the conclusion, I summarise the key findings and the contribution of the thesis. Here, I focus on how the thesis has answered the research questions, how it has advanced our understanding of the EU and EU labour governance, and what the current state of EU labour governance tells us about the prospects of European integration and the EMU.

1. EU Labour Governance and Critical Integration Theory

This thesis analyses causes and processes of EU labour governance as they relate to the unfinished project of European monetary integration (Introduction). EU labour governance and monetary integration are arguably both instances of incomplete European integration. Labour governance is incomplete as competence over core issues such as wages remains with member states, and monetary integration is incomplete as the EMU has been unable to stabilise the European economy and bring structural convergence among its member states. In this chapter, I engage with the main theories of European integration, and argue that the concept of competing hegemonic projects provides a novel and useful explanation for European conflict and cooperation.

1.1. Introduction

The purpose of this chapter is to show why the study of EU labour governance warrants a broader (theoretical) discussion on European integration. Economic and political crises have reshaped EU politics over the last decade. The EU's multiple crises challenge existing theories and highlight the importance of theoretically informed analysis. The financial and Eurozone crises, which for about five years threatened the existence of Europe's monetary union, still leave deep scars in European politics, and vast disagreement persists on fundamental questions of European economic integration. Beyond economics, Hungary and Poland's democratic trajectories contrast with the 'old' EU's purported liberal values. The 2015 crisis over refugee and migration governance questioned whether member states were willing to find solutions based on universal values of human rights and solidarity, as stated in the Treaty on European Union (European Union, 2012). The question of Brexit has ignited renewed scholarly interest in questions of disintegration and differentiation (Bickerton, 2019; Rosamond, 2019).

With the EU in a prolonged state of crisis, EU scholars should arguably revisit debates on the theoretical underpinnings of the study of European integration. Recently, two major journals have issued special issues on theories of European integration in crisis and 'dissident voices' in European integration theory (Ioannou et al., 2015; Manners & Whitman, 2016). The purpose of this chapter is to discuss existing European integration theories to address the structural conditions and the strategic agency that shape policy processes and power relations in European integration. This chapter thereby enables this thesis' analysis of concrete developments in EU labour governance and their relationship to general processes of European integration.

In this chapter, I argue that institutional and global macrostructures set the conditions for political contestation and hegemonic competition, which shapes the evolution of EU labour governance. The institutional structure of European integration is characterised by multi-level governance, in which the nation-state continues to have great importance, but this EU polity also needs contextualisation in terms of global macrostructures. The macrostructures of global capitalism condition labour, capital, and governments, as global trade and productions patterns challenge Eurozone labour relations in ways that European actors only have partial influence over. This construal of multi-level governance lays ground for a critical alternative to the mainstream theories of integration.

This chapter engages with a range of theories of European integration from an overall perspective of critical theory. Critical theory takes its point of departure in the critique of traditional or rational theories by pointing out the historical specificity and social relevance underpinning all theory. No theory stands outside social processes of domination and emancipation (Horkheimer, 1937). In European studies, an early example of socially embedded theory is that of neo-functionalism, which emerged in conjunction with 'the strategies of the founding architects of the [European Communities]' and thus served to 'theorize the strategies of the founding elites of post-war European unity' (Rosamond, 2000, pp. 50–51).

The starting point of critical theory allows for analysing global macrostructures and their interaction with EU institutions. The literature inspired by Italian philosopher Antonio Gramsci on the role of transnational social forces in the integration of European capitalisms is a natural starting point for dealing with the constraints of global economic structures on EU policymaking. Mainstream integration theories are on the other hand ill equipped to theorise dynamics of global capitalism and their effects on European politics and economics. Constructivism and institutionalism, two other influential streams in the EU literature, have advanced our understanding of the role of ideas, ideology, and institutions, in European integration. However, as social theories, these two approaches are unable to uncover deeper social structures and their importance in European integration. Critical theories of European integration, and particularly critical IPE, have further exposed the idealised and teleological assumptions shared by mainstream theories of European integration (Ryner & Cafruny, 2017).

In the chapter, I argue how a critical integration theory building on the Gramscian concept of hegemony can bring the analysis of global and institutional structures to the forefront of the study of European integration. Importantly, I follow Simon Bulmer and

Jonathan Joseph's argument that European integration is not hegemonic in any deep sense, but rests on a number of competing hegemonic projects (Bulmer & Joseph, 2016).

Following many of Gramsci's key notions, contemporary critical IPE has interrogated the relationship between European integration and the global economy. The emphasis on global dynamics gives this body of literature significant explanatory power over mainstream integration theory. However, analytically prioritising changing relations of social forces in global capitalism to explain European integration, critical IPE has at times struggled with adequately theorising the institutional characteristics of the EU. Critical IPE is, in other words, generally less attentive to the multilevel governance dynamics that give rise to the particular forms of policymaking and governance in the EU. EU labour governance, and its relation to European monetary integration, does not respond functionally or instrumentally to the pressures of global capitalism. Instead, the institutional dynamics of European integration and governance are path-dependent and subject to fierce political contestation from domestic actors.

Critical integration theory and the concept of competing hegemonic projects, I argue, better captures the institutional dynamics of European integration and governance. Major political projects do not usually develop at the level of EU institutions but are more likely to be aggregated projects developed first at the national level. At the European level, given the diversity of member-states' domestic social, economic and political traditions, there is a bigger chance of greater heterogeneity in the ideas, norms, and customs guiding political proposals. While the European level may be institutionally rich in terms of political bureaucracy, most socio-economic groups, such as trade unions, have not been Europeanised, and crucial political decisions - such as the conditions under which workers and employers agree wages - remain primarily the responsibility of member states.

In light of mainstream theories of integration and critical IPE's inadequate analysis of EU institutional structures, this chapter aims at theorising the structures of European integration to contextualise EU decision-making in light of global structural change, without losing sight of the unique character of European integration. A theoretically informed analysis of the structures of European economic integration is thus both necessary and useful for delineating an empirical analysis of the policymakers, decisions, and mechanisms that have guided the evolution of EU labour governance in recent decades. The analysis of the structural context for policy-making concerns both political and economic dimensions to labour market governance. This thesis argues that EU economic, wage, and labour governance are at times strongly politicised, while at other times confined to technocratic procedures and governance.

This can be contrasted with e.g. Magnus Ryner and Alan Cafruny's (2017) critical IPE approach to the EU, which emphasises the 'essential functions that capitalist governance must serve and the depoliticised forms that it must take' (2017, p. 31).

The chapter proceeds in the following way. First, I introduce the importance of political contestation and hegemonic competition, which takes place within the macro-structures of the global economy and the EU institutional structure of multilevel governance. Second, I review the main, contemporary theories of European integration, liberal intergovernmentalism and neofunctionalism. What the two lack, I argue, is a conception of what gives integration projects a social basis and how European integration is embedded in social structures more broadly. By subduing the question of what constitutes the wider social structures in which integration unfolds, the mainstream theories fail to contextualise integration in terms of the macrostructures that change global conditions of e.g. labour markets. Third, I engage with constructivist, institutionalist, and critical IPE, and discuss how these approaches assess the institutional and macrostructures of European integration. Fourth, this chapter outlines a critical integration theory focusing on competing hegemonic projects. The chapter ends with a conclusion.

1.2. Critical integration theory, crisis, and hegemony

The financial and Eurozone crises have revealed and reshaped power relations inside the EU. For instance, the uneven relationship between creditors and debtors was painfully manifest in the prolonged saga of the Greek debt crisis. The crises have also reshaped electoral politics. In the wake of the crisis, new left- and right-wing parties prospered at the expense of traditionally dominant social democratic, Christian-democratic, and conservative parties. Right-wing populists are reshaping electoral politics in several member states, including Italy and France. Broad dissatisfaction with actually existing European integration now seems a permanent condition rather than a temporary feature of European electoral politics – which in the most extreme cases add up to support for unilateral exits like Brexit.

This suggests that political contestation, politicisation, and dissensus are all integral to European integration (Börzel & Risse, 2018; Hooghe & Marks, 2009; Huke et al., 2015). At the domestic level, European crises are likely to be met with fierce political contestation (Schimmelfennig, 2018). EU-level policy-making is no longer a primarily technical policy exercise, but is characterised by power battles and contentious politics (Schmidt, 2019). With contestation at the forefront of politics across the multiple levels of the EU polity, I argue, the strategic action of political projects with competing visions for European integration are central to the evolution of EU governance.

In addition to heightened political contestation and competition, the crises have also led to the prevalence of the view that Europe's economy is so structurally diverse that it is threatening the functioning of the EU. That this view is widely shared is shown by a report from 2015 by the Presidents of the five EU institutions (the European Commission, the European Council, the European Parliament, the Eurogroup of Eurozone finance ministers, and the ECB). In the so-called Five Presidents' Report, the presidents outlined the view that: 'Today's divergence creates fragility for the whole Union' (Juncker, 2015, p. 4). In line with the view that economic divergence between the Eurozone member states is destabilising the EU, the five presidents propose a reinforced process 'to achieve similarly resilient economic structures throughout the euro area' (Juncker, 2015, p. 7). In other words, the presidents deemed a fundamental reform of Eurozone economies necessary for a stable EU. Thus, the political action required for the economic stabilisation of the EU requires structural transformations to the existing EU polity.

Critical integration theory, deploying the concept of competing hegemonic projects, addresses the interplay between structures and agency in European integration. Structures include EU institutional structures and global macro-structures. Agency includes political, economic, and legal actors. Critical integration theory situates the competing hegemonic projects in the multilevel governance structure of the EU and addresses European integration as a multilevel and conflict-ridden phenomenon. Analytically, the theory prioritises the domestic and supranational level, but other levels include cities, metropolitan regions, etc.

The concept of competing hegemonic projects focuses on contestation and the hegemonic character of political projects (Bulmer & Joseph, 2016). It is clearly something different to say that European integration depends on competing visions, for instance, than to say it depends on competing hegemonic projects (cf. Risse, 2004). That there exist competing visions for European integration tells us little about the ability of actors to transform existing structures of European integration. A central claim in critical integration theory, hegemony can mediate structure and agency, and therefore allows for collective agency with the possibility of transforming structural conditions. Through social practices, agents unconsciously reproduce, consciously transform, or consciously resist transformation of existing structures. In this process, 'hegemony becomes a mediating factor between the reproduction of social structures and conscious efforts to transform or prevent the transformation of these structures' (Joseph, 2008, p. 120).

There are, in other words, several elements to the concepts of hegemony and competing hegemonic projects: contestation, social structures, ideas and ideologies, etc. One of the trickiest concepts in social science is that of social structures. In critical realism, the reproduction and occasional transformation of the structures of European integration is fundamental to understand conflict, cooperation, integration, and crisis, in the EU. The importance of identifying structures stems from the meta-theoretical proposition that reality exceeds, predates, and does not necessarily correspond to events, people's experiences, and their ideas. The structured reality of the world does not depend on people believing in the existence of these structures, nor does it depend on the ability to identify the structures through empirical research.

This approach differs from positivism, and most mainstream integration theory, which contain an apparent, but ambiguous, anti-realism, and see politics and the social world as 'an elaborate conception constructed and reconstructed' through 'our selection and organisation of materials' over time (Waltz, 1979, p. 5; cited in Patomäki & Wight, 2000, p. 217). Ontologically, positivist European political science draws a sharp distinction between the reality of the physical world and politics: the materiality of the physical world is given, while politics depends on the way we as humans and citizens organize materials. For positivists, social reality is therefore nothing more than constructed conceptions that we construct by reorganizing existing materials.

My insistence on the importance of structures comes from the deliberate choice to situate my research along the lines of critical realism (Archer, 2009; Sayer, 1992). Put simply, critical realism addresses the underlying structures, powers, and tendencies that provide 'the conditions of possibility for actual events,' ideas, and discourses (Patomäki & Wight, 2000, p. 223), but structures and events do not necessarily correspond. The causal powers of underlying structures exist independently of whether they manifest through empirical events. If the causal powers of one set of structures are counted, and in effect cancelled, by other structures or tendencies, the former set of structures are still real. Social structures are distinct from agency in that they have their own properties, powers, and liabilities. In particular, social structures are responsible for enabling and constraining the ability of agents to promote conscious actions, and to reproduce and occasionally transform their context and structural conditions.

What do I mean by structures? Using Douglas V. Porpora's typology, a critical realist concept places social structures in a dialectical relationship to agency 'that leads from structure to interests to motives to action and finally back to structures' (Porpora, 1998, p.344). For Porpora, the nature of structures differs significantly depending on the basic ontological and epistemological assumptions underpinning any given research (Porpora, 1998). The positivist-individualist account of social structures (‘patterns of aggregate behaviour that are stable over time’, Porpora, 1998, p. 340) differs from that of linguistic-structurationism (‘intersubjective rules, norms, ideology’, p. 346), which again differs from the critical-realist concept of structures (‘systems of human relations among social positions’, p. 343). Drawing on the latter concept, I treat structures as material and objective, which are not reducible to patterns of individual behaviour or intersubjective rules.

Figure 1.1. Dialectical path of structure-agency

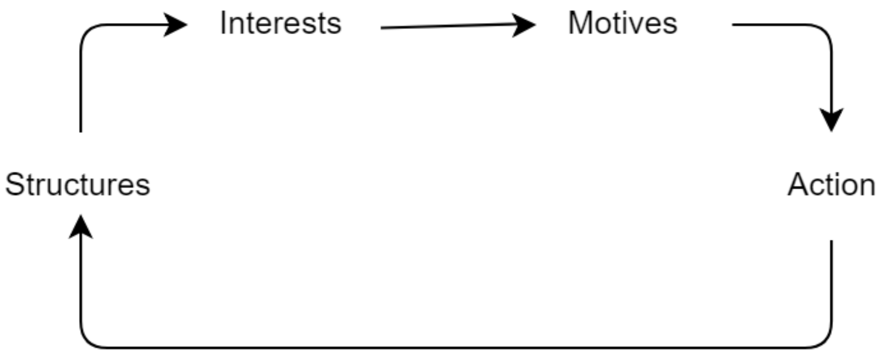


Figure of critical integration theory’s structure-agency path based on Porpora (1998).

The critical realist position also differs to the epistemology and ontology of constructivism. Borrowing Heikki Patomäki and Colin Wight’s (2000, pp. 217–219) term, constructivist epistemology can be characterised as anthropocentrism + scepticism: reality is constituted by human discourses, while observers should be very cautious in providing general propositions about that world. In other words: the social world is constructed by intersubjective beliefs and reconstructed through processes of shared meaning-making, but since we are not individually in control of these processes, we should question established patterns of research methods and claims to causality. However, constructivism is used for empirical studies, and research agendas are delineated and outlined to make intersubjective ideas and discourses the objects of inquiry. Hence, social constructions become the reality to be studied, and the ontological questions as to what that reality looks like re-enter the centre of discussion. Given that all research traditions develop a concept of reality, Patomäki and Wight state that ‘(t)he question is not of whether to be a realist, but of what kind of realist to be’ (2000, p. 223). However, positivism and constructivism’s concepts of reality are arguably ontological relativist or anti-realist: as researchers, we can only count on the entities we observe scientifically (the empiricist metaphysics of positivism) or on intersubjective ideas and discourses (constructivism) (Patomäki & Wight, 2000; Rivas, 2010).

1.2.1. Institutions, macro-structures, and European integration

In critical realism, social structures, such as political and economic institutions, possess certain powers, capacities, and liabilities. They shape individuals' interests, motives, and actions, even if individuals may choose to act against their structured interests (Porpora, 1998). In line with critical integration theory, in this thesis I operate primarily with two types of structures in European integration: the EU institutional structure, which has legal, economic, and political dimensions, and global macrostructures, such as the structure of global capitalism and the structure of global geopolitics.

First, the EU institutional structure has great importance for delineating the legal competences of various actors at different levels. In addition, the EU institutional structure shapes the wider power relations and various forms of domination, compromise and conflict. In the field of labour markets, the EU shares competence with member states on issues of social and employment policy, and national actors are (in theory) free to reform member states' wage institutions (European Union, 2008, TFEU, Article 153). The Maastricht Treaty did not include convergence criteria for Eurozone wages or labour costs. Member state governments, on the other hand, rarely have authority over wage formations similar to the authority they have over e.g. public finances. For these reasons, EU institutions must engage with member states and social partners to reform wage setting and labour market institutions. When crises expose the structural deficiency of existing governance frameworks, more rapid change may follow. For instance, the financial and Eurozone crises arguably exposed the inability of the EMU to bring convergence and stability to the European economy. During the financial crisis, the European Commission and ECB voiced their concern for the divergence in member states' competitiveness and wage levels in the lead-up to the crisis. According to the EU institutions, the divergence was unsustainable and a significant factor behind the Eurozone crisis (European Commission, 2010a; Trichet, 2011).

The institutional identification of the problem with labour cost divergence was conducive for the far-reaching reorganisation of EU economic governance after the crisis (Chapter 4). The EU's new economic governance (NEG) framework provided the Council with the authority to make recommendations for member states' macroeconomic adjustment legally binding (Chapter 5). If threatening the macroeconomic stability of the Eurozone, the EU would now be able to sanction member states for failing to restrain wages. Outside the ordinary reform of EU economic governance, the Eurozone crisis has caused new modes of domination: for countries in need of bailout packages, like Greece, the establishment of a Troika have enabled Eurozone creditor countries to cooperate with EU institutions in directly reshaping labour market policies in indebted member states.

While the ability of EU institutions to interfere in labour markets is hindered by the EU institutional structure, the demand for action has increased as the acceleration of financialisation and globalization has concurred with a persistent divergence in industrial relations, wage regimes, and labour market institutions in the Eurozone. Because of European financial and monetary integration, as well as the rise of finance capitalism globally, inter-euro capital and financial transactions have increased significantly over the last couple of decades. This leads us to the role of global macrostructures in shaping European integration (Bulmer & Joseph, 2016). These structures include the power-relations enacted through the globalisation of production networks and finance (Held et al., 1999). Global macrostructures also encompass the internal competitive structure of capitalism, which operates 'as an overarching constraint, relayed to individual capitals by competition, which coerces them to operate in a structurally similar fashion' (van der Pijl, 2012, p. xiv). In other words, the competitive pressures of the capitalist system reproduce the system of human relations we know as class relations.

Global macrostructures shape European integration by making different accumulation strategies or growth models more or less attractive for capital, labour, and state actors in different member states (Jessop, 1983; Nölke, 2016). The rise of global finance, and the financial deregulation that accommodates it, has vastly accelerated the stocks of public and private debt across the Eurozone, both in core states, such as the Netherlands, and across the periphery of Ireland, Greece, and Portugal. The productivity crisis in many parts of southern Europe combined with the availability of cheap credit in the Eurozone fuelled sector booms and debt-led growth patterns across the Eurozone periphery (Baldwin & Giavazzi, 2015). This has contributed not only to the Eurozone's exposure to financial turmoil, but also to divergent inflation rates and wage developments in core and peripheral member states. In return for Europe's dependency on cheap credit, the structural power of finance has only ascended in recent decades. In Europe and globally, the likelihood of sovereign defaults have rapidly diminished in recent decades (Roos, 2019), and in the EU, over the ECB and the European Commission's policy priorities; (Braun, 2018; Braun et al., 2018).

EU institutional and global macrostructures may interact to shape the policy-field available for EU political leaders at a given time. In the following three paragraphs, I illustrate the relationship between macro-structures and institutional structures with the example of the

Greek bailout in 2010. This bailout effectively suspended the Maastricht Treaty's rule that the EU could not bail out member state governments experiencing financial distress. European leaders had introduced the "no bailout clause" in the hope that it would discipline both creditors and (government) borrowers. The rule implies that governments unable to repay their debt will eventually default on their private creditors. In theory, private creditors are therefore less willing to lend governments money and will only do so for a higher price. Private creditors' reluctance to lend would in turn discipline member states' ability and willingness to borrow. European leaders were not fully convinced of financial markets disciplining capacities (Mody, 2018). Therefore, they installed the rule on excessive deficits that limited permissible government budget deficits to 3% of GDP.

Notwithstanding EU leaders' lack of faith in market discipline, the no bailout clause reminded governments that sovereign bankruptcy remained a possibility. However, as Jerome Roos (2019) documents, in recent decades, national governments have very rarely defaulted on their debt obligations. The structural power of global financial markets did not so much rest in their ability to limit government debt to levels sustainable even in the face of major financial distress. Instead, 'in a context of growing credit dependence', global finance has 'the capacity to withhold the short-term credit lines on which all economic actors in the borrowing countries' depend, which makes government defaulting politically extremely difficult (Roos, 2019, p. 12). The disciplining power of finance lies not so much in the ability to constrain government borrowing as in the inability of governments to default on their debt.

As it turned out in the event of the global financial crisis, the EU no bailout clause and the excessive deficit rule was insufficient in safeguarding member states against financial distress. The rules were arguably unhelpful as far as the excessive deficit rule restricts macroeconomic policymaking and the no bailout rule heightened financial market panic at the height of the European sovereign debt crisis. These EMU-imposed limits on macroeconomic coordination as well as the intensity of financial turmoil only strengthened the severity of the Eurozone crisis, and thus increased the indebted member states' dependence on the eventual EU bailout programmes. These bailouts, of course, came with detailed and painful adjustment policy programmes that radically changed social security systems, wage levels, and labour markets in the affected countries. The institutional structure of the EU, and the structural position of finance and credit in global capitalism, interacted to shape the available strategies for the policymakers determining the course of the Eurozone crisis.

Beyond the example of the Greek bailout, critical integration theory can help addressing the structures that constrain and enable the agency of domestic state actors and EU institutional actors. Seeking to assess the relative power of strategic policymaking in relation to institutional and macrostructures, I argue for the crucial importance of hegemonic projects. Hegemonic projects are the means by which diverse groups of political and economic actors develop programmes of action that transcend the basic interests of any given group. Hegemonic projects are vital for the reproduction and occasional transformation of social structures. Because the durability of institutions and macro-structures depends on social legitimacy as well as a more material basis, structural reproduction depends on the active involvement of a broad range of actors (e.g. not just financial fraction of the capitalist class). Structural transformation also rests on active agency, but any given group of actors cannot be expected to transform, for instance, the conditions underpinning the ascendency of finance in modern capitalism (Vogl, 2017). As critical integration theory posits the processes of structural reproduction and transformation as endogenous to European integration, hegemonic projects are vital to the analysis. As we shall see, mainstream integration theories cannot provide a satisfactory answer to the conditions for the reproduction and transformation of structures.

1.3. Mainstream integration theory: liberal intergovernmentalism and neofunctionalism

The EU is characterised by recurrent crises, and in the last decade more so than ever (Börzel & Risse, 2018). The recurrent crises may result in further integration, stagnation, differentiation, or disintegration (Fabbrini & Schmidt, 2019; Jones, 2018). Crucially, the Eurozone crisis reminded us that EU crises might in fact accelerate integration (Jones et al., 2016). Increasingly, therefore, theories of European integration must confront how European integration develops in and through crisis. The relationship between crisis and integration is a puzzle of European integration. At the most general level, theories of regional integration divide in three. First, rational explanations focus on the choices and dilemmas of rational actors. Second, ideational explanations forefront the role of norms, ideas, ideology etc. Third, materialist explanations emphasise the conditions for capitalist reproduction. Institutional, multi-level governance, and other approaches can be based on either or a combination of these three general theories.

Rational theories of European integration tend to approach the puzzle of European integration through the processes of either intergovernmental bargaining or supranational institutionalisation. Intergovernmentalism, at least in its liberal variant (Moravcsik, 1993), and neofunctionalism are 'united by a common focus on the functional, efficiency-based rationale for regional integration, economic preferences, and bargaining between interest groups' (Schimmelfennig, 2014, pp. 321–322). As rational theories of regional integration, they are sceptical about theorising the social and economic purpose of integration. With theories focusing on the formal transfer of sovereignty in European integration, mainstream integration theories tend to neglect the political economic context for integration (van Apeldoorn, 2002).

Their commitment to a scientific paradigm of hypothesis testing and falsification *a priori* repudiates the necessity of considering the nature of social structures, and by extension hegemony. Mainstream integration theories conceive structures as irreversible conditions for integration, independent of social pressures, and detached from the socio-economic content of European integration. Offering an alternative, critical integration theory highlights the social nature of political and economic structures and foregrounds the social struggles that reproduce and transform structures. Intergovernmentalism and neofunctionalism fail to take into account the interactive relationship between institutional and global-economic structures, on the one hand, and the relative powers of governments and other actors to change their structural conditions, on the other.

Table 1.1. Rationale, interests, and preferences in European integration

	Liberal intergovernmentalism	**Neofunctionalism**	**Critical integration theory**
Rationale for integration	EU integration as function of national calculus and intergovernmental bargaining	EU integration as function of supranational efficiency	EU integration through structured political projects contesting hegemony
Actor interests	Economic interests dominate national preference-formation	Supranational actor may emerge with distinct interests	Objective interests depend on social position
Preferences and action	Intergovernmental bargaining on the basis of national preferences	Supranational agency with distinct preferences	Preferences, motives and action may differ from objective interests, and depend on structural configuration

1.3.1. Liberal and new intergovernmentalism

Often conceived as the baseline theory of European integration, liberal intergovernmentalism addresses European integration as the outcome member states asserting their national interests through intergovernmental bargaining (Moravcsik, 1993; Schimmelfennig, 2014). For Andrew Moravcsik, liberal intergovernmentalism rests 'on the assumption that state behaviour reflects the rational actions of governments constrained at home by domestic societal pressures and abroad by their strategic environment' (Moravcsik, 1993, p. 474). It deploys a 'intergovernmental institutional' theory of interstate bargaining and derives its analysis of national preference formation from 'liberal theories of international interdependence' (Moravcsik, 1993, p. 480). This means that intergovernmental negotiations are constrained by its strategic environment as well as by domestic politics. The emphasis on domestic politics is warranted, but the assumptions about how interests are aggregated, and come to act as a constraint on government action through domestic political institutions, are simplified in order to identify patterns of regularity and derive falsifiable hypotheses (Buch-Hansen, 2008, p. 27). For instance, Moravcsik argues that the preferences of domestic social groups 'are aggregated through political institutions' (Moravcsik, 1993, p. 481), but there is little consideration of how those institutions filter preferences, or which preferences are aggregated most efficiently.

As a rationalist theory of governments' interaction, liberal intergovernmentalism assumes that individual agency is the fundamental unit of the social world, and that actors are rational, utility-maximising individuals. This gives intergovernmentalism credence as a parsimonious framework for analysing bargaining positions and priorities of individual government representatives. However, the assumptions prevent any deeper consideration of the structural conditions for intergovernmental negotiation and possible changes to those conditions over time. The way liberal intergovernmentalism conceives structural constraints is too rigid and too thin. The intergovernmental concept of structures is too rigid to provide a clear account of how actors may overcome and transform the strategic environment of interstate bargaining. Further, when liberal intergovernmentalism accepts the basic assumptions of rational choice theory, it fully embeds individual choice in a pre-given context of utility-maximization. As Moravcsik argues, liberal intergovernmentalism assumes that '(g)overnments evaluate alternative courses of actions on the basis of a utility function (Moravcsik, 1993, p. 481). Ultimately, this is also a very thin concept of structure, because there is little consideration of the consequences for the institutional structure in case the negotiating actors chose not to adhere to the rational model of agency. It is worth noting here that liberal intergovernmentalism leaves more scope for governments to develop their negotiating positions compared to structural realism in IR (e.g. Waltz, 1979).

In liberal intergovernmentalism, therefore, utility-maximising individual agency is the primary context for the EU's institutional structure. Over time, bargaining positions and decisions of member state governments cannot fundamentally change the institutional framework. Governments may establish new institutions to solidify policy implementation, but the broader structure of EU negotiations remains the same: a non-coercive and information-rich environment with low transaction costs for bargaining (Moravcsik, 1993, p. 498). In addition, there is little consideration of how the massive transformations in the global political economy since the 1970s have impacted on the way European politics is structured (Bickerton et al., 2015a). The framework seems immune to global pressures, such as the globalization of financial flows, or shifts in the geopolitical balance of power.

In meta-theoretical terms, the structure of integration is devoid of distinct properties and causal powers that can actively shape the conditions for decision-making; it only operates as a passive constraint on governments. In intergovernmentalism, structures are aggregations of individual, rational choices. Since all governments are utility-maximising agents acting in their own self-interests, the institutional structure always will always remain one of interstate bargaining. Against the backdrop of the intergovernmental concept of structure as aggregated rational choices, critical integration theory advances a concept of structures as the institutional or material manifestation of the historical dominance of specific socio-economic forces. For instance, the European welfare states, and the state structures developed to secure welfare provision, were at least partly the result of the historical emergence of labour as a politically organised social force during the 19th Century. In return, as highlighted by critical scholars of European integration, the emergence of a capitalist class increasingly organised at the transnational level has sought to institutionalise market-conforming policies at the European level in recent decades (van Apeldoorn, 2002).

Intergovernmentalism and critical integration theory do not deal with questions of structure-agency and similar questions at the same level of abstraction. In intergovernmentalism, states are the only agents that may change the direction of European integration, and this happens on a case-by-case basis when domestic preferences and the degree of interdependence suggests that more or less integration is beneficial. Refraining from discussing the potential for deeper social change through hegemonic projects, intergovernmentalism differs from critical integration theory in its assessment of conflict in the process of European integration. Intergovernmentalism has mostly ignored both the realist IR and the Gramscian concept of hegemony. The latter posits hegemony as the political and agential 'moment in the reproduction of social structures' (Joseph, 2008, p. 110).

Intergovernmentalism has no equal term for the processes of structural reproduction and/or transformation.

In practical terms, intergovernmentalism tends to analyse the European-level institutional structure as both geographically and temporally independent of domestic politics and does not interrogate how the EU institutional structure shapes contestations among domestic social groups. The separation of domestic and European politics is particularly problematic at the current stage of European integration, because the political environment in many member states has now been significantly altered by European integration and the rise of Euro-scepticism (Bickerton, 2012). Christopher J. Bickerton, Dermot Hodson and Uwe Puetter have developed a theory of New Intergovernmentalism to take into account the paradoxical dynamics of European integration since the Maastricht treaty. For Bickerton et al. the evolution of EU labour governance since Maastricht is indicative of this paradox of integration, whereby member states have pursued policy co-ordination 'at an unprecedented rate', which has been fully confined to intergovernmental agreements, with the EU 'stubbornly' avoiding supranational decision-making (Bickerton et al., 2015a, p. 4).

Rather than separating domestic and EU politics in time and space, New Intergovernmentalism analyses the 'causal variables that put the emphasis on the domestic and endogenous pressures for change' to European integration (Bickerton et al., 2015a, p. 21). This allows New Intergovernmentalism to better incorporate domestic conflicts, including rising Euroscepticism in the studies of institutional change at the EU level. However, it is crucial to note here that New Intergovernmentalism continues to neglect the impact of global macrostructures on European integration. EU-level policy-making is rarely explained with references to macro-structural or global trends, as focus remains on the conditions for (new) intergovernmental negotiations (Bulmer, 2015). Macro-structural transformations reside, in other words, outside the mode of explanation, when they in fact ought to be integrated into the analytical model. Bickerton et al. acknowledge and defend their decision to discount the influence of macrostructures: "Our own focus is not intended to dismiss this broader context but rather to recognize that as causal variables these exogenous forces have indeterminate institutional effects" (Bickerton et al., 2015a, p. 21). By focusing only on endogenous causal variables, New Intergovernmentalism risks severely underestimating the causal and constitutive properties of social structures and thereby effectively rendering endogenous mechanisms unstructured.

Despite this severe limitation, New Intergovernmentalism also contains tangible advancements compared to liberal intergovernmentalism, and Bickerton's emphasis on *state* *transformation* as the modus operandi of European integration is a very careful correction to the rather static ontology of liberal intergovernmentalism (Bickerton, 2012). What is needed in order to go beyond New Intergovernmentalism is an analytical model that connects the institutional structure of European integration with economic macrostructures. Before developing this model, we examine the relevance of neofunctionalism in contributing to a critical theory of European integration.

1.3.2. Neofunctionalism

At the heart of neofunctionalism lies the emphasis on utilising a theory of regional integration that differs from state-centric theories of IR. A very influential theory of European integration in the 1960s and early 1970s, neofunctionalism addressed the role of non-state national and international actors, such as corporations, and supranational institutions, in shaping integration (Sandholtz & Sweet, 2012). As the pace of European integration slowed down in the 1970s, and experienced a series of institutional crises, it was increasingly subject to criticism (Rosamond, 2005). Despite its decline in popularity as a general framework for analysing the powers and processes behind European integration, proponents have continued to defend its capacities in explaining the dynamics in clearly defined policy areas, such as social and labour market policy (Strøby Jensen, 2000).

In studies of EU social, labour, and economic governance, a number of the key concepts in neofunctionalism has been utilised to explain the processes of decision-making in this area. Functional spill-over is arguably the most important of these, and describes a technical process whereby integration in one area requires further integration in another (Rosamond, 2000). Caroline de la Porte and Elke Heins argue that the establishment of the European Monetary Union (EMU) caused functional spill-overs on public expenditure and welfare states (de la Porte & Heins, 2015b). Realising this partly unintended pressure on social protection, the social democratic coalition of the late 1990s (particularly British Labour and the French Socialists) was eager to use labour market policies to offset the pressure of the Maastricht convergence criteria that required fiscal consolidation as a condition for member states joining the Euro. The importance of functional spill-overs from the EMU to labour market policies is disputed, but there is widespread support for the proposition that transnational advocacy coalitions – or cultivated spillovers in neofunctional terminology – played a key role in developing a compromise on the content and enforcement mechanisms of the EU’s employment strategy (van Riel & van der Meer, 2002).

Some critics of neofunctionalism are particularly concerned with its lack of agential consideration. Notwithstanding the strategies and ideas of policymakers and the political institutions they inhibit, political integration is the almost necessary by-product of economic integration (Rosamond, 2000, p. 51-2). This concern has been somewhat rectified by more recent neofunctionalists who emphasise the role of political coalitions in negotiating and cultivating processes of spill-over (Strøby Jensen, 2000). Still, neofunctionalism necessarily underpins the functional dynamics in European integration. Transnational networks contribute to the depoliticisation of policymaking through elite socialisation and bureaucratic procedure at the supranational level. The increasingly supranational organization of interests and preferences gives rise to densely coordinated private actors, such as business associations (Strøby Jensen, 2000, p. 75-6). The emphasis on functional and depoliticised processes has received substantial critique, not least from political economists studying EU socio-economic governance through the framework of historical institutionalism (Schäfer, 2004; Scharpf, 2002).

The emphasis on depoliticised processes means neofunctionalism has little concern for hegemony, or in other words the conditions for agents to install or resist structural transformation (Joseph, 2008). In Alec Stone Sweet and Wayne Sandholtz's account, the three main factors that allow for spill-overs and supranational integration are supranational organizations, supranational rules, and transnational society (Sweet & Sandholtz, 1997, pp. 304–305). With these three in play, European integration becomes more or less independent of domestic political struggles. In effect, transnational agency develops rules and organizations directly. At a more fundamental level, neofunctional accounts leave unexplored the conditions that allow agency to transform structures.

Neofunctionalism, therefore, does not explain when and how policymakers are capable of changing European integration. Instead, European integration appears as both the mechanism in need of explanation (*explanandum*) and the explanation provided (*explanans*). If economic integration in areas of 'low politics' has led to 'the gradual and progressive entangling of national economies' and then to greater regulatory complexity and thus political integration, then there is no need to look at the structural conditions shaping integration (Rosamond, 2000, p. 51). The concept of spillovers can highlight how integration aggregates, but it cannot contextualise integration in terms of the political and economic conflicts that shape its direction. In effect, both domestic politics and global macrostructures become obsolete. This research thesis on the other hand, seeks to demonstrate the role domestic politics and global economic structures have played in the negotiations over EU labour market policy reforms, recasting them as structural conditions shaping multi-level policymaking.

In this thesis, I stress the importance of institutions and macrostructures for the evolution in EU labour governance and more broadly European integration. These structures are important because they shape the formation of hegemonic projects, which in turn allow political and economic actors to challenge existing structures. In the absence of structural transformation, EU labour governance will evolve slowly and be subject to recurring political contestation. To improve our analysis of these processes, I move beyond the two main theories of European integration. We have seen how, in liberal intergovernmentalism, the EU's institutional framework underlines, but does not interact with processes of decision-making. In neofunctionalism, the framework for policy-making – functional spillovers demanding co-operation in new policy areas – is determined by economic processes, which unfold without significant conflicts. In response, I highlight exactly those political-economic conflicts over who gets what, when, and how, and the way these conflicts, or competing hegemonic projects, are transmission belts through which policy-makers reproduce and maintain existing structures, or occasionally, transform them, thereby accelerating integration or unleashing disintegrative dynamics. The remainder of this chapter discusses the role of ideas, institutions, and capitalist reproduction in EU integration, and argues that hegemonic projects is a useful and necessary concept to explain how policymakers and other actors may change the course of integration.

1.4. Towards competing hegemonic projects: the role of ideas and institutions

In contrast to the rational explanations of European integration, Gramsci's concept of hegemony and critical integration theory rests on a materialist explanation of political and economic integration that provides analytical priority to the reproduction of capitalism. For Gramsci, the context was Italian unification, enabled through a process of "passive revolution" that subjugated Southern Italy and its peasants to the rule of Northern capitalists (Gramsci, 1978, p. 441). For critical integration theory, the context is European integration, especially in the post-Maastricht era. Critical integration theory follows Gramsci's writings to stress how the basic structure of capitalism matters for political and economic integration: economic relationships are exploitative and result in class struggle, capitalist competition necessarily causes crisis, etc. For Gramsci, and for critical integration theory, capitalist relations provide the 'decisive nucleus of economic activity' for any political order, including the EU (Gramsci, 1971, p. 161). Nonetheless, institutions and ideas both play a considerable role in European integration. Institutions structure state actors and civil society, while ideas help legitimise and/or contest political and economic orders.

This thesis addresses the evolution of EU labour governance as the result of competing hegemonic projects operating within EU institutional and global macrostructures. Unlike critical integration theory, constructivist and institutional explanations generally distrust the stability and materiality of global macrostructures. Constructivism adds valuable knowledge on the role of ideas and discourse that shapes EU political contestation. However, at a more fundamental level, constructivism is at odds with the idea in critical integration theory that only hegemonic projects are capable for transforming existing social structures and enable persistent political change. Institutionalism in EU studies has traditionally eschewed questions of social structures that run deeper than institutions, but critical integration theory proposes the merging of key institutionalist concepts with the Gramscian emphasis on hegemony (Bulmer & Joseph, 2016).

1.4.1. Ideas and discourse

Ideational explanations stand alongside rationalist and materialist explanations of integration. Succinctly, ideational explanations possess a distinct ontological and epistemological approach to the social sciences that forefronts the constitutive power of ideas, norms, and rules - i.e. constructivism. For Craig Parsons (2010), constructivism is a scientific approach that explains the social processes through which the identities, norms, and ideas of actors are shaped. The strategies of policy-makers develop through primarily social constructions, and not the economic, material, or organizational landscape in which interactions take place (Parsons, 2010, pp. 87–88). The concept of social structure developed in constructivist frameworks tends to resemble Anthony Giddens' concept of structures as a set of rules and resources (Porpora, 1998). Giddens' structuration theory neglects any potential 'causal significance of objective, social relationships' (Porpora, 1998, p. 346). In effect, the constructivist literature struggles to enquire the role of social relationships that obtain objectivity within specific political-economic orders (capitalism and class; patriarchy and gender; imperialism and race). Constructivist and sociological studies of European integration tend to treat the social structure as a 'system of relations' structured by the ideas and positions of actors (Matthijs & McNamara, 2015, p. 232; Mudge & Vauchez, 2012, p. 455). Constructivist and sociological studies of these variants can make very valuable contributions to the study of European integration, but they inevitably treat social phenomena (like class struggle or racialized hierarchies) with reference to that which is subjectively intelligible.

Notwithstanding the limitations to their analysis of social relations, materialist analysis can take great inspiration from constructivist and sociological approaches to normative and ideological change. For the purposes of studying EU labour governance, studies of resilient neoliberalism and social learning in economic governance are particularly relevant (Matthijs & Blyth, 2018; Schmidt & Thatcher, 2013). Mark Blyth, Erik Jones, Matthias Matthijs, and Kathleen R. McNamara's attention to the dominance of ordoliberal culture in Germany and neoliberal ideas in Brussels highlights the routes that EU policy-makers followed as they came to terms with the Eurozone crisis (Jones, 2013; Matthijs & Blyth, 2018; Matthijs & McNamara, 2015). Investigating social logics and learning processes in the Eurozone crisis, Matthijs, and McNamara show how 'the putative answers to the crisis arose out of deeply entrenched social structures that informed economic debates' (Matthijs & McNamara, 2015, p. 231). They trace the economically irrational fixation on fiscal balances in the Eurozone crisis to the capacity of 'Germany's ordoliberal tradition and stability culture … in shaping the field of economics' (Matthijs & McNamara, 2015). Social structures, in other words equate to a system of knowledge that inform the worldview of academics, civil servants, and policymakers.

When the constructivist literature equates structures with ideas and subject positions, it embeds political institutions in purely normative and cognitive frameworks. In addition, constructivism only embeds ideas and paradigms in intersubjective social relations. Ultimately it underplays the real causal properties of institutional and macrostructures and leaves aside the deeper relations in the social world. Structures shape actors' interests, limit or promote these actors' ability to act strategically, and influence their capacity for changing their environment. Deeper social relations create uneven conditions for shaping social knowledge and epistemic cultures. Given the dependence of labour on market forces for a job and a living wage, we may question what options workers have to challenge market structures (Porpora, 1998). In the context of labour market governance, objective social relations matter in the way labour markets are altered by the increasingly transnational organization of production, which in turn readjusts the relationship between employers and workers, the possibilities for solidarity and collective agreements, and the role of the state in regulating capital and labour. Changes to the organization of work and labour, falling wage shares, and the rise of cheap credit as a source of income, have a real effect on the interests of social groups and their bargaining power, independently of how discursive constructions influence the strategies by which actors confront these socio-economic challenges and opportunities.

1.4.2. Institutions and social relations

Institutionalism may build on rational, ideational, or materialist explanations (e.g. Pollack, 2006; Schmidt, 2010; Hameiri, 2019). The uniting theme in institutionalism, particularly in its application to EU studies, is the premise that political processes and outcomes never start 'from scratch' and are always constrained by status quo (Matthijs et al., 2019, p. 211). Commenting on the constraining role of institutional structures, Paul Pierson argues that 'the dead weight of previous institutional choices seriously limits' actors' desire and ability to change institutions (Pierson, 2000, p. 493; cited in Bell, 2011, p. 884). This gives institutional change a path-dependent character and increases the continuity of institutional development over time. Institutionalist EU studies are particularly useful for identifying path-dependency, institutional rigidity and political stability in European integration. Historical institutionalists, such as Simon Bulmer, have advanced 'a middle-range theory' to identify the institutional context of EU economic governance (Bulmer, 1998, p. 366). In the wake of the financial crisis, Bulmer has pushed for an improved incorporation of global dynamics within institutionalist analysis of European politics (e.g. Bulmer & Joseph, 2016). However, much historical institutionalist analysis of the Eurozone remains wedded to an exclusive focus on the dynamics within the EU institutional design (e.g. Verdun, 2015).

Developing critical integration theory, in this thesis I incorporate the institutionalist notion of path-dependency and accepts the predisposition of institutions towards continuity. However, Pierson's institutionalist notion that actors naturally prefer institutional continuity is problematic. This is because macro-structures and the inner structure of capitalism - and not only institutions - shape actor preferences. Following the way critical integration theory emphasises the structured reality of society, we should acknowledge that a broader range of conditions shape actor preferences for institutional continuity or change. The properties of macro-structures may well induce actors with strong preferences for institutional change. In addition, critical integration theory differs from the popular institutionalist assumption that institutional rigidity provides for political stability. Indeed, the multi-level character of the EU's institutional structure gives rise to instability and opens up space for transformative agency. Multilevel governance makes public policymaking not only dependent on the political negotiations between policymakers, experts, and relevant socio-economic actors, but also on the structural constraints that shapes the preferences, strategies, and ideas of actors in the first place. Given the multi-level governance character of the EU's institutional framework, contestation can take place at different levels, which in turn may interrupt or destabilise continuity throughout the institutional framework. The multi-level EU also takes part in different experiments of re-scaling governance and de-nationalising statehood (Jessop, 2004; Larsen, 2018). European integration has also brought about a transformation of the member states themselves (Bickerton, 2012). In several countries, including the United Kingdom, questions about European integration have become the defining political issue.

Following their attention to institutions, institutionalism has been hesitant to engage with the inner structure and institutions of capitalism *per se*. Bulmer's seminal study on domestic politics in European integration does not address capitalism directly but national 'social and economic conditions' (Bulmer, 1983, p. 354). Later, institutionalist scholars started treating these national conditions as varieties of capitalism (Hall & Soskice, 2001), and recently, the literature has paid attention to the integration, diversity, and (in)compatibility of national capitalisms in the EU (Bickerton, 2019; Johnston & Regan, 2016, 2018). Johnston and Regan assert the incompatibility of the two 'capitalist growth regimes' that each exists in 5-6 EMU member states (2016, p. 323; Hall, 2012).

In the context of EU labour governance, institutionalism has informed studies of the relationship between trade unions, central banks and the EMU (Hancké, 2013), wage setting institutions and monetary integration (Johnston, 2016b), and the imbalance of Eurozone capitalisms (Regan, 2017). However, these studies, in line with wider varieties of capitalism literature rarely make capitalism as a system of social relations the object of analysis (Bruff, 2011; Bruff & Horn, 2012; Streeck, 2011). For instance, institutionalist studies rarely discuss the nature of the social relationships that constitute wage bargaining institutions. Rather than interrogating the (uneven) conditions for workers and capitalists negotiating within capitalist institutions, institutionalist analysis confines their object of study to the inter-institutional dynamics that may discipline or empower strategic actors. In contrast, critical integration theory makes the relationship between social classes foundational to political conflicts and compromises. While political and economic conflicts, for instance over wage developments, are usually empirically identifiable, class relations do not have to be. Class relations have, in other words, a different ontological status than political coalitions, and they constitute a fundamental source of conflict within capitalist societies. A pertinent example is job creation. Alongside public employers, it is capitalists' investment decisions that determine employment, while workers are on the receiving end of the social costs involved in unemployment. Capitalism creates an uneven relationship between workers, who depend on the market (i.e. investment patterns) for their means of income, while capital depends on the market merely for profit (Bruff, 2011).

1.5. Critical integration theory and competing hegemonic projects

Among class-based approaches to politics and political, neo-Gramscian scholars have arguably left the greatest impact on European integration theory (van Apeldoorn, 2002). As Gramscian scholars, they are well aware of the importance of ideas and institutions, even if they ground these in the materialist conditions of capitalist production and reproduction (Bieler & Morton, 2008). Stephen Gill's concept of new constitutionalism (Gill, 1998) sparked the neo-Gramscian debate on European integration, but it was the Amsterdam school's emphasis on transnational agency that clearly distinguished this body of literature from other critical approaches (van Apeldoorn, 2002; van Apeldoorn et al., 2009). Recently, neo-Gramscian scholars have highlighted the authoritarian tendencies in European integration (Bruff, 2014; Ryner, 2015).

Gill uses the concept of new constitutionalism to analyse the relationship between European integration and the global political economy. His approach suggests a historical-materialist route to place European integration 'in the context of global patterns of power and production, as features of the political economy of globalisation' (Gill, 1998, p. 6). While lacking in empirical detail, Gill's analysis of European integration nonetheless provides for an introduction to the analytical priorities in neo-Gramscian analysis of European integration. This includes the relationship between patterns of regional and global economic integration, particularly the rise of neoliberal governance in both spheres; the disciplinary nature of neoliberal governance (particularly towards labour and subaltern groups); and the role of social forces in the making of European integration and the dominant position of transnational capital.

Van Apeldoorn brings the analysis further by interrogating in detail the 'strategic alliance between the corporate executives of Europe's leading [transnational corporations] and the political executives of the Commission' (van Apeldoorn, 2000, p. 48). This alliance enabled the latter, under the presidency of Jacques Delors, to push forward an agenda of deeper market integration amid the general Euro-pessimism of the 1980s (van Apeldoorn, 2002). Van Apeldoorn specifically interrogates the European Round Table of Industrialists (ERT), an advocacy group of around 50 industrial leaders, representing large transnational corporations in Europe. For van Apeldoorn, this group has significant political power that it yields from the transnational nature of its members. Van Apeldoorn (2002) asserts that the ERT has pushed the neoliberal hegemonic project at the supranational level on behalf of the most transnationalised fractions of the capitalist class.

Despite the ERT's support for strongly neoliberal policy reforms, and their relatively central position within the EU political system, Van Apeldoorn does not treat European integration as a process fully consumed by neoliberalism. Rather, the neoliberal project preferred by the most transnationalised and financialised corporations have had to compromise with a neo-mercantilist project - to allow some protectionism for European industry – and a social democratic project that maintains the importance of basic social protection (van Apeldoorn, 2002, p. 78). The result, van Apeldoorn (2002, p. 115) suggests, is the emergence of embedded neoliberalism in which pure market-enhancing neoliberalism mutates in the meeting with European neocorporatist industrial relations and welfare states.

Van Apeldoorn's study posits a considerably more sophisticated analysis of corporate power compared to supranational and intergovernmental explanations because it deals directly with the material and historical conditions under which corporations may advance political projects at the transnational level (van Apeldoorn, 2004; cf. Moravcsik, 1991). However, the subordination of domestic democratic politics vis-à-vis transnational economic actors is not a fully adequate portrayal of the EU's political-economic structure or the process of integration. Bulmer and Joseph's suggestion to focus more directly on the multilevel governance framework that conditions European integration provides an important contribution to the analysis of European hegemonic projects, and complements analyses fixing on the role of global (economic) structures. It is through the multilevel governance framework that various hegemonic projects seek to successfully upscale and extend their dominance over competitors – the outcome of which may very well be embedded neoliberalism.

In the wake of the crisis, neo-Gramscian scholars have interpreted the evolution in EU economic governance as the consolidation of authoritarian or 'iron cage' neoliberalism (Bruff, 2014, 2017; Ryner, 2015, p. 287). As the Eurozone crisis has revealed the contradictions of embedded neoliberalism, European leaders have tasked EU institutions with a mandate to impose neoliberalism through policy conditionalities, constitutional amendments, and contractual agreements. The main weakness of the literature on authoritarian neoliberalism is the lacking analysis of the weakening and development of neoliberalism since the crisis. The literature has mostly left it to others to interrogate the resilience, mutation, and/or transformation of neoliberalism *as a political project* (e.g. Davies, 2014; Schmidt & Thatcher, 2013; Slobodian, 2018).

1.5.1. Hegemonic projects and structural hegemony

Following Bulmer and Joseph's critical theory of European integration and adding to the predominant focus on class relations in neo-Gramscian theory, I will emphasise the importance of the political struggles between hegemonic projects. Bulmer and Joseph start by repudiating that European integration in itself can be considered hegemonic in any structural sense (Bulmer & Joseph, 2016). This distinction harks back to Joseph's earlier, and more theoretically detailed work on hegemony (Joseph, 2002). For Joseph, the distinction between structural hegemony and hegemonic projects is vital because it separates the functional requirements for "ensuing the reproduction of basic structural processes and relations" from the "conscious, political (...) projects and practices" (Joseph, 2002, p. 128).

Structural hegemony represents a coherent social organization that can 'forge a political and consensual unity and direction' out of the stratified and differentiated nature of society (Joseph, 2002, p. 14). Hegemonic projects, on the other hand, refer to "concrete projects and intentional agency" (Joseph, 2002, p. 129). Following this distinction, there is arguably no structural hegemony of European integration; instead, the latter is an on-going process that remains incomplete, is in constant change, and is under continuous and severe pressure. This supports the argument that European integration tend to 'fail forward' through crisis (Jones et al., 2016, p. 1012). The reproduction of Europe's 'basic structural processes' does not depend on a stable and coherent EU (Joseph, 2002, p. 128); arguably, quite often the crises of the EU give unity and direction to the process of European integration (Jones et al., 2016). While a dominant stream of European integration has certainly sought to forge unity and direction around the purpose of ever-closer market integration and intensified competition, this neoliberal trajectory is more akin to a hegemonic project of intentional agency, seeking to shape the structure of the EU, rather than structural hegemony.

Arguably, European integration since the Maastricht treaty has been based on the economic principles of mutual recognition, competition, and monetarism, which is indicative of a broader crisis in post-war Keynesian economic policies (Bickerton, 2012). The breakdown of the era of embedded liberalism has indeed coincided with a deepening of European economic integration based on neoliberal principles (Höpner & Schäfer, 2010). However, one does not have to deny the existence and dominance of a neoliberal hegemonic project in European integration to question whether European integration is hegemonic itself.

The difference between neoliberal dominance and hegemony rests on whether European integration is conceived as the outcome of neoliberal hegemony, or if hegemony is instead seen as a possible, contingent outcome of integration. Following the latter proposition, I argue that the extent to which European integration has brought together, and resolved, the struggles over both socio-economic and political objectives of European capitalism, should be tested empirically through relevant case studies. As I shall demonstrate throughout this thesis, EU labour governance continues to be far more contested, diverse and unstable than what structural hegemony would entail. One major reason for the futile efforts at establishing continent-wide neoliberal hegemony is the continuous role of the nation-state as a site for political and economic struggles in the multilevel governance structure of the EU.

The density of social relations and social embeddedness of politics and economics at the national scale means that major political projects are most often first developed at the national level, and subsequently lifted up to the EU level. At the level of EU institutions, major political projects – what I refer to as hegemonic projects – are aggregated projects consisting of several domestic projects. The primacy of domestic politics and the aggregated nature of European projects reveals in the organization of labour market interest representation. An example is the organisation of businesses and trade unions in Brussels. The European institutions encourage the European organisation of social partners, and the European Commission consults BUSINESSEUROPE and the European Trade Union Confederation (ETUC) on new initiatives, financially supports those organizations' transnational projects, and facilitates social dialogue with them. While this is indicative of the institutional richness and political bureaucracy of the EU, it does not necessarily imply the Europeanization of key decision-making processes and socio-economic groups. Rather, crucial political decisions, such as wage settlement, remain the responsibility of member states.

To the extent that the advocacy efforts of the BUSINESSEUROPE and the ERT have facilitated the ascending dominance of neoliberal policies (van Apeldoorn, 2002), I argue, this rests on the structural power of capital at the domestic level, which in turn is strengthened by the proliferation of transnational production networks and financial integration. European economic, monetary and financial integration have arguably entrenched neoliberal policies. Yet, without the structural power in domestic politics, the conscious strategies and practices of capitalists and employers within the European neoliberal hegemonic project would be significantly weaker. In terms of trade unions, their social role, and their influence through bilateral and trilateral agreements, the multilevel EU is fairly heterogeneous and trade unions are more socially and institutionally embedded at the domestic level (Erne, 2015).

The diversity of member-states' different social, economic and political struggles and compromises, and the plurality of labour market institutions and interest organizations, enhances the heterogeneity of ideas and projects at the EU level. This diversity has made that the dominant hegemonic project of neoliberalism forge compromises with neo-mercantilist, Christian democratic and social democratic visions for the project of European labour market governance.

In effect, what we have seen in EU social, employment, and economic policy is something akin to van Apeldoorn's use of the concept embedded neoliberalism (van Apeldoorn, 2002; van Apeldoorn et al., 2009). A different phrasing for this phenomenon is 'roll-out' neoliberalism, which denotes the extension and consolidation of the logic of the market alongside 'active state-building and regulatory reform' which does not so much roll-back the frontiers of the regulatory and welfare state as transform the content of regulation and welfare (Peck & Tickell, 2002, p. 384). From the perspective of embedded neoliberalism, the rollout of ostensibly progressive government programmes like active labour market policies are not contradicting neoliberalism's market logic. Rather, the modernisation and occasionally expansion of social policy in Europe supplements market integration, financial deregulation, monetarism, and fiscal discipline, and provides vital social and institutional embeddedness for the consolidation of the latter policy frameworks. The ongoing process of embedding neoliberalism through consensual and coercive state policies was a fundamental part of the endurance and resilience of neoliberalism through the crisis (Cahill, 2011; Schmidt & Thatcher, 2013).

However, the European integration project in its embedded neoliberal form has been in severe crisis for the last decade – arguably, it has been in crisis since the popular rejection of constitutional treaty in France and the Netherlands in 2005. The project of embedded neoliberalism proved resilient facing the financial crisis and the initial, Keynesian urge to expand government spending, as it responded with a three-pronged attack of fiscal discipline, expansionary monetary policy, and government bailout programmes of wage cuts and social reforms. Yet, outside the alliance of the governments of Germany, its neighbours, and some Central and Eastern European member states, the embedded neoliberal project has proved highly fragile. The election of French President Hollande, the rise of Podemos in Spain, the Coalition of the Radical Left (SYRIZA) in Greece, and the Five Star Movement in Italy, and the outcome of the referendum on British EU membership, all point towards the contested nature of the current political-economic project of European integration.

Van Apeldoorn and colleagues locate the ongoing crisis of European neoliberalism in the inner contradictions of capitalist restructuring (Drahokoupil et al., 2009), which manifest in European integration through 'the fundamental contradictions inherent in the socio-economic content and related substantive output of European governance' (van Apeldoorn, 2009, p. 21). Contradictions of European governance include the need for an active nation state to legitimise neoliberal restructuring that 'continues to hollow out' meaningful state activity, for instance by imposing limitations on fiscal sovereignty (van Apeldoorn, 2009, p. 22). In this thesis, I argue that capitalist restructuring along neoliberal lines is not only an inherently contradictory process; it is also fiercely contested by alternative hegemonic projects. The superficial hegemony of (embedded) neoliberalism thus competes with alternative hegemonic projects to define European integration. This competition has not faded in recent years but has taken on new forms after the financial crisis. This is symbolised by the rise of anti-establishment parties left and right in response to the economic crisis as well as the political crisis of EU economic governance.

1.5.2. Competing hegemonic projects in European integration

Despite the lack of structural hegemony to underpin and stabilise European integration, including European alignment of wage and labour policies, the concept of hegemonic projects is useful for addressing the formation of political compromises and contestations that is rooted in domestic state/civil society relations. This section therefore outlines a typology of the hegemonic projects of European integration, building on Bulmer & Joseph's analysis (Bulmer & Joseph, 2016). The formation and competition of *hegemonic projects* does not depend on deeper structural hegemony. I thus propose to conceive European integration as the multi-layered, geographically varied outcome of competing hegemonic projects. This can help us analyse the 'particular hegemonic projects' as the 'product of the historical weakness of hegemony in general' at the European level (Joseph, 2002, p. 126). Hegemonic projects are processes of 'transformation/conservation (which) assumes a strategic character' (Joseph, 2002, p. 10) in order to secure broad social consensus on 'a far-reaching programme of action', not simply policy agendas (Bulmer & Joseph, 2016, p. 734)

Following Bulmer & Joseph, we can delineate four competing political projects of European integration that are meaningfully *hegemonic*, which means they have at least a latent capacity to change the EU by mediating the structure and agency of European integration (Bulmer & Joseph, 2016). First, the neoliberal hegemonic project dominates European integration. Second, a social-democratic project that embraces European integration remains the most organised alternative to the neoliberals. Third, a Eurosceptic neoliberal project, which largely accepts the neoliberal economic doctrines, questions the legitimacy of both supranational governance and the logic of pooled sovereignty in intergovernmental agreements. Fourth, a Eurosceptic social democratic project rejects both the political liberalism that underpins the current form of European integration and the economic liberalism of the neoliberal project. Consequently, European integration, including monetary integration and EU labour governance, is subject to contestation between social democrats and neoliberals, as well as between pro-European and Eurosceptic forces.

At the opposite end of the spectrum, recent European elections have involved not straightforwardly neoliberal or social democratic, pro-European parties. French President Macron ran his 2017 presidential campaign on the promise that he was neither left nor right, seeking to attract economic liberals and left-liberals at once. In Germany, the 2019 European elections confirmed the rise of the Green Party's post-material, left-liberal vision at the expense of the German social democrats. Despite the evident challenges that exist for labour markets in the context of climate change and the need for a green transition, the left-liberal project has not yet decisively shaped the discussions on Eurozone wage and labour governance. Therefore, in my analysis I operate with the four identified projects.

Hegemonic projects often succeed in bridging ideological divides. An example of this is the relatively successful co-existence of ordo- and neoliberal ideological currents within the neoliberal project. It may seem odd that ordoliberalism, emphasising the positive role of government in guaranteeing (fair) competition, can coexist with neoliberals much more suspicious of government interference. However, interstate federations, such as the EU may play a positive role in disciplining and restricting market interventions. For Friedrich Hayek, interstate federalism could help guarantee economic freedom from government interference (Hayek, 1939; Streeck, 2014). For some neoliberals, the EU's guarantee of economic freedom legitimises its bureaucratic elements. Other neoliberals have turned decisively against the EU. European neoliberals have fought over whether the EU is a transnational guarantor of economic freedom or 'a framework for socialist expansion' (Slobodian & Plehwe, 2019).

The dominance of the neoliberal project does not preclude the influence of other political ideas, also those outside ordoliberalism. An example would be Commission President Jean-Claude Juncker's variant of Christian Democracy, which promotes the practice of political compromises and tripartite negotiations. Since taking office in the Commission Presidency, Juncker has promised to strengthen the EU's social dimension and achieving 'a social triple-A rating' (Juncker, 2014). Most visibly, his Presidency has successfully pushed for the establishment of a European Pillar of Social Rights. However, the social pillar is not quite social democratic in nature and does not hold legal or political equivalence to the Single Market and the EMU. Juncker has sought to build a compromise between contrasting visions for European integration, but institutional and global macrostructures complicate his efforts. Critical integration theory, and the concept of competing hegemonic projects, helps explain both how Juncker's project emerges around 2013-14, and why it struggles to build more lasting political compromises (Chapter 5).

Importantly, the concept of competing hegemonic projects takes into account the role neoliberal dominance in European economic policy-making (including the role of its German, ordoliberal version) emphasised by neo-Gramscian and historical materialist scholars without reducing political contestations and the resulting processes of (dis)integration to the pure function of capitalist social reproduction and neoliberal hegemony. It also acknowledges the influence of powerful member states, particularly Germany, but repudiates the static conception of structure and power underpinning theories of intergovernmentalism. Importantly, it situates political contestations within the institutional structure of the EU multilevel governance framework, in which the domestic level continues to occupy a privileged position, as well as the macrostructures of the European and global political economy.

1.6. Conclusion

The purpose of this chapter has been to discuss fundamental aspects of theories of European integration to improve the analysis of the structural conditions and political projects that shapes EU labour governance. Specifically, the chapter has discussed the contributions of mainstream and critical integration scholarship on European integration to assess their adequacy for explaining European integration and governance. I have argued that the process of change in European integration, including the evolution of EU labour governance is best conceived of as deeply social, contingent upon both institutional structures, macrostructures, and strategic agency. No matter how solid institutional and macro-structures appear, there is at least always a possibility for structural change through social and political struggle. For this reason, there is nothing in the overall structure of the EU that is inevitable or ahistorical. No functionalist spillover effect is strong enough to guarantee "an ever closer union" let alone safeguard the European project against disintegrative dynamics.

European integration is always both political and economic processes, and despite mainstream integration theories' ambition of building falsifiable hypotheses on formal governmental and institutional interaction, these theories tend to overlook the political-economic content of European integration. Critical IPE has been the leading force in advancing this type of critique of the mainstream integration theories. However, critical IPE itself tends to conflate the *structure of integration,* i.e. multilevel governance conditioned by global capitalism, with the dominant political project in European integration over the last 30 years, namely neoliberalism. Acknowledging the open-ended and contingent nature of European integration, critical IPE ought to recognize more clearly the limits to neoliberalism and the contested nature of European integration.

This theory chapter has then sought to theorise – and outline the contours of – the EU's structural context, acknowledging the conditioning role of European capitalism on policy-making and EU institutional change in the context of labour markets. The chapter has argued that critical integration theory centres attention to the social and political processes of contestation that shape European integration at the intersection of macrostructural pressures, EU institutional structures, and the strategic agency of domestic social groups.

2. EU labour governance and the EMU

In this chapter, I develop a framework for analysing the relationship between the EMU and EU labour governance in line with critical integration theory. This specific framework is necessary to study the fundamental changes to EU labour governance induced by European monetary integration since the 1980s. The advanced framework places the politics of wages and labour markets within the institutional and macro-structural constraints of Europe's monetary union. The incomplete EMU institutions and global economic structures condition EU labour governance. The main institutions are the single currency, the centralisation of monetary policies, and the disciplinary fiscal rules. Through these institutions, the EMU puts the burden of adjustment to crisis on labour - but does not entail a framework for governing labour. Beyond the incomplete EMU institutions, macro-structural processes, such as the globalisation of financial markets and production networks, also puts pressure on European labour, and heighten the demand for EU labour governance. To develop a framework for analysing the relationship between the structures of monetary integration, global macro-structures, and labour governance, I develop a critical integration theory for labour governance by engaging heterodox economics, Comparative Capitalism, critical IPE, and governmentality perspectives.

2.1. Introduction

The introduction of the single currency to the project of European integration has changed the dynamics of labour markets in Europe. Inside the currency union, member states have centralised monetary policies under supranational and depoliticised authority, and follow detailed rules governing fiscal policy. The EMU removes monetary and exchange-rate policy instruments at the national level. With currency realignments and monetary policy instruments no longer at the disposal of national governments, labour markets become central to the process of economic adjustment. In other words, adjustment to economic cycles and crises is more likely to take place through the labour markets, through pressure on wages and/or employment levels. This means that whenever an economic crisis hits a country, austerity and wage cuts appears the principal treatment. Is the single currency therefore the tragedy of Europe's workers? Or may monetary integration lead to the development of more 'solidaristic' wage and labour policies at the European level (Schulten, 2002, p. 173)?

Since the agreement on EMU in 1991, European leaders have launched a range of initiatives to shore up the governance of wages and labour. Yet, when the financial crisis struck

Europe, there was no integrated framework for governing labour markets and the single currency. In the pre-crisis years, large current account imbalances accumulated alongside other macroeconomic imbalances inside the Eurozone. The monetary union and its member states were unable to respond to these imbalances. After the outbreak of the Eurozone crisis in 2009[2], it took three years until the EU had avoided an imminent collapse of its single currency. Even then, domestic crises continued, and in 2015, the recurring Greek crisis once again threatened the very existence of the Eurozone. These events have amplified the fragility of the EMU. Labour markets have been part of the evolution and crisis of the EMU. Yet, there are strong constraints on the development of labour governance within the EMU: the EU has no formal competence over wage questions, member states are unlikely to cede sovereignty in this area, and any redistributive initiatives at the EU level would face serious domestic opposition.

This chapter addresses the question of how to study the development of EU labour governance in light of the creation and evolution of EMU. In line with critical integration theory, I argue that EU labour governance is an open-ended process that is nonetheless decisively shaped by the structural forces unleashed by the process of monetary integration. In this chapter, I outline the basic components of the political contestation that takes place over labour governance within the EMU framework. I discuss two existing mainstream approaches to EU labour governance and argue for the importance of a critical integration theory tailored to studying the class relations, ideas, and institutions that underpin Eurozone governance. Further developing the concept of hegemonic projects, and particularly emphasising the competition between the pro-European social democratic and neoliberal projects, I argue that domestic institutions, class relations, and the diffusion of governmentality practices are all underpinning EU labour governance. This feeds into the coming chapters of this thesis, in which I conduct an empirical study of EU labour governance, consider the structural conditions for contestation over labour governance, and discuss whether (attempted) reforms have addressed the crisis-ridden nexus of the EMU and EU labour governance.

The chapter is organised as follow: first, I outline the puzzle of EU labour governance in the context of the EMU. Second, I review the mainstream economics and public policy literature, arguing that these bodies of literature either neglect or depoliticise the sources and solutions to macroeconomic instability in the Eurozone. Third, turning to the governance of

[2] In particular, two events mark the beginning of the Eurozone crisis: 1) the nationalization of the Irish-Anglo Bank on 15 January 2009, followed by bailouts of Ireland's two largest banks in February 2009; 2) the Greek finance minister's announce of a government deficit of 12.5% of GDP on 19 October.

European wages and labour, I propose that both Comparative Capitalism, post-Keynesian economics, critical IPE, and governmentality are all useful and necessary literatures to appreciate the interaction between class struggle, institutional change, and ideas that underpin EU labour governance. Finally, I conclude.

2.2. Europe's single currency and the puzzle of labour markets

In the EMU, the centralisation of monetary policies, a single currency, and disciplinary fiscal rules are the fundamental institutions. Mainstream economics suggests that a monetary union with a single currency requires one of the following: either, it requires flexible labour markets with wages responding efficiently to economic cycles of boom and bust, or strong supranational wage coordination to help member states respond to economic crisis (de Grauwe, 2014). Political constraints and opposition have prevented European leaders from delivering either. Put simply, there is no support for continent-wide implementation of neoliberal ideal-type labour market reforms, just like there is strong opposition to the formation of a federal system of economic, wage, and labour governance. European monetary integration therefore faces a puzzle: there are strong political and institutional constraints to any system of wage and labour governance that would bolster the functioning of the EMU.

This speaks to the fundamental contradiction of the EMU and EU labour governance. On the one hand, in a currency union without a central stabilisation mechanism, flexible labour markets should perform a vital, market-based adjustment role. From the perspective of neoclassical economics, wages should respond to aggregate demand, with wage cuts substituting lay-offs in recessionary times (Kleinknecht, 1998). From this perspective, the only viable alternative to wage flexibility is the one we have seen in the Eurozone periphery since 2009, with exorbitant unemployment rates and costly adjustment for the member states (Belke & Gros, 2017). There is nonetheless ample political opposition to the economistic proposal of letting workers pay for financial crises, and the Eurozone remains some way off this ideal-type system of liberalised labour markets. Alternatively, in order to stabilise the monetary union, the EU could develop a regime of highly coordinated wage and labour governance combined with some centralised, budgetary stabilisation mechanism. This would involve member states ceding a significant degree of fiscal and macroeconomic sovereignty. Like the ideal of fully liberalised labour markets, centralised labour and fiscal policy have hitherto not materialised.

The EU combines monetary centralization for EMU member states with national authority over labour markets (under the TFEU). In most European countries, legal and institutional regulations shape labour markets and wage-setting institutions are rarely fully centralised or fully decentralised. Under these conditions, social partners are unlikely to act in accordance with economic models of market adjustment and economic rationality (Scharpf, 2016). Therefore, labour market agents have heterogeneous identities and preferences depending on the class composition, political structure, and individual motives, within and across EMU member states. Economists worry about the inflationary bias and the persistence of unemployment in regulated labour markets (Calmfors, 2001). In the 1990s, a consensus among economists emerged on the necessity of structural labour market reforms to cut unemployment benefits, abolish employment protection legislation, and lower minimum wages.

From the perspective of critical integration theory, the model of deregulated labour markets forms part of the neoliberal hegemonic project. Yet, the neoliberal project has not succeeded in fully deregulating European labour markets. While the recent crisis seemingly confirmed the undesirability of the current relationship between the EMU and Europe's labour markets, the idea of wholesale deregulation as a cure for Europe's woes appear improbable.

That the neoliberal project has not been able to transform labour markets within the Eurozone is indeed slightly puzzling. The institutional context of the EMU, prioritising price stability above employment, is much more conducive to supply-side reforms and deregulation than to Keynesian demand-management. Yet, in the absence of institutional capacity and wider social legitimacy, far-reaching labour market liberalisation is difficult.

In addition to the political and institutional structures of the EMU, global macro-structural changes, particularly economic globalisation, have also seemed conducive to the neoliberal project. With economic globalization, I refer in particular to the integration of global financial networks and the transnational nature of production and trade. The development of transatlantic financial markets, through which European banks became heavily involved in the US mortgage and banking crisis in the late 2000s, made Europe particularly vulnerable to the fallouts of the financial crisis (Tooze, 2018). In the absence of a coherent European response, the structural pressure on member states in the Eurozone periphery to embark on a radical process of labour market restructuring was immense. However, the required restructuring was mostly politically unviable, and in many member states, the result has been partial restructuring, prolonged recession, and social hardship.

The globalisation of trade and production is the other element of economic globalisation with decisive impact on EU labour governance. Globalisation means that Europe's leading economies, notably Germany, have seen a transnational expansion of production and trade patterns, whereby Western European industries increasingly rely on Eastern European and non-

European labour. Further, export performance increasingly relies on non-Western demand, not least demand from China. While transnational production and trade networks have been the strategic objective of some member states, these elements of economic globalization have become the structural conditions for others. As some member states in the Eurozone periphery have been unable to transform into export-oriented economic models, they have experienced a gradual weakening of their output performance.

Despite the pressure of economic globalization, European labour markets do not correspond to the neoclassical ideal of perfectly competitive markets. In most countries, minimum wages exist. In some countries, the government indexes the minimum wage to follow general wage inflation. Even if declining in membership and influence, trade unions persist and exercise their power through collective bargaining, industrial action, etc. Therefore, most European governments still cooperate with social partners when reforming labour markets, and at the level of European integration, the governance of wages and labour remain deeply contested issues.

The current relationship between European monetary integration and labour governance gives rise to a number of tensions and crises that social democrats would want to address. Particularly, we have seen that the EU has been unable to prevent economic divergence and macroeconomic imbalances. An alternative solution to Europe's crisis-ridden monetary union would therefore be to improve the integration of labour governance in the institutional structure of the EMU. For instance, we could imagine the use of fiscal transfers to invest in regions with low productivity and high unemployment. A project using labour governance and fiscal transfers to fight imbalances would amount to a revitalisation of post-Keynesian demand management at the European level. For critical integration theory, the revitalisation of organised capitalism and organised labour markets at the European level depends on the social democratic hegemonic project. An enhanced coordination of wage and labour market policy at the EU level, effectively a reorganization of a core pillar of the European welfare states at the supranational level, would be an effective instrument to fight unemployment, divergence, and macroeconomic imbalances. Despite the promise of social democracy, I argue, a progressive project for labour governance within the institutional structures of the EU and the EMU is unlikely.

The social democratic hegemonic project has its most natural social foundation in the working class, but the political organisation of this social group has witnessed a severe decline in recent decades. There is little dispute that organised labour is in gradual decline. Among other indicators, industrial conflict has receded significantly across the European countries

(Baccaro & Howell, 2011). Correlating with the gradual weakening of organised labour, the distribution of income between capital and labour has dramatically changed. Since 1980, labour's share of total income in 12 Eurozone countries has decreased substantially (Chapter 4)[3]. Wages are, effectively, in relative decline.

Critical integration theory emphasises the structural conditions underpinning the decline of organised labour and wages. EU institutional and global macrostructures are equally important for explaining this decline. Economic globalization and the increasingly dominant role of finance in European capitalism have weakened trade unions and the ability of the social democratic project in developing a transformative vision for the European integration. Within the EMU, the social democratic project has mostly accepted the neoliberal (or ordoliberal) nature of rules and institutions governing the single currency.

The neoliberal project has been mostly unable to use the rules and institutions of the EMU to transform Europe's labour markets. Stakeholders in the neoliberal project, including European business, have been hesitant to promote more ambitious labour market reform programmes at the EU level. Conversely, the social democratic project, while advancing the project of EU labour governance, has been unable to make an impact on the EMU rules and institutions. Alongside a long-term gradual weakening of organised labour, the pro-European social democratic political project of European integration has changed. In particular, along the wave of the social democratic resurgence in the late 1990s came the abandonment of the objective of social and economic harmonisation. The outcome of hegemonic competition between neoliberals and social democrats has been an evolution of EU labour governance unable to address the structural crisis of the EMU.

Despite the crisis-ridden tendencies of EU labour governance, and its lacking institutionalisation within the EMU, only a minority of academic discussions on EU and EMU governance addresses the political conflicts over the development of labour governance within the EMU. Instead, mainstream economic literature tends to focus on the ideal conditions for a functioning EMU, while mainstream public policy studies have focused on EU labour governance in response to globalization and under the constraint of opposing policy advocacy coalitions.

[3] The 12 countries are Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Greece. The former 11 countries joined the currency union in 1999, while Greece joined in 2001. These 12 countries are used as sample because they joined the currency union in close proximity and allows us to use a fixed set of countries when referring to 'the Eurozone' or 'the Eurozone 12'.

2.3. The currency/labour puzzle in mainstream scholarship

In this section, I engage with the mainstream economic and policy-focused scholarship on the single currency and European labour markets. First, I outline how the functioning of the EMU is treated in mainstream economics, focusing on the neoclassical emphasis on price stability and fiscal discipline, and the major controversy that has surrounded Europe's inability to qualify as an optimum currency area (Mundell, 1961). Further, I discuss how neoclassical economics treat the role of labour in the EMU. Neoclassical economics provides a straightforward, but flawed, assessment of labour's role in the evolution and crisis of the EMU. Second, I turn to mainstream studies of EU social and employment policy evolution to discuss their assessment of the evolution of EU labour governance under the condition of the single currency. However, these public policy studies insist on studying policy developments in their own right, and overtly or covertly disregard the institutional/structural context. Consequently, the single currency plays a very marginal role in these assessments of EU labour governance. The inability of mainstream economic and policy-focused scholarship to address the political relationship between the EMU and labour governance reflects an established distribution of labour in mainstream EU scholarship. This assertion follows Ryner's (2012) argument on the established roles of the economics and the political sociology of European integration: economic studies address the 'exchange relations' between economic entities, whereas political sociology 'reduces the question of integration to one of the density of interaction required to ensure the prevalence of administrative-managerial rationality, as required to ensure social and political equilibrium' (Ryner, 2012, pp. 653–654). Absent from these two main streams of European studies are central questions of political economy: the relations between production, power, economic progress, and social stability.

2.3.1. Mainstream economics, the EMU, and labour

The essential institution of the EMU is the single currency. Introducing a single currency for all member states, the EMU differs significantly from its predecessor, the European Monetary System (EMS). The EMS had pegged national currencies but permitted fluctuation bandwidths of up to 15% and involved 'the option of reaching a mutual agreement on exchange rate adjustments' (Höpner & Spielau, 2018, p. 162). The EMU, on the other hand, permanently fixes joining member states' exchange rates with a view to fostering further European economic integration. According to most economic reasoning, the EMU can contribute positively to economic performance, trade, and financial integration in Europe by eliminating the exchange rate and thereby the currency risk that follows with cross-border investment (European Commission, 1990).

Further, given its institutional framework, the EMU should help entrench a stability culture across the continent conducive for private economic activities. The stability culture, favoured in particularly by German political and economic actors, comes in particular from price stability and fiscal discipline. In the EMU, price stability has come to mean two things: first, the convergence of inflation rates among member states, and second, convergence on a low and stable level. Mainstream economics ascribes the convergence of inflation rates to the changing preferences of monetary policy-makers under the condition of a single currency: a monetary union 'implies that a common central bank takes over, so that the preferences of the authorities become identical' (de Grauwe, 1996, p. 6). For many mainstream economists, aiming for a low inflation rate below 2% cannot be explained by pure economic reasons. Instead, it stems from the political settlement that determined the terms of the EMU. Requiring central bank independence, Germany successfully entrenched the principle of low and stable inflation at the heart of the EMU, and negotiated a European central bank structured much like the German Bundesbank (Mody, 2018). This was the rational condition for a powerful, low-inflation country Germany to concede monetary sovereignty (de Grauwe, 1996; Iversen et al., 2016)

Alongside monetary policy and the objective of price stability, the EMU governs through fiscal discipline. The rationale for fiscal discipline has at least two crucial aspects: an economic stability argument and a crowding out argument. The first argument posits that countries running "excessive" government deficits may inflect serious economic pain on other member states and the currency union at large through a series of externalities (see Buiter et al., 1993). The crowding out argument posits that expansionary fiscal policies negatively impact future investment levels as government spending crowds out private spending (Blanchard & Perotti, 2002).

In economic debates over the viability of a single currency in Europe in the 1980s and 1990s, two camps emerged. The "economists" believed that economic policy convergence ought to precede monetary integration. In effect, the single currency could only be introduced when member states fulfilled the economic criteria. The "monetarists", conversely, believed that the single currency would induce greater economic coordination and convergence. The compromise position was to ensure parallel progress in monetary and economic integration (Maes, 2004). A view expressed by economists in the European Commission in the One

Market, One Money report from 1990, the compromise position gained growing popularity in over the course of the process of negotiating the EMU (European Commission, 1990).

In addition to fiscal and monetary policy, the neoclassical economics holds that the EMU depends on flexible labour markets and mobile workers. Fully competitive labour markets should increase efficiency and maximise welfare, by for instance incentivising workers to change jobs to optimise earnings and working conditions. Allowing workers to move to the jobs that maximise benefits requires flexibility in the labour market. Much economic modelling therefore predicts trade unions, which often seek to improve pay and working conditions for workers in existing employment, to act detrimentally to the overall welfare of the workforce. Similarly, high minimum wages may distort market mechanism driving up wages and limit employment by reducing incentives of firms to hire (see Manning, 2004).

However, these models tend to ignore a number of factors that question the idea that workers move seamlessly between jobs in search of welfare maximisation. For example, workers would be unlikely to have full information of alternatives to their current jobs and limited to time to improve their knowledge of alternatives. Further, workers may hold strong preferences in terms of e.g. commuting that would hinder mobility even in case of perfect information (Manning, 2004). In reality, employers are therefore likely to hold significant power over workers, known in economic language as monopsony power (Ashenfelter et al., 2010).

Currency unions, compared to an international system of floating exchange rates, seek to substitute labour markets adjustment for currency adjustment. In Mundell's theory of optimum currency unions, labour flexibility is required for natural adjustment to asymmetric shocks in aggregate demand (Mundell, 1961). First, workers need to be willing or forced to accept lower wages if there is no longer sufficient demand to stimulate existing employment levels. Second, workers need to be willing to move to other member states with higher demand for labour.

In reality, the EMU cannot comply with the neoclassical models of fiscal discipline, market flexibility, and labour mobility. The Maastricht Treaty, while unequivocally requiring fiscal discipline as a criterion for EMU membership, gave room for considerable political discretion and budgetary manipulation in interpreting the rules on government deficits. Once the common currency had been introduced, EU member states were unable to maintain fiscal discipline, despite the introduction of the Stability and Growth Pact (SGP). Germany, the anchor of stability and discipline, was unable to maintain fiscal discipline as it rolled out the ambitious Hartz labour market and welfare reform plan. France, which had accepted the

German conditions for establishing a common currency, but had never conceded to the German ordoliberal principle of restrained and market-conforming government, also transgressed the thresholds for fiscal discipline in 2003-05 (on ordoliberalism, see Foucault, 2010; Siems & Schnyder, 2014).

Because the rules of fiscal discipline have proven amendable, and the ideal of flexible labour markets bears little resemblance with the reality in much of Europe, mainstream economics can maintain that the problem is not the rules and ideals themselves, but their incomplete implementation. Noteworthy, the existing rules of economic governance, including post-crisis tightening of the rules, are compatible with standard macroeconomic theories (Franchino, 2020). Yet, the difference between the economic models and the political reality of the EMU, especially as it applies to the governance of labour markets, speaks to the limitations of mainstream economic analysis. Mainstream economics is unable to provide a historical and political account of the EMU’s puzzling relationship to labour.

The compromise position between the monetarists and the economists discussed above suggests that economic and monetary integration progresses alongside each other. In neoclassical economics, progress, at least in terms of labour markets, means liberalization. Yet the idea that monetary integration leads to domestic labour market liberalization has hitherto proven fanciful (Vukov, 2016). To be clear, the EMU can use rules and institutions to exert enormous pressure on labour to cede the right to sectoral wage bargaining, for example, just like labour itself can put pressure on the EMU to facilitate e.g. a more employment-friendly monetary policy. Yet, the outcome of these political conflicts is unlikely to resemble the ideal models of neoclassical economics. The purely economic debates on the EMU are therefore poorly equipped to contribute to a political analysis of labour governance under the condition of a single currency.

2.3.2. Mainstream public policy studies, the EMU and labour

Whereas the economic models imply an ideal-type solution to political problems, a more policy-focused scholarship has evolved in recent decades to study the specific processes that go into policy-making in the post-Maastricht era of European integration. In the period after the Maastricht Treaty and up until the financial crisis, the main trajectories in European studies were either towards more normative assessments of the EU’s democratic credentials, or towards micro-level analyses of policy-making and domestic implementation (Bickerton et al., 2015b). A consensus seemed to exist on the utility of ‘theorising integration after the integration theories' and building an alternative "governance" paradigm (Rosamond, 2013, p. 85).

Studying the development of EU social and employment policy around the turn of the century, a major body of scholarly work emerged to make sense of the experimental and rather unique character of EU governance in these policy areas (Trubek & Trubek, 2005). As shown below, the problem with this body of the literature is that it neglects the relationship between European integration, which involves political and structural transformation, and the development of specific policies and governance instruments. Neglecting this relationship, the literature struggles to assess the significance of developments in e.g. social and employment policy for the broader project of developing a comprehensive framework for governing labour markets in the EU and the EMU.

As discussed previously, the EU faces a central contradiction in EU labour governance. A number of member state governments have fought hard to avoid handing over any authority to the EU on issues like wages and collective bargaining, as these remains salient domestic policy issues (Mailand & Arnholtz, 2015). Yet, the governance and coordination of labour market reforms nonetheless seem vital to the realisation of the EU's economic policy objectives, as globalisation poses a number of social and economic challenges to Europe's labour markets. The EMU, with the centralisation of monetary policy and deflationary rules on fiscal policy, greatly amplifies the tension that arises from decentralised wage and labour governance. Given the centralisation of monetary policy and rules-based fiscal policy, labour markets necessarily perform a key role in economic adjustment.

For continental, and especially Southern European, left-wing parties, the solution has traditionally been a more ambitious programme of social cohesion and regulation at the EU-level (Hooghe, 1998). Yet this is generally opposed by neoliberals and employers across Europe, and all but unanimously opposed in Scandinavia (Mailand & Arnholtz, 2015). This opposition has forced the EU and its member states to think creatively about how to coordinate social and employment policies.

EU policy literature has particularly focused on exploring the normative and empirical merits of the European Social Model (ESM) and the open method of coordination (OMC) (Citi & Rhodes, 2007). The European Social Model, conceptually pioneered by social democrats and socially oriented actors, praises the diversity of member states' welfare systems, while highlighting the need for supranational action to preserve and modernise welfare in the face of globalization and European (monetary) integration (Jepsen & Serrano Pascual, 2006). The OMC is a set of codes, benchmark exercises, and declarations intended to spark policy reforms and transnational coordination through processes of policy learning. The OMC emerged in the European polity in the mid-1990s, and acquired a prominent place in EU social, employment, and economic governance with the Lisbon Strategy (Porte, 2002).

The policy-focused literature generally supports the hypothesis that economic developments in past decades, including globalization and European integration, have increased the need for labour market coordination, but that the salience of the policy issues imposes severe restrictions on member states' willingness to commit to binding agreements. As the demand for labour market coordination is not met by governments' supply of cooperation, or willingness to cooperate, stakeholders will look for politically less controversial methods of coordination. Thus, new modes of governance have been introduced in order to overcome problems of collective decision-making in the salient policy area of social and employment policies.

From the perspective of critical integration theory, there are several problems with EU public policy studies. First, they tend to ignore or dismiss the idea that the ESM and the OMC themselves could be integral parts of the general process of neoliberal integration (Bruff, 2017; Parker, 2008). Thus, they have remained reluctant to investigate whether social and labour market policy governance itself has undergone a process of liberalization and become part of - rather than a counterpoint to - neoliberal European integration. This thesis' critical integration theoretical perspective does not align the ESM with either the neoliberal project or its more social alternatives, but instead proposes that the ESM is best understood as a terrain for political contestation (see Jepsen & Serrano Pascual, 2005 who emphasise rhetoric).

If we accept that the ESM is a political terrain (and/or a rhetorical device) for conflicting integration projects, then the OMC – the means for advancing social model(s) – is also a fundamentally political object. This leads to our second objection to the assumptions underpinning most EU policy studies. Focusing on policy-making and implementation, most of the literature on new modes of governance has generally subdued the question of *why* the new, more flexible, modes of governance emerged in the field of social and employment policies, instead prioritising studies of *how*, and to what degree, these new governance forms can deliver domestic change (Schäfer, 2004). Thus, the literature on European social policy and the OMC tends to be less focused on the external political coalitions behind governance innovations (e.g. among member state government), and more focused on the internal evolution of governance practices and networks (e.g. Sabel & Zeitlin, 2008). Schäfer (2004), reviewing the limits to the literature on the OMC, highlights in particular the coalition of social democratic governments capable of furthering the agenda on social policy and employment, with conservative governments able to block attempts at firmer governance at the supranational level.

Finally, public policy studies often implicitly assume that policy change is key to political and societal change. As part of the neglect of the political coalitions and institutional constraints that guide the evolution of EU wage and labour governance, including social and employment policy, the policy-focused literature more broadly neglects the wider societal contradictions not resolvable by selective governance practices. For Sabel & Zeitlin (2008), the functional performance of social policy innovation may solve important contradictions of European integration, including the distributional questions at heart of economic integration and wage-labour politics. In Sabel & Zeitlin's (2008) assessment, the onus is on the EU's regulatory successes through, as they put it, 'the force of the better argument' (Sabel & Zeitlin, 2008, p. 272). The authors identify the 'processes of framework making and revision', such as the OMC, that enables the 'profusion common deliberative techniques' among and within member states (Sabel & Zeitlin, 2008, pp. 274–275). Rather than replacing legislative politics, such processes may transform 'distributive bargaining into deliberative problem solving', thus acting as a 'handmaiden' to the passing of real law (Sabel & Zeitlin, 2008, pp. 280, 276). Based on critical integration theory, and the emphasis on structural conditions, I would question whether deliberative techniques and the passing of real laws necessarily resolve underlying structural weaknesses in the relationship between European monetary integration and EU labour governance. Below, I turn to the development of critical integration theory to the task of analysing this relationship.

2.4. An alternative framework for analysing labour and wages in the EMU

Critical integration theory, as developed by Bulmer and Joseph (2016) and in this thesis' Chapter 1, is fundamentally a theory of European integration (including disintegration and differentiation). To better grasp what is at stake at the intersection of the single currency and labour governance, in this chapter I have discussed the approaches and assumptions of mainstream economic and policy analysis. As both approaches highlight, the EU faces the challenge of coordinating economic and labour market policy in the absence of a clear EU mandate. In mainstream economic assessments, the lack of flexible labour markets to improve the functioning of the EMU is the main problem. In mainstream public policy studies, the focus is on the processes of policy coordination. From the perspective of a critical inquiry into the politics of EU labour governance, the two mainstream approaches both depoliticise the issues at stake. Therefore, in the rest of this chapter, I focus on the institutional, distributional, and structural dimensions to the political problem of governing labour within the EMU.

Public policy literature supportive of the OMC also neglects how institutional structures (e.g. Scharpf, 2002) and/or class relations (e.g. Bieler & Morton, 2001) condition political bargaining and policy processes. Political economy, emphasizing conflict and bargaining in both formal political and wider social institutions, puts the "who benefit" (*qui bono*) question front and centre. The *qui bono* question is important for adding a distributional perspective to political negotiations and change. Without the distributional perspective, it is difficult to assign interests and preferences to actors, and to locate their position within macroeconomic structures.

Neoclassical economic analysis, which suggests that Europe's regulated labour markets contribute to the fragility of the EMU, mostly ignores a key historical reality of Eurozone labour markets: the massive redistribution of total income from labour to capital since 1980. This suggests that distributional questions, and essentially class relations, are at the heart of the functioning of the EMU. Critical integration theory is attentive to these structural transformations but does not possess a fully-fledged framework for analysing distributional conflict and labour governance within the EMU. For purpose of developing this framework, I draw on the literature on Comparative Capitalism, post-Keynesian economics, critical IPE, and governmentality studies.

Comparative capitalism provides a compelling assessment of Eurozone economic divergence, including divergent labour markets. Yet, the literature neglects the common redistributive trajectory in European capitalism. Therefore, I use post-Keynesian economics to point out a fundamental asymmetry of wages at the heart of the European economy. The inability of labour to secure a return on investment, i.e. their labour power, equal to that of capital investment, has led to a significant redistribution of income between capital and labour and a rise in economic inequality (Marx, 1981; Piketty, 2014). Marxist and neo-Gramscian IPE underpins how these trends are structurally rooted in contemporary capitalism, and governmentality approaches stress the difficulties involved in EU attempts to govern wages either directly or at a distance.

2.4.1 Comparative Capitalism and Eurozone divergence

Since the crisis, a scholarly agreement has emerged. According to the majority of scholarly observers, macroeconomic imbalances inside the Eurozone, and not fiscal deficits, were the principal trigger of the crisis (Collignon, 2013). By broadening the perspective from government budgets to equilibriums across the macroeconomic area, the focus on imbalances has brought the question of wages and labour into the centre of discussions. While some observers maintain that labour governance is only of secondary importance to financial regulation, EU governance reforms have nonetheless brought in questions of wages, labour costs, and cost competitiveness to the discussion (Jones, 2015).

Given this link between wages, labour and the Eurozone, observers on the political left and right posit the importance of Eurozone-level wage and labour governance (Flassbeck & Lapavitsas, 2015; Trichet, 2011). Nonetheless, despite the legal and institutional changes brought about by the Six-Pack reform of the EU's economic governance framework in 2011, member states' wage and labour market policies remain subject to domestic social and industrial relations.

The literature on comparative capitalism has highlighted the relationship between labour markets, wage developments, and competitiveness trends, in the lead-up to the crisis (Johnston & Regan, 2018; Nölke, 2016). Hancké's (2013) analysis of the relationship between wages, divergent growth models and monetary integration connects domestic institutions to the development and crisis of the EMU. In Germany, and similarly coordinated market economies, such as the Netherlands and Austria, but also France and most of Northwestern Europe, the social partners have imposed "beneficial constraints" on wage developments, which in turn tends to keep price inflation in check. Historically, as central banks have supported these constraints by "signalling" willingness to retaliate against excessive wage inflation, trade unions have turned to productivity gains to support wage rises (Hancké, 2013, p. 87). Central banks have similarly dissuaded governments from excessive fiscal expansion. The result has been two-fold: steady productivity gains and a rapid fall in the wage share as percentage of GDP.

The constraints facing business and labour in core EU member states have had perverse effects on the stability and balance of the Eurozone economy, given the rapid losses to competitiveness in countries lacking the institutional fit between trade unions, monetary policies, and fiscal policies. Southern countries have suffered from lacking institutional coordination, and while firms in export/tradable sectors here have sought to restore competitiveness through downward pressure on wages, sheltered sectors have been protected from wage pressure, thus driving up labour costs relative to the Eurozone core (see also Johnston et al., 2014).

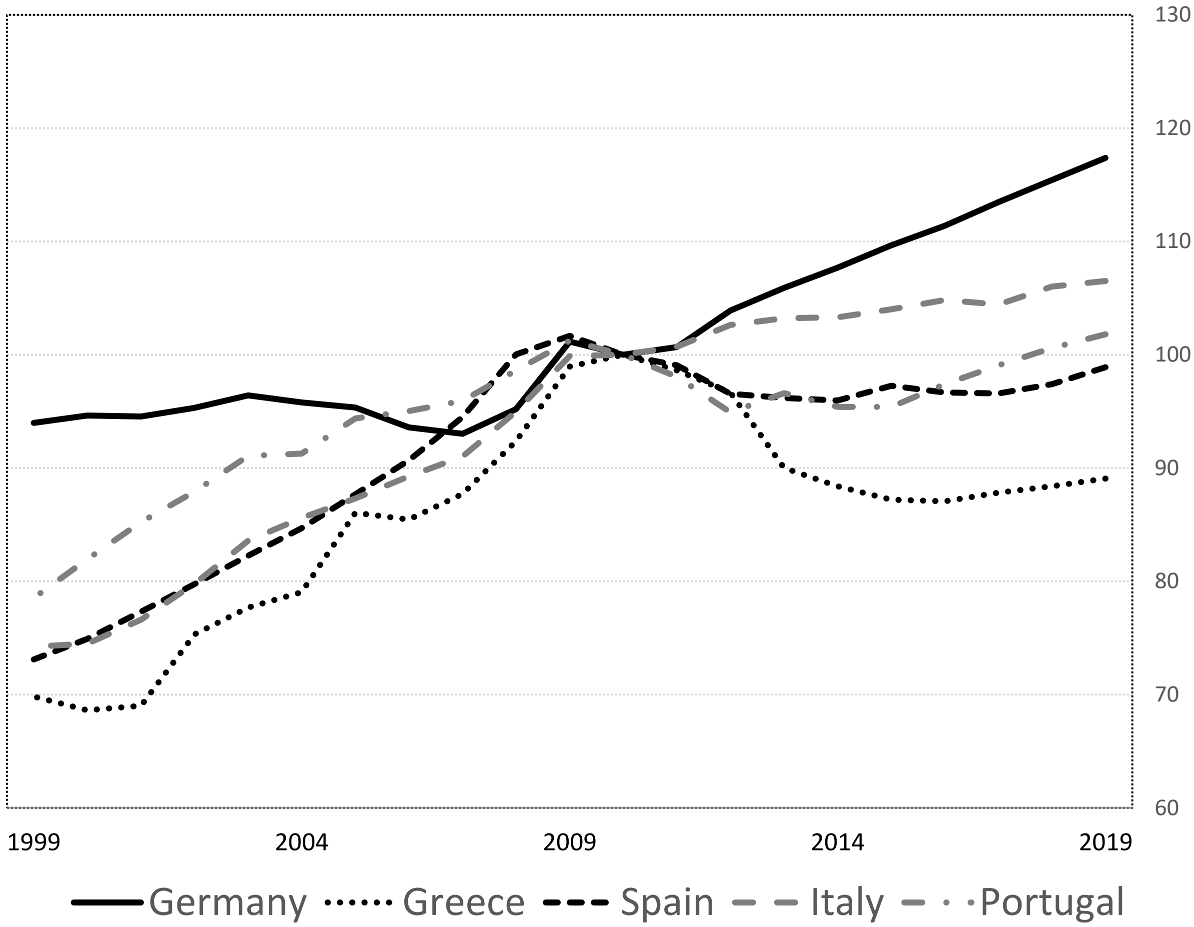
While wage shares have fallen everywhere, nowhere is this truer than in coordinated, core EMU member states like Germany. In Germany, a combination of strong productivity growth, increasing wage moderation, and favourable exchange rates against trade partners outside the Eurozone, gave rise to increasing profit shares in relation to GDP from 60.2% in 1992 to 53.7% in 2007. Given the high proportion of trade within the EMU, divergent unit labour costs and real effective exchange rates 'necessarily implies that the gains in competitiveness in the northern group find their counterpart in falling competitiveness in the south' (Hancké, 2013, p. 102). As wages across the Eurozone generally stagnated in the years preceding the crisis, growth has depended on rising exports. This amplifies the problem of competitiveness losses in the Eurozone periphery. Pre-crisis divergences in competitiveness, more than anything, caused the macroeconomic imbalances and made the Eurozone so vulnerable to the global financial crisis (Hancké, 2013, p. 103).

Hancké's book supports the thesis of a bifurcation of growth models within the Eurozone. How did this bifurcation come about? Some authors, including Hancké (2013) and Johnston (2016), focuses on labour costs, differentials in wage inflation, and divergence in competitiveness. Others, including Jones (2015) and Dooley (2018) emphasise financial liberalization and rapidly rising credit flows. As argued by Johnston and Regan (2016), the labour cost argument fails to explain the timing of the crisis, since exchange rate policy constraints have been in place since Maastricht, but imbalances only accumulated during the 2000s. The financial liberalization argument, conversely, fails to explain the intra-area dualism between lenders and borrowers. Since credit got cheaper for everyone, and you could get it anywhere – also outside of the EMU – why did so much of it move from north to south (Johnston & Regan, 2016)? Despite their disagreements, Hancké, Jones, Johnston, and Regan, all agree that the EMU institutional design is unfit to accommodate this diversity in the Eurozone's economic models.

Therefore, a comprehensive understanding of the role of wages and labour markets in the Eurozone crisis depends on a satisfactory account of the relationship between labour and capital to explain the relationship between wages and financial flows. This relationship is constitutive of critical IPE as reviewed below, whereas in Comparative Capitalism the relationship between wages and finance is institutional and purely empirical. Yet, empirically, comparative capitalism's identification of wage divergence as the cause of the crisis also has flaws. There is limited evidence for the claim that wages in southern Europe increased excessively in the run-up to the crisis, and that a loss of cost competitiveness caused the build-up of macroeconomic imbalances. As shown in figure 2.1, nominal unit labour costs (the average cost of labour per unit of output produced) in Italy and Spain were steadily growing between 2-4% per year between 1999 and 2007, while the nominal unit labour costs in

Germany first grew between 0-1% between 1999 and 2003, before turning negative in the years 2004-2007. Over this period, Southern European countries were in fact much closer to the ECBs inflation target of 2% than Germany, otherwise known as the bastion of price stability.

Figure 2.1. Nominal unit labour costs in selected Eurozone countries



Source: AMECO database.

Across the Eurozone, wages diminished in relation to total income, and increased Europe's dependence on debt and trade imbalances. This phenomenon suggests that common patterns happen across the varieties of capitalism existing in the Eurozone. Within the comparative capitalism literature, there is acknowledgement of the tendencies to common trajectory in European capitalism, or as Thelen (2012) suggests, different 'trajectories of liberalization'. Thelen observes two patterns: in some countries, '"market coordination" and flexibilization' coexist with 'continued high social solidarity'; while in other countries, continued '"strategic coordination" and traditional protections' coexist alongside rising inequality (2012, p. 155).

Germany has arguably followed the latter path, whereby industrial relations are still organized centrally at the regional and sectoral level, but the numbers of workplaces and employees covered by industry-wide collective bargaining are in steady fall (Streeck, 2009). Streeck (2009) notes a similar trend for work councils with legal mandates to enforce collective agreements. These trends have resulted in an increased dualisation of the German labour market, in which co-ordination and liberalization become complementary. In the context of a German growth model reliant on exports and price competitiveness, 'sustained co-ordination [for core, manufacturing workers] requires increasing liberalization for the labour market fringe' of service workers (Hassel, 2014, p. 75).

These processes are not isolated to Germany. In a comparative study of 15 advanced capitalist countries, including Germany, France, and Italy, Baccaro and Howell (2011, p. 522) find that:

> *'... industrial relations systems are being transformed in a common direction, a direction that we characterize as neoliberal. (...) This does not mean that industrial relations institutions in each advanced capitalist country are necessarily coming to resemble those of an archetypal liberal market economy, though there is certainly movement in that direction.'*

While 'macrocorporatism' remain intact in most countries, meaning that bargaining centralization and bargaining coordination remain high, industrial conflict slowly vanishes in most countries between the two periods 1974-1989 and 1990-2005 (Baccaro & Howell, 2011, p. 530). Trade unions and employers may still agree to social pacts that resemble the grand bargains of the heydays of neo-corporatism, but modern social pacts reflect the weakened power of unions and tend to install wage moderation in name of competitiveness (Erne, 2008).

In Southern Europe, the process of liberalization has arguably accelerated under the last decade of economic recession and austerity measures. In Spain, studies indicate that labour market reforms have included radical de-centralization of collective bargaining, deregulation of employment protection and higher internal flexibility for employers, whereas the Italian reforms have combined attacks on collective bargaining with improvement of the coverage of unemployment benefits (Picot & Tassinari, 2017)

What tensions arise in EU labour governance as a result of these processes? In later chapters, I demonstrate in more detail the often-contradictory manner in which the Commission has approached the question of collective bargaining and wage coordination in the wake of the crisis. However, the Eurozone's macroeconomic imbalances – broadly perceived as the proximate cause of the crisis – added a new problem of common concern for EU's hegemonic projects. For the neoliberal hegemonic project, the question of wage developments and labour costs became an urgent matter of concern in the wake of crisis. Yet, pushing for liberalization of collective bargaining, the neoliberal project would only add to Europe's underlying woes of low growth and falling wage shares.

A key question is which social forces are driving the common neoliberal trajectory in European labour markets, and how they translate into European-level politics. Picot and Tassinari (2017) emphasises the involvement or exclusion of centre-left parties as determining the social balance in (neoliberal) reforms. Streeck and Hassel highlight the institutional composition of German labour markets. Here, I want to stress the value of adding a class perspective to the party political and institutional dynamics identified above.

2.4.2. Post-Keynesian economics and distributional conflict

Post-Keynesian economics highlight the distributional struggle of labour and capital that shapes European political economy. In recent decades, European workers have continued to improve productivity at work, but have been unable to secure pay rises to match the growth in productivity. This imbalance between workers' return on investing labour power, and capitalists' return on capital investment leads to a rise in inequality between those acquiring income primarily from wages, and those whose income depends on the return on invested capital (known as functional inequality, Glyn, 2011). For post-Keynesians, falling wage shares further destabilises the functioning of the Eurozone by depressing consumption and demand.

For Stockhammer (2015), the accumulation of imbalances between the Eurozone's member states was not the root cause of the crisis; instead, the rise of these imbalances were themselves caused by falling wage shares and rising inequality. Post-Keynesian economists Stockhammer, Onaran and Ederer (2008) argue that the wage share is of paramount importance to aggregate demand in the Eurozone. Wage increases are the most effective policy tool for stimulating demand and growth. Under monetary integration in the EMU, the policies of fiscal discipline and price stability have helped suppress wages and demand, and the EMU has instead accommodated pro-capital distributional changes from wages to capital (Stockhammer, 2011, 2016).

Post-Keynesian economists typically operate with a distinction between wage- and profit-led economies. In wage-led economies, the 'total effect of the increase in the wage share' on aggregate demand is positive, whereas an increase in the profit share will have a positive effect in profit-led economies (Stockhammer et al., 2008, p. 143). Onaran and Galanis (2012) find that Germany, Italy, and France all have a negative correlation between increasing profit-shares and aggregate demand, and that the same relationship applies for the Eurozone overall. Thus, the Eurozone is a wage-led economy (Onaran & Galanis, 2012). Smaller Eurozone countries may well be profit-led, but given the overall Eurozone's wage-led economy, they find themselves in a 'prisoner's dilemma-type situation' concerning suitable wage policies (Stockhammer et al., 2008, p. 155).

In response to the falling wage shares across the Eurozone economies, EMU member states searched for sources of growth to replace wage-led demand and developed along lines of either export-led or debt-led growth models. Exports and debt-led consumption have become increasingly fundamental components of the Eurozone's political economy. The growing current account imbalances preceding the Eurozone crisis reveal the establishment of two divergent growth models. The strong productivity growth and the restrained wage development improved the global competitiveness of northern European economies, particularly Germany, who have managed to sustain a solid trade and current account surplus with the rest of the world since the early 2000s.

In southern Europe, where productivity increases have been comparatively weak, there has been more divergence, but the overall trend is towards falling wage shares either in the lead-up to joining the Euro (Italy), throughout the process (Spain) or concentrated in the period after joining the common currency (Portugal). Greece is in many ways the exception to the rule: with a history of very low wages relative to total income, Greece managed break the general trend by increasing wage shares from 1992 to 2008. However, since 2009, the Greek wage share has fallen at a high pace, as real wages have contracted by approximately 20% (Chapter 4).

The post-Keynesian critique of neoclassical and mainstream economics redirects attention to the long process of wage depression relative to total income that characterises developed capitalist economies inside and outside the Eurozone. Further, it provides a useful starting point for analysing the specific structural constraints in the Eurozone that turned the strategy of wage moderation into a crisis of macroeconomic imbalances by deepening financial integration and embedding debt-led growth models in southern and peripheral Europe. Thus, post-Keynesian economics provide a strong corrective to the broadly popular explanation of how fiscal profligacy in southern Europe caused the Eurozone crisis. Further, post-Keynesians historicise the rise in Eurozone macroeconomic imbalances in the 2000s as the consequence of long-term trends in functional inequality. As policy-makers, increasingly concerned with profit-squeezes and wage inflation, abandoned aggregate demand management in the 1970-80s, they also abandoned important instruments for shaping the distribution of income between capital and labour. As the political project of financial liberalisation gathered pace with the creation of the EMU, member states underwent processes of financialisation to counter the effects of contracting wage shares and declining aggregate demand.

Post-Keynesian economics also has limitations for a study of EU labour governance: post-Keynesians are not primarily interested in the politics of governing wages and labour. Despite their proposals for policies supporting wage-led growth, the fact that the politics of labour governance is of secondary importance to the economics of different growth models, causes at times a naïve optimism for ‘wage-led growth’ among post-Keynesians. Post-Keynesian economics contains, in other words, an insufficient discussion of the social and political conditions for the reproduction and possible transformation of Europe’s allegedly neoliberal/profit-oriented structural framework and a lacking engagement with 'the geopolitical dynamic of the European integration project' (Bieler et al., 2019, p. 2).

Overall, post-Keynesian economics does not study the domestic struggles that shape wage developments. Often, it relies on schematic representations of e.g. ‘pro-labour’ and ‘pro-capital’ distributional changes to support econometric models (Stockhammer, 2016, p. 368). Drawing on critical industrial relations and critical IPE can help focusing on the social relations and class struggles that underpin distributional changes, cause macroeconomic imbalances, and induce instability to the EMU framework.

2.4.3. Critical IPE and hegemonic competition

The very different industrial relations across the Eurozone member states that depend on different class compromises contribute to a fundamental tension in the EMU. The Marxist and neo-Gramscian perspectives in critical IPE further emphasise the tension between inter-capitalist rivalries, the transnationalisation of capital, and formation of transnational classes. In neo-Gramscian analyses of European integration, it is hegemonic projects that ‘are able to transcend the particular economic-corporate interests’ of different social groups (Bieler, 2005c, p. 518). Allowing for political alliances across specific social groups, hegemonic projects are thereby able to provide political stabilisation to the projects of European monetary integration and labour governance.

Since the 1980s, European states, trade unions, and employers have concluded a number of social pacts, often in response to economic downturns, high unemployment, and with an eye to limiting inflation rates. Unlike earlier, post-war tripartite agreements, social pacts in recent decades have sought to install wage moderation and improve the supply-side institutions and competitiveness of national economies. Harking back to the era of stable corporatist agreements across the continent, the phenomenon of social pacts takes the form of what Rhodes calls competitive corporatism (Rhodes, 2001).

Most of the industrial relations literature and the Political Economy of labour positions itself within variants of new institutionalism, which shapes its research design and assumptions (e.g. Avdagic, Rhodes, & Visser, 2011). Avdagic, Rhodes, & Visser (2011) focus on the institutional requirements for the emergence and evolution of social pacts. Studies emphasising class struggle are less frequent, as are studies explicitly studying social pacts as integral to European integration. Bruff (2008a, p. 89) links the study of social pacts to class struggle through the Gramscian concept of 'common sense'. Erne (2008) studies social pacts to address the possibility of building democratic institutions like trade unions at the European level.

Like the comparative political economists reviewed above, Bruff (2008a) studies tripartite negotiations and social pacts to analyse labour market and welfare transformations in Europe. The originality of Bruff's study is his insistence on the objective, material relationship between social groups (e.g. capital and labour) and the cultural processes that shape the struggles of hegemonic projects. Interest groups, like trade unions, play a decisive role for the organization of a shared understanding – a 'common sense' - among a social group, which could be German metalworkers. Bruff frames the role of social partners as 'organic intellectuals' in the Gramscian sense, which designates the organizing and directing activities of social groups' varied ideas and ideologies (Bruff, 2008a, p. 53). At the EU level, the ETUC and BusinessEurope seek to organise the relationship between domestic trade unions and employer associations, but at least ETUC, it seems, struggles to carry forward a strategy for a European wage and labour policy regime. BusinessEurope appear overall more content with the current status quo of European economic governance and primarily domestic wage and labour governance (Interviewee #1; Interviewee #2).

In short, industrial relations and critical IPE scholars have analysed national conflicts and compromises on wage restraint – particularly through 'social pacts' – and their importance for European integration. Based on their analysis, I propose studying EU labour governance as the struggle of scaling up domestic class compromises to the European level under the condition of the single currency. The process of scaling up these compromises takes place through hegemonic projects capable of forming alliances across social groups.

Instead of hegemonic projects, Erne (2008) operates with four competing scenarios for EU labour governance. In particular, he tackles the prospect for a democratic regime of European labour governance – what he calls a process of *Euro-democratization* – to replace the disciplinary regime inherent to the EMU. Therefore, he interrogates labour as an active strategic player at the domestic level that could potentially play a similar role at the European level. For Erne, the phenomenon of falling wage shares may be caused by trade unions' strategic choice to accept wage moderation, or structural factors, such as outsourcing and other features of capitalist restructuring in an era of economic globalization. Another possible factor behind falling wage shares is state strategies, whereby governments and central banks may offset unions' inflationary wage strategies. European leaders have viewed anti-inflationary strategies at the domestic levels as both conducive and necessary for the proper functioning of the EMU, as per the Maastricht Criteria. However, as Erne demonstrates, once enough member states embark upon a process of competitive restructuring based on wage restraint, whether for structural or strategic reasons, contradictions may arise for European labour as a whole.

These contradictions include the rise of intra-Eurozone macroeconomic imbalances as an outcome of member states' increasing reliance on exports and finance, the deflationary pressures of wage moderation, as well as the problem of political legitimacy in a context of permanent low growth and wage moderation. The EU has addressed the rise of macroeconomic imbalances since the financial crisis through reforms to EU labour governance, but simultaneously has to deal with questions of deflation and political legitimacy. However, as I demonstrate in the following chapters, the EU's initiatives have been unable to solve a fundamental contradiction of EU labour governance. The EMU requires flexible labour markets or highly coordinated governance but continues to lack either.

Critical (IPE) authors like Bailey (2008), van Apeldoorn and Hager (2011), and Bruff (2017), have interrogated the contradictions of EU labour governance through an emphasis on the social purpose of governance. Adding to the perspectives of the new modes of governance and comparative capitalism literature, Bailey (2008) offers a stratified account of the obstacles to the realization of Social Europe. Underneath the institutional and political obstacles identified by authors such as Schäfer (2004), Bailey detects a set of social constraints to the advancement of EU social and labour market policy. While the institutional and political obstacles are arguably important for the development of EU labour market governance, these 'are themselves generated by the capitalist relations of production and the relations of representative democracy that constitute EU-wide social relations' (Bailey, 2008, p. 237). In other words, the project of European integration inevitably struggles to transcend the contradictions of democratic capitalism, as the project rests on the increasingly unstable relationship between domestic policy-making and transnational capitalism.

Van Apeldoorn and Hager (2011) also pay attention to the dominant social forces that shape the form and content of social and economic governance. The Lisbon strategy and the

OMC deepen and legitimise the EU's asymmetric multilevel governance framework (in which supranational liberalization facilitates neoliberal adjustment at the domestic level) to the extent that it seeks to modernize welfare systems while maintaining market liberalization as the core engine of supranational integration. Because the Lisbon strategy and the OMC did not represent any challenge to the dominant transnational capitalist class, while being symbolically appealing to the 'transnational social democratic project', it gained broad consensus in European policy-circles in the 2000s (van Apeldoorn & Hager, 2010, p. 219). However, in terms of substantially reforming European labour markets, there was also quickly a sense of disappointment among policy-makers (Kok, 2004). However, the fact that the Lisbon strategy did not decisively alter the trajectory of European labour markets is of no surprise as van Apeldoorn and Hager see the Lisbon strategy as a largely symbolic gesture to deepen the processes of European integration already in place.

There was, in other words, a social purpose to the innovation of new, non-binding modes of governance for labour market policies. Therefore, these critical IPE scholars argue, it has only been logical for the EU gradually to strengthen non-binding forms of governance in the wake of this perceived crisis of implementation - rather than completely reconfiguring them to enforce new social and labour market policies unto member states. Bruff (2017, p. 149) has traced the process of a gradual 'hardening' of the 'soft' laws governing the European Social Model. For Bruff (2017), while EU elites in the wake of the crisis further emphasize the importance of broad, socio-economic governance directly aimed at labour markets and welfare states, this comes through an increasingly authoritarian neoliberal mode of governance.

In short, critical IPE as outlined here addresses the evolution in EU labour governance through distributional conflicts and the hegemonic projects through which actors seek to assert their economic and class interests. To this extent, critical IPE is consistent with the approach pursued in this thesis. However, critical integration theory has much more focus on institutional structures and path-dependencies of EU labour governance. Critical integration theory also leaves open whether economic and class interests dominate other political preferences of actors in competing hegemonic projects. For example, while the neoliberal hegemonic project seeks to push European governance towards greater deployment of market discipline and pro-capital distribution, other concerns, motivated by e.g. social conservatism may trump those efforts.

2.4.4. Governmentality

Governmentality also complements critical integration theory by providing a theoretical framework for EU labour governance in practice. Michel Foucault's studies of governmentality are concerned with the development of Western democratic rule in a broad sense, and how advanced governance technologies was forged over the 19th and 20th centuries to govern populations in line with market reason (Foucault, 2010). I interpret governmentality to mean the active use of techniques and practices of government to facilitate economic activity and provide the political basis for a market society. In Foucault's words: 'the market, or rather pure competition, which is the essence of the market, can only appear if it is produced, and if it is produced by an active governmentality' (Foucault, 2010, p. 121). While this emphasis on pure competition points to neoliberal governmentality, it is equally possible to detect social democratic welfare governmentality (Dean, 1999, p. 42).

In recent decades, the development of advanced liberal democracies has given rise to a number of performance-led and managerial practices that use surveillance, persuasion, and sometimes sanctions, to stimulate economic activity and growth-oriented policies. The OMC, epitomized in the Lisbon strategy, always had a strong performance management element, which grew dominant over time (Zeitlin, 2008; Chapter 3). Within EU labour politics, an important constituent part of the Lisbon and associated strategies, a popular performance management has been the measurement of supply-side policies to increase the workforce. Supply-side policies concern the population in a broad sense, targeting not only the unemployed and those outside the labour market, but also the skills and work incentives of the employed. To the extent supply-side policies use financial incentives that seek to change individual behaviour, they may reasonably be considered the epitome of neoliberal governmentality.

Fiscal and labour governance are comparable forms of governmentality. The EMU's SGP and Fiscal Compact constitute, in Vanessa Bilancetti's words a 'fiscal governance machine' that brings together domestic and EU-level procedures in a rules-based, yet discretionary political process. The efficiency of this process rests not least on its circumvention of popular-democratic politics (Bilancetti, 2019, p. 245). EMU fiscal governance targets a relatively clearly defined "population", namely the state bureaucracy of civil servants concerned with tax collection, public spending, and economic modelling and accounting. In comparison, targeting the European population in a broad sense, labour governance faces a range of tensions that limit the feasibility of implementing binding 'Pacts' for wages and labour. One such tension arises in the relationship between 'competitiveness' and economic stability. The legal basis of EU intervention in wage and labour questions is found in the EU member states' commitment to collectively 'achieve the strengthening and the convergence of their economies' and 'promote economic and social progress for their peoples' (TEU, *Preamble*).

At least since the early 1990s, the EU has developed the concept of competitiveness as the basis for progress and convergence, in line with neoliberal ideas of market competition as the basis of human progress. This means that EU institutions continuously encourage all member states to pursue wage-moderating strategies to strengthen their cost competitiveness, even when this effectively widens the economic gap between 'the peoples of Europe', facilitates economic divergence and imbalances, and exposes the population to the risk of "sudden stop" crises like the Eurozone crisis (Chapter 4). From a governmentality perspective, the tension is between the EU's responsibility to allow all of its peoples the possibility to prosper by improving their competitiveness, and the responsibility to provide collective stability and safety. The crisis amplified the difficulties of reconciling these objectives, but the EU policy response often consolidated and accelerated neoliberal governmentality by performance management. This acceleration did little to circumvent the contradictions of EU labour governance, and some of the most ambitious agreements, like the intergovernmental Euro-Plus Pact for competitiveness resulted in minuscule domestic change (Chapter 5).

2.5. Conclusion

This chapter has sought to advance critical integration theory to analyse EU labour governance and its relationship to the EMU. Whereas chapter 1 concerned the core mechanisms of European integration from a critical integration theory perspective, this chapter has discussed the conceptual preconditions of a critical integration theory analysis of the relationship between monetary integration and labour governance. As chapter 1 laid out, critical integration theory is fundamentally a theory of European integration in general. It does not contain a fully-fledged analytical framework for analysing the evolution of EU labour governance in the context of the EMU. On that basis, this chapter has discussed how Comparative Capitalism, post-Keynesian economics, critical IPE, and governmentality help guide this thesis' analysis. This chapter has outlined how these approaches add up to an analysis of EU labour governance that develops and strengthens critical integration theory.

This chapter will end with a word of caution, and some reflections on the use of these diverse literatures. The four accounts do not seamlessly blend as they each emphasise different aspects of the interaction between Eurozone, wages, and labour. Post-Keynesian economics focus on the distributional struggle between capital and labour, but strongly emphasise its economic rather than political aspects. Comparative capitalism identifies the institutional determinants of Eurozone economic diversity, but mostly fail to locate the role of class struggle within institutional and distributional change. Critical IPE, as well as critical industrial relations, strongly emphasise class relations, particularly the transnational elements of capital. Governmentality points to the contradictions of EU labour governance in practice. Are the positions even compatible? Can all four accounts inform empirical analysis of EU labour governance without stumbling in the diverse set of assumptions they hold?

I argue that critical integration theory, as outlined in chapter 1, functions as a four-legged bridge between these accounts and their assumptions by bringing together the class and institutional perspectives. Post-Keynesians identify recent decades' redistribution of income from labour to capital. The distribution of total income between capital and labour, I posit, is a fundamental aspect of hegemonic competition over EU labour governance. Structurally, the contraction of the wage share destabilizes the Eurozone economy through the acceleration of macroeconomic imbalances and has caused economic crisis. Further, persistent wage moderation and rising inequality together question the legitimacy of the project of European integration. Empirically, we find such destabilization in industrial conflict (albeit decreasingly), in social movements, as well as in political fragmentation within member states and in the democratic institutions of the EU (arguably increasingly). The literature on comparative capitalism has captured important aspects of the economic and political instabilities that flow from the EMU. Critical IPE focuses on the social struggles and the resulting hegemonic projects that may potentially transform European integration. Economic crisis and political fragmentation do not imply infinite possible changes to EU integration and labour governance. Political and social change requires the advancement of comprehensive programmes of actions. The concept of governmentality further points to the difficulties of translating these programmes into social change. Critical integration theory brings these perspectives together to assess the competition of hegemonic projects in light of the structural conditions of hegemonic competition and strategic political contestation in the EU. Hegemonic projects play a decisive role in mediating structure and agency, hereunder class struggle and policymaking of EU labour governance. In this thesis, we look for such hegemonic projects in a specific way: in terms of how they connect economic reasoning, political practice and institutional and legal transformation.

For political projects to provide hegemony to EU politics, they need to operate within the existing set of EU institutions and Europe's wider institutional structure, including the institutions of European labour markets. Conversely, political projects that generally oppose the EU tend to exercise less influence over negotiations on institutional and policy change.

Instead, these Eurosceptic projects often influence the trajectory of EU governance through ruptures and fissures to the integration project (such as the UK decision to leave the EU or the Italian government's budget standoff with the European Commission in 2018).

Mediating structure and agency, I propose that hegemonic projects allow actors to translate economic ideas, through political practice and negotiations, into institutional and legal transformation of EU wage and labour governance. Yet, in the absence of deeper hegemony, such transformations are difficult and exceptional. In the following chapter (chapter 3), I use critical integration theory to study the parallel developments in European monetary integration and EU labour governance from the 1970s up until the turn of the 21st Century. In chapter 4, I analyse the governance of labour market and wage policies in the Eurozone in the first decade after the introduction of the single currency. Chapter 5 analyses the governance of wages and labour in the new European institutions of the MIP and the European Semester, as well as the extraordinary case of Greece.

3. The politics of labour and monetary integration

In preceding chapters, I have outlined a critical integration theory and its perspective on the EMU and labour governance. In chapter 2, I highlighted that EU labour governance and European monetary integration stand in a difficult relationship. According to basic economic theory, monetary union requires wage flexibility and labour mobility, but the reality of Europe's political economy is undeniably very different. Moreover, the EMU institutional framework did not extend to the governance of labour. In the absence of a labour governance framework, the EMU has no direct instruments for tackling, inter alia, *unemployment or wage rigidity. I also advanced a critical integration theory, and the concept of competing hegemonic projects for studying how EU labour governance has evolved in light of European monetary integration. In this chapter, I deploy this theoretical approach to study the development of European monetary integration and labour governance from the 1970s up until the turn of the Century.*

3.1. Introduction

Europe's different labour markets and its low labour mobility make a monetary union non-optimal according to standard economic models (Chapter 2). From an economic perspective, the proper functioning of the EMU depends on the convergence of Europe's economies, the adjustment capacities of labour markets, financial integration, and intra-area trade openness. Given the importance of labour market adjustment for a functioning monetary union, Europe's regulated labour markets and diverse social models have always posed a potential problem for the EMU. Conversely, and from a distributional perspective, it seems that the single currency puts the burden of adjustment on Europe's workers and welfare recipients by requiring them to adjust to crises, which could come with devastating social consequences. Despite these inherent obstacles posed by Europe's labour markets and macroeconomic setting to a functioning monetary union, in the late 1980s and early 1990s European leaders reached an agreement on establishing the EMU. Europe's leaders reached this historic agreement without promising to reform Europe's labour markets or its governance framework at the EU-level.

French and German state actors, led by government executives and central bankers, were predominantly powerful in setting the terms of deeper monetary integration (Dyson & Featherstone, 1999, p. 2; Feldstein, 1997, p. 24; Martin & Ross, 2004, pp. 5–11). The French President Francois Mitterrand, frustrated with the recurring rounds of devaluations under the

EMS in the early 1980s, pushed the proposal for EMU in a French-German bilateral meeting in August 1986 (Dyson & Featherstone, 1999, p. 334; Mody, 2018, p. 68). Satisfyingly for German actors, the negotiations on EMU showed the willingness of France and other prospective members of the EMU to accept the German interpretation of price stability and monetary conservatism.

In many ways, the push for monetary union was a remarkable act of political realism by German and French state actors. Monetary union with a single currency relied on France accepting the relative weakness of its own currency and the necessity of a European anchor to promote French economic interests. Conversely, monetary union would require Germany to abandon not just its strong currency, but also the international role of the Bundesbank, arguably Europe's dominant central bank at the time.

At the same time, monetary union was a radical move towards deep political and economic integration, and indeed, a big political and economic gamble. Abandoning not just national currencies, but also the governing capacities of national monetary policy, the EMU was thus a radical move in European integration based on political realism. Potentially, introducing a single currency could come with severe economic costs for Europe. In particular, proponents of the theory of optimum currency unions would emphasise the importance of wage flexibility, labour mobility, and fiscal transfers for a functioning monetary union (Chapter 2).

For Baldwin and Wyplosz (2009), it was exactly the lack of labour mobility and fiscal transfers which exposed the weakness of the EMU. Yet, in the EU institutional rationale for monetary integration – exemplified by the Delors Commission's 'One Money, One Market' (1990) report – the overall focus was on the benefit of monetary union for the existing plans for market integration under the Single European Act. As such, the Commission did not so much test the sustainability of a large and diverse monetary union, but rather laid out the benefits of a monetary union for the wider project of European economic integration.

How and why monetary integration has evolved in the absence of political and economic centralisation has been subject to extensive academic interest (e.g. Collignon, 2004; Hodson, 2009). For some observers, the Eurozone crisis was a vindication that Europe's monetary union was a mistake that would lead to more harm than good (Mody, 2018; cf. Sandbu, 2015). Yet, the specific relationship between the EMU and EU labour governance has received less attention (Chapter 2). In this chapter, I trace the evolution of the EMU and EU labour governance, focusing on the two decades leading up to introduction of the euro currency on 1 January 1999 - the 1980s and 1990s.

Based on the importance ascribed to EU institutional structures and global macrostructures in constraining and enabling political projects, the chapter stresses the role of competing hegemonic projects that may promote various programmes of EU labour governance. In the period covered in this chapter, the neoliberal and social democratic hegemonic projects did not seek to integrate labour governance within the EMU framework. For example, the social democrats that spurred the proliferation of EU social and employment policy in the 1990s did not press for EMU governance reforms.

The main part of this chapter is structured to follow the evolution of EU labour governance and European monetary integration. However, first I briefly outline how a critical integration theory for EU labour governance under the condition of the EMU, as outlined in chapter 1 and 2, is used in this chapter. Second, I trace the evolution of European monetary integration from the 1970s 'snake in the tunnel', over the agreement on EMU in 1991 to the 1997 SGP. Third, I turn to domestic strategies of wage moderation under the condition of monetary integration in the 1980s-1990s, which facilitated general redistribution of income from labour to capital. Fourth, I analyse the evolution of EU labour governance in the 1990s and discuss the discourses and practices of labour governance developing in this period. The chapter ends with a conclusion.

3.2. A framework for analysing the evolution of the EMU and EU labour governance

The theoretical framework of this thesis asserts the importance of hegemonic projects in mediating structure and agency. Focusing on the relationship between structure and agency in European integration, I maintain that European politics consists of a dialectical relationship that 'leads from structure to interests to motives to action and finally back to structures' (Porpora, 1998, p. 344; Chapter 1). Following the path of this dialectic, the process of European monetary integration since the 1970s has depended on the ongoing constitutive relationship between the structures of European integration and the interests, identities, and motives of European political and economic actors.

The EU institutional structure can be summarised as a federal union of member-states that privileges domestic politics in a multi-level governance framework (Bulmer & Joseph, 2016). The federal union of states constitute its member states with a new political existence of constrained democracy (Larsen, 2018). Therefore, European integration also constitutes a dialectical relationship between domestic and union-level politics (Bickerton, 2012). Developments in European integration are grounded in domestic political legitimacy, from where European leaders primarily develop identities, interests, and preferences. Yet, domestic politics has been radically transformed by European integration, particularly in spheres of economic policy. Historically, European integration has been based on the EU's constitutional commitment to 'an ever closer union among the peoples of Europe' (Treaty of Rome, 1957). Ever since the 1957 Treaty of Rome, the EU institutional structure has required member states and the EU institutions to coordinate economic policies in accordance with the objectives of the union (Treaty of Rome, 1957).

In addition to domestic politics, EU institutional structures and the broader global macro-structures shape the interests and motives of European leaders. Transformations in the global macrostructures may alter the interests and motives of European leaders in relation to EU institutional change. For instance, European leaders decided to insert a no bailout clause in the EMU framework. The no bailout clause was a rational act of self-interest as it signalled the importance of fiscal discipline and helped bring down borrowing costs. Yet, the severe financial stress induced by the unwinding of the global financial system in 2008-2009 altered established preferences in favour of the clause. In spring 2010, Europe's leaders eventually agreed to bail out Greece, and to the institutionalisation of financial assistance for member states in economic difficulty, under the European Financial Stability Facility, the European Financial Stabilisation Mechanism, and later, the European Stability Mechanism.

Within the EU institutional framework, domestic actors have been at the forefront of monetary integration. To facilitate monetary integration, Europe's domestic actors would need to assert their interests at the European level. Critical integration theory stresses how hegemonic projects offer domestic actors the possibility of altering the pace and direction of European integration. Hegemonic projects are grounded in domestic politics, are shaped by global transformations, and operate in the EU institutional structure. Both the pro-European neoliberal and social democratic project have decisively shaped the evolution the EMU and EU wage and labour governance in recent decades. Eurosceptic neoliberal and social democratic projects have operated mostly at the margins of the evolving governance framework, though at times in direct opposition to the existing framework.

Political actors in different hegemonic projects hold very different ambitions for Europe's framework for labour governance. In the early stages of European monetary integration, this stretched from the position of the UK Conservatives, which not only rejected a social union but also opposed monetary integration, to factions within continental social democratic parties unconvinced by the EMU's insistence on discipline and exclusion of social objectives (Sandholtz, 1993). In general, there was persistent disagreement over EU labour governance, but outside Denmark and the United Kingdom a remarkable degree of political consensus developed between social democratic and conservative governments in the early 1990s on the desirability of monetary union (Hooghe et al., 2002).

While in the negotiation process towards the EMU, various leaders talked up the prospect of a European political union, they were, as Ashoka Mody notes, ‘playing with the phrase’ (Mody, 2018, p. 53). In Germany as well as in France – arguably the two most powerful member states – political leaders were strongly opposed to the idea of centralizing economic policies to improve the functioning of the coming monetary union. Instead, references to political union invoked the longstanding idea of closer security and foreign policy cooperation, arguably largely irrelevant to the radical idea of centralizing monetary policy and installing a common currency.

Theoretically, for pro-European social democrats, European integration remains a potentially viable route to restore the strength of organised, social market economies. This route may also involve a greater role for organised labour at the European level. However, in practice, the governance of the EMU has increasingly turned against the type of macroeconomic and industrial policies required to strengthen labour and union power, as emphasis has been mostly on flexibility and deregulation.

European monetary integration, and EU wage and labour governance, also poses certain dilemmas for neoliberals. For neoliberals, more integration in some areas (i.e. stricter fiscal and macroeconomic governance; a potential European constitution of fiscal discipline) could be desirable if it promises disciplining excessive domestic government action. Yet, building an integrated economic governance framework does not come without its potential dilemmas for neoliberals. Elite and popular expectations to EU interventions may grow if the macroeconomic governance framework expands, potentially opening up for more ambitious and progressive social and employment policies at the EU level.

In reality, the hegemonic projects stand in a dialectical relationship with the processes of European integration and are in as much shaped by integration as they shape integration. In other words, the processes of European integration shape the ideologies and agendas of hegemonic projects. An example of this process of hegemonic-ideological development is the increased support for European integration among social democratic parties in the decades following the economically liberal Maastricht Treaty (Bailey, 2005). Despite the liberal turn in European integration, Europe’s social democrats remained committed to European integration and the EMU. Within the neoliberal project, Margaret Thatcher’s (neoliberal) quest for a single market had the unintended consequences of a monetary union, as well as the ensuing proliferation of social and employment policies at the EU level. For neoliberals outside Britain, this was mostly an acceptable compromise. Recently, neoliberal actors reaffirmed their commitment to socially balanced market integration. In November 2017, the European Council heavily dominated by centre-right governments even endorsed the European Pillar of Social Rights, effectively agreeing that European integration depended on social legitimacy and an element of inclusion and protection. However, (pockets of) neoliberal scepticism towards the EU and the EMU has persisted throughout recent decades (Slobodian & Plehwe, 2019).

The importance of hegemonic projects has far from precluded the importance of political and instrumental leadership at the supranational level (Smeets & Beach, 2019; Verdun, 1999). The European Commission plays a pivotal role in the EU's political development. First, it drafts the legislation of the EU. Sometimes in direct competition with national governments, and various 'task forces' under the European Council, the Commission identifies weaknesses in the EU governance framework, outlines reforms paths, and proposes legislative reform.

Indeed, the Commission has played a coordinating role in EU labour governance throughout the period covered in this chapter. The Commission has neither exclusive nor shared competence on wage and labour governance but must resort to coordination among member states. Yet, this does not imply a weak Commission in terms of policy activity. The policy initiatives of the Broad Economic Policy Guidelines (BEPGs) and the EES, the Lisbon strategy, and after the crisis the European Semester, have all implied a central role for the Commission. Given the lack of hard enforcement mechanisms, pre-crisis EU wage and labour governance has been described as agenda setting, peer reviewing, benchmarking, and other adjectives pointing to its 'softer' impact on domestic policies (Kröger, 2009). In this mode of governance, the Commission's instrumental leadership is significant for conducting surveillance of member states, issuing reports and recommending policy reform.

A result of the dynamics of the relationship between hegemonic projects and European integration, monetary integration and EU labour governance has developed in different institutional settings. Dyson argues that Europe's monetary union 'was a stimulus to an intensified process of policy benchmarking, transfer and lesson-drawing' in the areas of wages, labour markets, and social policy (Dyson, 2000). Yet, as this chapter demonstrates, monetary integration in the final decades of the 20th Century did not lead to an integrated framework for governing the single currency and the Eurozone's labour markets.

3.3. Domestic politics, global reconfiguration, and early European monetary integration

Europe's first ventures in monetary integration took place in the global context of the breakdown of the Bretton Woods order of fixed exchange rates. At the 1969 Hague summit, the European Economic Community (EEC) member state governments agreed for Europe's finance ministers in the ECOFIN Council to prepare the establishment of a monetary union. In order to lead the preparatory work, an expert group was set up, led by Luxembourg's Prime Minister Pierre Werner (Dyson & Featherstone, 1999, pp. 102–114). In 1972, the governments of the six member states in the EEC established a 'snake in the tunnel' to limit the bandwidth of European currency fluctuations. This agreement came less than a year after the Nixon shock had spelled the end of Bretton Woods. Europe's currency snake proved an ineffective instrument for providing exchange rate stabilisation against the new international system of floating exchange rates. Within two years, all major European currencies had let their currencies float, and despite successive rounds of member states re-joining during the 1970s, the snake arrangement failed to stabilise Europe's exchange rates (Mody, 2018, pp. 53–55).

The 1978 agreement on the EMS fared better. The EMS imposed fixed exchange rates on its members, with narrow bandwidths for exchange rate fluctuations. The EMS also allowed for currency devaluations, or 'realignments' in the parlance of the EMS (Höpner & Spielau, 2018; Mody, 2018). The experiences of two member states were decisive for the direction of European monetary integration: France and Germany. The two had different experiences with the EMS. For France, particularly in the first half of the 1980s, the EMS involved successive rounds of devaluations in order to maintain France's external competitiveness. The EMS, these devaluations suggested, did not do much to increase France's economic dynamism. For Germany, the EMS allowed a more expansive and international role for the Bundesbank, followed by, *inter alia,* substantial current account surpluses, especially in the second half of the 1980s (Neuthinger, 1989; Oatley, 1997).

Critical integration theory asserts the importance of domestic politics, the EU institutional structure and global macrostructures as part of the explanation for the development in monetary integration. Other accounts, such as Thomas Oatley's study of the domestic politics of European monetary integration, highlights the central domestic distributional conflicts that stood at the centre of the European contestation over monetary integration in the 1970s-80s (Oatley, 1997, p. 2). Oatley's account draws attention to the domestic and redistributive conflicts that shaped the motives of EEC member state governments negotiating the EMS. Like its successor, the EMS emphasised price stability and implied monetary restrictions. These stabilising effects quelled the reservations of businesses and centre-right governments against monetary integration. Overall, more neoliberal actors supported monetary integration.

Yet, early monetary integration rested greatly on the support of social democratic actors and organised labour. Critical integration theory puts the competition between hegemonic projects as the core explanatory model of European monetary integration. Adding to Oatley's redistributive account of the social and economic objectives reflecting the interests of competing domestic social groups, critical integration theory also adds an explicit class perspective. Therefore, the role of organised labour is an expression of the balance of power between fractions of classes at the time of early monetary integration. Across Europe, the domestic context in the late 1970s was one of relatively powerful trade unions and strong social democratic parties. Organised labour and centre-left governments identified with a set of interests in opposition to business and right-wing politics. This social democratic hegemonic project was influential in facilitating the EMS. In Germany, trade unions had pushed Chancellor Helmut Schmidt's social democratic government 'to deliver a more dynamic economic environment' through monetary and fiscal expansion (Oatley, 1997, pp. 19–20). The EMS implied a greater international role for the Bundesbank, and could also facilitate a Germany with a more competitive exchange rate (Oatley, 1997). As such for Germany, monetary integration offered a route to balance domestic preference for stability with a more expansive and international economic strategy. In France, President Francois Mitterrand came to accept monetary restrictions as precondition for furthering European integration and reaching economic parity with Germany (Mody, 2018; Oatley, 1997). For France, monetary integration balanced the domestic preference for expansionary economic policy with a firmer international framework of stability.

In addition to the domestic factors in France, Germany, and beyond, the reorganisation of the global political economy after the collapse of Bretton Woods also played a decisive role in facilitating the growing support for closer monetary cooperation in France and in other European countries. The strength of the national support for deeper monetary integration greatly depended on the role of different currencies in the emerging international system of floating exchange rates. The German *Deutschmark* was undoubtedly Europe's hard currency, wielding significant power from its domestic sources of price and macroeconomic stability. This, in turn, shaped the interests and identities of German political and economic leaders as more sceptical towards monetary union compared to their French and Italian counterparts. The softer currency of the French *franc*, conversely, helped the formation of a strong cross-class and cross-party preference for deeper monetary integration as successive rounds of devaluation took their toll on French real wages.

Critical integration theory highlights the decisive role of labour and capital interests and the preferences of social groups. Distributional questions of wages and profits were chief concerns for both capital and labour when assessing the likely consequences of monetary integration. Despite the important role of distributive questions in shaping preferences for European monetary integration, the EMS and the EMU developed without a clearly defined role for the governance of wages and labour markets at the European level. In effect, in the creation of the EMS, domestic actors competed over the direction of European monetary integration in order to further their socio-economic interests in the absence of a European institutional framework for governing economic production, wages, and labour markets.

Besides floating currencies, one more transnational context was decisive for early monetary integration, which followed immediately after the post-World War economic boom period that lasted for 3 decades. Between 1945 and the mid-1970s, in a period known as the *Les Trente Glorieuses* in French, growth rates were not only consistently high in much of (Western) Europe; Europe also witnessed a stable distribution of total income between capital and labour. The average wage share in the 12 countries that adopted the euro around the millennium reached its peak of 65.9 in 1975 (Chapter 4, figure 4.1). In the period since, the share of total income that workers have received as wage income has significantly decreased. According to official AMECO data, wages' share of total income has been falling in most Eurozone member states over the last 40 years. The effective transfer of income from wages to profits transformed the relationship between European capital and labour. This distributional transformation has coincided with a steady decline in European growth rates. As compared to the period from the Second World War and the next 30 years, the period since the 1970s has produced considerably lower growth rates. In the 1960s, the EU produced average annual GDP growth rates at between 4-6% every year, while since 1975, average annual EU GDP growth has only reached 4% once, in 1988.[4]

Next, I turn to the simultaneous, but institutionally separated trajectories of monetary integration and wage and labour governance in Europe. The following sections highlight the complicated relationship between monetary integration and EU labour governance.

[4] Source: World Bank Database: https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=EU

3.4. Agreeing on monetary union, deferring labour governance

The political momentum arising from the concerted efforts to build the single market in the 1980s facilitated not just the eventual adoption of a monetary union but also the explosion of social and employment policy activity in Europe in the 1990s. At the Milan European Council meeting in June 1985, Europe's leaders agreed on the Cockfield White Paper's proposals that would lead to the adoption of the Single European Act in February 1986 (Bulmer, 1998). In January 1985, former French finance Jacques Delors had entered the Commission Presidency with an ambitious package of policy objectives to revive European economic integration. This included trade liberalisation, supranational institutional reform, and monetary union (Goetschy, 1999; Moravcsik, 1991). Counteracting Thatcher's neoliberal pitch for a free and single European market, Delors wanted to use the completion of the single market to push for a social *and* monetary union (Ross, 1994).

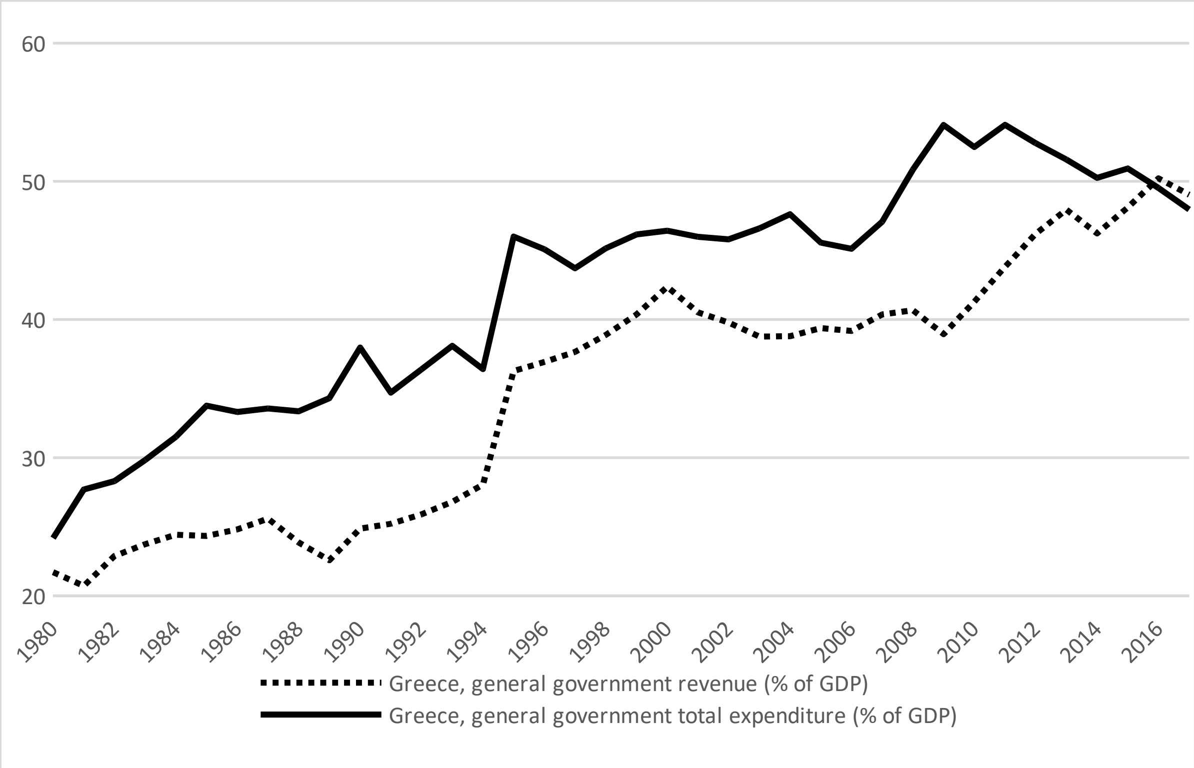
Domestic and supranational actors pushed for a single currency to accompany the European single market agreed in 1986. There were explicit political objectives for a single currency, even if these were often symbolic: across Europe, there was a sense of frustration with the dominant role of Germany's Deutschmark currency, and the power of the Bundesbank, Germany's central bank. As such, moving from a monetary *system* with national currencies and central banks to a monetary *union* with a single currency and a European central bank would be of great symbolic importance. Beyond the importance of Europeanising the symbols and institutions of monetary cooperation, French political leaders in particular were unhappy about the recurrent rounds of devaluations of their currency. The idea that moving to a single currency with centralised monetary policy would install France's economy on par with Germany, and allow France to assert their economic interests on European economic policy was widespread in France (Feldstein, 1997).

The domestic and global context is central to understand Delors' European project. Delors' push for a social union to embed the single market was preconditioned by Mitterrand's abolition of Keynesianism in 1983 (Moravcsik, 1991). In turn, Mitterrand's decision was spurred by a global political economic context that had intensified the contradictions of European welfare states during the 1970s (on the contradictions of the welfare state, see Offe, 1982).

In the late 1980s, the redistributive trend from labour to capital was well entrenched in Europe. Within this context of falling wage shares, the European institutional rationale for monetary integration was fully subsumed in the logic of market efficiency. Introducing a monetary union with a single currency in Europe involved a number of big political-economic trade-offs, with significant dangers for Europe's economy and social models. Europe's diverse labour markets, social security systems, and broader welfare states raised the potential costs of a monetary union and complicated the objective of installing 'one market, one money' within the region. 'One market, one money' was the Commission's central 'evaluation of the potential costs and benefits of forming an economic and monetary union' and established the core economic rationale for the EMU (European Commission, 1990). The report's central claim purports that the single market in goods, services, capital, and labour – to be completed in 1992 – required a single currency. In particular, the report viewed the elimination of 'exchange uncertainty and transaction costs' brought about by monetary union as necessary for efficient capital liberalization (European Commission, 1990, pp. 9–15). Bolstered by the supranational assessment of the market efficiency gains from monetary union, Europe's leaders deferred the question of how to govern labour markets within the prospective monetary union. This inevitably created a tension at the heart of European integration, whereby monetary integration would create the conditions for exacerbating economic divergence in Europe, rather than bringing forward the anticipated convergence of Europe's domestic economies.

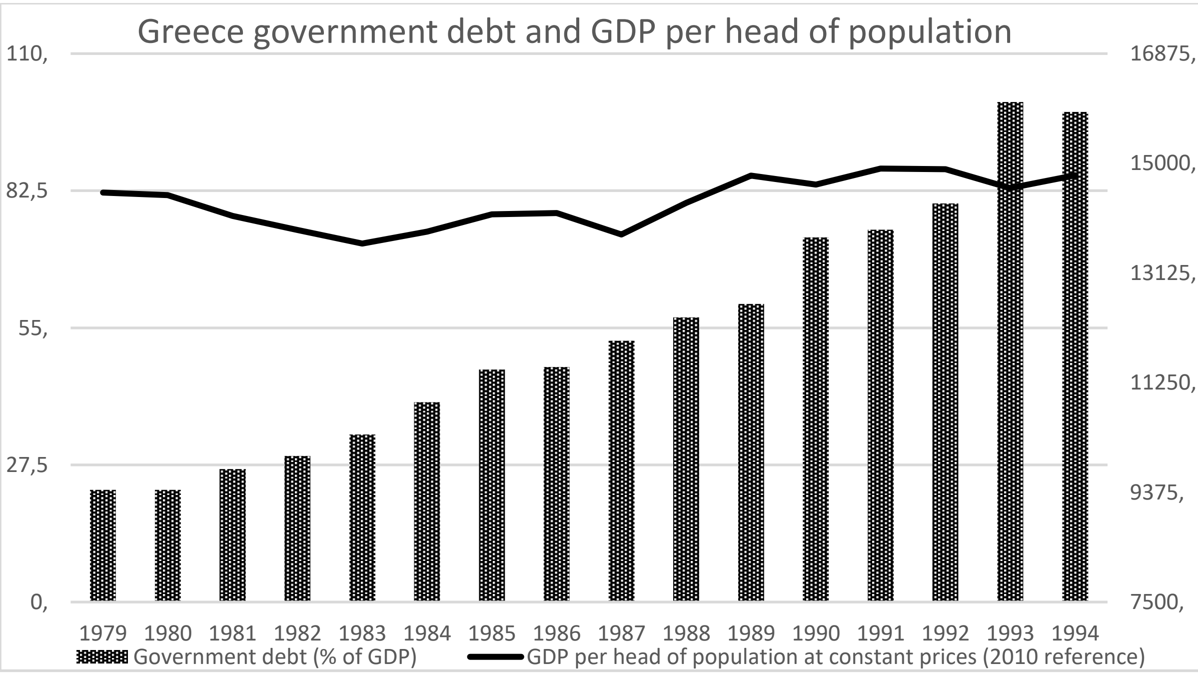
Within Europe's diverse political economy, it was not only among the core powers of Germany, France, Italy, and more ambivalently, Britain, that there was a newfound desire for deeper European integration in the 1980s. Processes of Europeanisation also unfolded in the European periphery. One of these peripheral countries were Greece, in which the centre-right government under Prime Minister Konstantinos Karamanlis had successfully negotiated Greece's accession to the EEC in 1981. Later that year, the social democratic PASOK government, led by Andreas Papandreou, came into power. Papandreou's electoral victory marked the beginning of two decades of all but PASOK dominance: over the period 1981-2004, PASOK would lead the government in 19 years. At the time of PASOK's ascendency to power, the Greek public sector expenditure stood at 28% of GDP, much smaller than e.g. France (47%). In 1981, the expenditure-revenue deficit was already at a significant level, as government revenues stood at just 21%. During Andreas Papandreou's first 8 years as prime minister, government expenditure would rise to 34% of GDP in 1989, bringing Greece's public spending more in line with other European countries. Yet, revenues would only rise to 23%, contributing to a steady rise in government debt, from 27% to 60% of GDP (figures 3.1. and 3.2).

Figure 3.1. Greek government revenue and expenditure



Source: OECD database on government spending

Figure 3.2 Greece government debt and GDP per head of population



Sources: Debt: IMF, Historical Public Debt Database. GDP: AMECO.

The PASOK reign in the 1980-1990s was marked by a tension between the party's roll-out of a distinct type of populist nationalism and the ambitions of modernization in the mirror of their (Western) European counterparts. Papandreou's first years in power were characterised by more classic socialist initiatives, often condemned in the international press as cases of state control, nationalisation, and profit squeezes (Revzin, 1986). In the context of the slowdown of global economic activities in the early 1980s, growth rates severely diminished. The negative growth rates registered in 1981-83 further contributed to the rising levels of debt that was to continue through the 1980s. After the economic crash in October 1984, Papandreou's policies 'zigzagged', having abandoned a number of its more radical positions on economic nationalization (The Economist, 1996, p. 90). Hereafter, Papandreou's PASOK developed a peculiar populist nationalism that combined a gradual expansion of the welfare state, which included a comprehensive pension provision, large-scale public sector employment, and selective industrial nationalisation, with more neoliberal reform elements. The PASOK rule of the 1980s was also characterised by a number of cases of corruption and the strategic nurturing of a culture of clientelism (Featherstone, 2005).

3.4.1. The Maastricht criteria and the Stability and Growth Pact

At the European level, the agreement on the Maastricht Treaty in December 1991 culminated a two decade long process to bring about monetary cooperation that could 'fill the international economic vacuum created by the collapse of the Bretton Woods System', permanently stabilize European inflation rates, and – eventually - complement the Single Market with a single currency (Eichengreen, 2009, pp. 284, 346). In the process, German state actors in the federal government and the Bundesbank had been able to secure that the new European central bank would be politically independent and committed to price stability and low inflation (Mody, 2018).

Despite British opposition to the advancement of social policy, the agreement on the Maastricht Treaty in 1991 also contained a social protocol that stipulated the co-decision powers of social partners on social policy (Streeck, 1994). With the inclusion of social policy and social partners in the treaty concluding the Single Market and launching the currency union, Delors, as well as like-minded social democrats and other non-neoliberals, could argue that the European project was bringing both labour and capital on board (Streeck, 2018). The Maastricht Treaty specified that the Council would draft 'broad guidelines of the economic policies of the Member States' (Maastricht Treaty, Art. 103.2). The European Commission was responsible for providing recommendations of the economic guidelines, and the Council would report its decisions to the European Council. Later, the Lisbon Treaty would emphasise the European Council's position in the 'control room' of European politics by establishing it as an institution of the Union (Smeets & Beach, 2019).

Under Maastricht and later treaties, EU member states and institutions have had a common responsibility to coordinate economic policies to facilitate 'ever closer' integration under the single market and monetary union. Yet, how much autonomy member states have in the context of governing their wage systems and labour markets has remained politically contested ever since Maastricht. The EU treaty is clear that its provisions 'shall not apply to pay' (TFEU, Art. 154). However, the EU has wrestled with how to square this commitment with the requirement for coordinating economic policies. The result has been a fragile and politically contested evolution of EU labour governance since the 1990s.

As the Delors Commission sought to redirect the economic benefits of the European Single Market and the prospective single currency into employment and job creation, EU leaders wrestled with the requirements for membership of the currency union. EU member state governments, led by French President Mitterrand and German Chancellor Helmut Kohl, concluded that economic convergence was prerequisite to bolster the single currency against 'social and economic tensions' as well as 'monetary and financial instability' (Buiter et al., 1993, p. 2). In order to secure sufficient convergence, all prospective member states had to fulfil four criteria to qualify for Euro membership:

1) Low inflation rates (no more than 1.5% points above the rates of the three Member States with the lowest rates),
2) exchange rate stability for at least 2 years,
3) interest rate convergence (no more than 2% points above the rates of the three Member States with the lowest inflation rates), and
4) sustainable public finances (government budget deficits below 3%, government debt below 60%).

Notwithstanding these efforts to create monetary and fiscal convergence, there were no policy plans for generating real economic convergence among EMU member states. Instead, Europe's leaders relied on the assessment that monetary union, complementing the single market, would promote convergence by increasing competition, facilitating financial market integration, and enhancing microeconomic efficiency (European Commission, 1990). Together with the convergence of inflation, interest rates, and public finances, the impetus of microeconomic efficiency was supposed to induce market-based convergence among Europe's diverse economies. The non-development of deeper EU labour integration was at least implicitly justified by referring to the prospect of microeconomic incentives for macroeconomic convergence.

The broad consensus on establishing monetary union on the basis of the four convergence criteria reflected the unwillingness of actors in either major hegemonic project to contemplate a major reorganisation of Europe's political economies, as well as the salience of the idea that Europe's (diverse) social models were something to protect (Martin & Ross, 2004). As it turned out, Europe's structurally diverse economies would likely divert within uniform rules, as capital flows and growing imbalances would exacerbate the costs of member states surrendering monetary policy rather than bring about the anticipated real convergence.

Of the four Maastricht criteria, the criterion on public finances received the greatest political and academic attention. Here, domestic politics was clearly dominant: achieving (short-term) budget balance, for instance, required dealing with politically salient questions around tax rates or expenditure levels. Unlike the convergence of interest rates and exchange rates, governments are in direct control over budgets, while central banks, financial markets, and international monetary cooperation play only an indirect role. Because fiscal policies hold considerable political salience, most of the subsequent political negotiations to enforce the Maastricht criteria centred on the fiscal criteria.

The fiscal criteria spilled over into EU labour governance. The EES, covered in more detail below, rested on the agreement that only a 'macro-economic policy which will restore public finances [can] give room for business to grow and create new jobs' (European Commission, 1995, p. 4). The EU's stability-oriented framework, set in treaty form with the Maastricht Treaty, was therefore not only the condition for monetary integration, but also the basis for the emerging project of EU labour governance. The Commission stressed the relationship between 'the consolidation of public finances' and 'sustained medium-term growth process which, in turn, is a *sine qua non* for employment creation' (European Commission, 1995, pp. 4–5). In short, the Delors Commission made clear its ambition to foster a project of EU labour governance that strictly adhered to the principles of price stability and fiscal discipline. Delors' plan was for a comparatively weak project of EU labour governance.

For enforcing budget discipline on profligate member states, the Maastricht Treaty relied on voluntary arrangements (Heipertz & Verdun, 2004). In the process leading up to the introduction of the euro, the prospect of EMU membership was the central incentive for fiscal discipline. In the period 1993-1997, through a combination of cyclical upswing, which reduced the need for fiscal consolidation, and fiscal convergence, whereby low-expenditure countries raised taxes and high-tax countries cut expenditures, the average member state budget deficit fell from 6.1% of GDP in 1993 to 2.4% in 1997. However, these averages reside over significant differences in the performance of individual member states. In response to the significant differences in prospective EMU member states' fiscal performance, and the voluntary nature of the Maastricht criteria, European leaders converged on the idea of the SGP to uphold discipline once the incentive for membership would cease upon introducing the euro. With the SGP, EU member states reiterated their commitment to fiscal discipline as a precondition for all other aspects of European integration, including greater labour governance.

Notwithstanding the general decline in government deficits in the 1990s and the commitment made with the SGP in 1997, in reality only few prospective member states adhered to the four Maastricht criteria. Eventually, widespread transgressions of the criteria were no hindrance for the introduction of the single currency. That France and Germany would be among the initial member states introducing the euro was self-evident. In addition, Austria and the Benelux countries adhered to the stability-oriented framework of the EMU. The real controversy surrounded the southern and peripheral European countries. While, for instance, Italy succeeded in bringing its government deficit in line with the fiscal criteria from 1997, government debt remained above 100% of GDP, at a higher level than at the time of the agreement in Maastricht. Beyond discussions over the Maastricht criteria, the political drive towards the introduction of the euro was also met with opposition from observers worrying about Europe's diverse political economies and social models (Dornbusch, 2015). Despite the controversies over introducing the single currency at all, a decision was reached not only to move to the final stage of the EMU, but also to grant membership to all 11 prospective states. Given the inability as well as the questionable fiscal manoeuvres to adhere to the convergence criteria, this decision was hardly a rules-based governance procedure. Despite the lack of convergence even on fiscal positions, European leaders seemed determined to progress with monetary integration.

Once again, domestic politics played a decisive role. During the 1994 German federal elections, Kohl started to frame the introduction of a single currency as a European peace project. Without a single European currency, Europe would simply collapse, Kohl asserted (Mody, 2018, p. 110). This offensive was intended to push back against the significant popular opposition to EMU in Germany. Adding more pressure on the EMU and highlighting the popular resistance against the regressive stability culture embodied in the institution, French workers went on strike in 1995 and again in 1996 over the government's plans to adhere to the EMU rules. Against growing political and social contestation, delaying the introduction of the euro was clearly risky. Therefore, the preference among European leaders was to adhere to the initial deadline of 1999. In addition, Kohl's invocation of the language of "war and peace" in response to political adversity meant that Italy had to be included. Introducing the euro while excluding one of the founding members of the European Coal and Steel Community (ECSC) could hardly pass for a European peace project. With Italy included despite its large and growing government debt, the door was open to the rest of the 11 prospective member states.

While the agreement on the SGP in 1997 was intended to prolong fiscal discipline beyond the introduction of the single currency, the divergence in public budgets started to grow after 1999. Germany, France, and Italy all loosened their fiscal policies, for various reasons, and quickly transgressed the 3% excessive deficit threshold. The SGP, and particularly the Excessive Deficit Procedure established a division of labour whereby the Commission would issue warnings of excessive deficits, but with the responsibility of member state governments (in the Council) to enforce the rules. In effect, more powerful member states could resist sanctions, and over time, the evolving deficit procedures became discretionary instruments of powerful governments - void of meaningful political accountability (Braun & Hübner, 2019).

Despite the inability to enforce sanctions for excessive deficits on powerful member states, the Maastricht fiscal criteria played an important role in delineating the space for EU labour governance. Since the Maastricht Treaty in 1992, EU member states had agreed to coordinate economic, social, and employment policies. In 1993, European Commission President Jacques Delors had outlined the Commission's strategy for promoting employment and social cohesion 'within a macroeconomic reference framework for both economic and monetary convergence' (European Commission, 1993, p. 12). Delors' white paper urged compromise between the main political forces of European integration, as 'neither protectionism' and job-sharing, nor 'a drastic cut in wages' would prove economically sound or 'politically tenable' (European Commission, 1993, p. 9). Expressing scepticism of the neoliberal dogma of unleashing market forces, it stressed the importance of not only relying 'on market forces to resolve the highly complex problems of achieving higher economic and employment performance' (European Commission, 1993, p. 129). Yet, it stressed, Europe's 'long-term, strategic responses' to unemployment could only be realised within the constraints of fiscal discipline and price stability (European Commission, 1993, p. 129). This realisation depended on a 'new solidarity' between capitalists, workers, and the unemployed (European Commission, 1993, p. 123). Delors' proposed project of EU labour governance asserted its intention to resolve distributional struggles by bringing capital and labour on board on a programme of fiscal discipline, wage moderation, and productivity growth.

However, far from resolving the contradictions between social-democratic, pro-labour and neoliberal, pro-capital policy priorities, the white paper highlighted the tensions that arise from a programme of wage moderation and productivity growth. It proposed a European incomes policy where 'real wages increased in the Community on average by one percentage point less than productivity.' This would mean that profits would permanently grow at a faster rate than wages, and this way, the paper suggested making a redistribution in favour of capital the 'rule of thumb' in EU economic governance (European Commission, 1993, p. 123).

Eurozone economic governance and the ambitions of improving employment, equality, and social inclusion caught EU labour governance in what appeared an asymmetric trap. The principles of fiscal discipline and price stability set the conditions for EU labour governance, which in the Commission's interpretation translates to permanent pro-capital redistribution. Yet, within these tight institutional conditions, the white paper marked the beginning of an explosion of EU employment policy activity. Facilitated by the introduction of qualified majority voting within the EU institutional framework, and the election of a number of social democratic governments during the latter half of the 1990s, the EU institutions embarked on the project of solving Europe's persistent problems with high unemployment (Ashiagbor, 2005; Schäfer, 2004). However, the link between monetary integration and EU labour governance was never fully realised. The continuing political contestation over labour governance at the domestic and EU-level played a part in preventing closer integration of labour governance within the EMU. At the domestic level, as I highlight below, social pacts for wage moderation had become a widespread compromise in many EU member states. While leading to a general redistribution from labour to capital, often it did not involve extensive liberalization of labour markets. At the EU-level, policy-makers disagreed on whether to push for labour liberalization or wage coordination.

3.5. Social pacts and wage moderation in Europe's labour markets

At the domestic level, political settlements had emerged across the EU to support wage moderation and export-oriented growth strategies in the two decades leading up to the introduction of the euro (Regan, 2017). In many European member states, labour markets were characterised by extensive cooperation between partners, and institutionalised systems of interest representation. Since the 1970s, the academic literature has captured this phenomenon by the concept of corporatism (Molina & Rhodes, 2002). Over recent decades, organised labour, labour market institutions, etc., have been under pressure from, *inter alia,* economic globalization, capitalist restructuring, and hostile governments. The social pacts in many European countries in the 1980s and 1990s rose as a result of 'the new macro-economic framework associated with EMU', and before that, the EMS (Hancké & Rhodes, 2005, p. 198).

The Netherlands was an early example of how social pacts could help induce a deflationary pressure on the economy. The 1982 Wassenaar social pact marked the beginning of an era of wage moderation and flexibility in the Dutch labour markets, sustained by labour market reforms in the 1990s (Wilthagen & Tros, 2004). Further, after 1984, when government expenditure reached 55% of GDP, the Netherlands undertook significant fiscal tightening, with government expenditure reduced to 41% of GDP by 2007.

The rise of social pacts for competitiveness and wage moderation in the 1980s and 1990s depended - by definition – on the active involvement of both organised labour and business. These social pacts were, therefore, symbols of class compromises, no matter how tentative and subject to further contestation these pacts and compromises may have been. From the perspective of critical integration theory, what was at play in the Netherlands and in other countries was the formation of new hegemonic compromises under the condition of monetary integration (see Bruff, 2008a; Bruff deploys the concept of 'common sense'). The result was deeply institutionalised class compromises that placed many European countries on a deflationary route. The commitment to price stability, which institutionalised in these countries in the 1980s, was part of the alignment of preferences in Europe that allowed for monetary union and a single currency. As such, domestic hegemonic projects emerging from the field of labour governance laid the foundation for the EMU.

In situations where the social partners could not reach agreement on social pacts, such as in Germany in the late 1990s, there was even greater pressure on governments to reform labour markets in an effort to stimulate employment creation. The gravity centre of European economic integration, Germany, had experienced sluggish growth rates in the 1990s, and was portrayed as 'the sick man of the euro' (The Economist, 1999). The economic crisis that Germany experienced in the wake of reunification increased the pressure for decisive labour market reforms to liberalise German industrial relations and the welfare state (Streeck & Trampusch, 2005). Germany's social partners had long struggled to agree on a social pact that would reform German labour markets and reinvigorate the economy. In the late 1990s, German employers had also started unilaterally withdrawing from sectoral collective bargaining institutions. Chancellor Gerhard Schröder's social democratic government eventually rolled out a comprehensive restructuring of domestic labour markets and the welfare state through Agenda 2010 and the Hartz reforms. Together, employer strategies and labour market reforms contributed to the continued wage depression of low-end service sector workers (Palier & Thelen, 2010). Hartz IV, and the wider process of liberalization in Germany at the time, has since buttressed Germany as an export-led growth model. This took place through a sustained downward pressure on labour costs, the associated contraction in aggregate demand and thus increased dependence on exports and foreign demand (Baccaro & Benassi, 2017). Chapter 4 will return to the issue of German wages and their impact on the financial crisis.

Outside the Eurozone core, peripheral member states were wrestling with the competing pressures from domestic stakeholders, the requirements for euro membership, and the powerful narrative of 'modernisation.' In Greece, while Papandreou's PASOK government had many traits of nationalist-populist movements, the party evolved and adopted the social democratic commitment to a "modern" welfare state. Promising to deliver a modern welfare state, the prospect of Europe and European integration came to play a decisive role in PASOK's ideological and rhetorical development from the early 1980s (Nafpliotis, 2018). Yet, Greece lacked the institutional setup characteristic of industrial relations in the Eurozone core, which complicated the idea of modernisation. Particularly, observers noted, 'the Greek political economy is characterised by under-institutionalisation and increased – even if diminishing – party domination in the representation of organised interests' which manifests itself in a lack of institutionalized social partnership (Antoniades, 2010, p. 39).

Following the script of such a politicized institutional setup, Greek governments were the natural initiator of social dialogue and structural reform. The combined rhetoric of modernisation and Europeanisation intensified with Simitis leadership election after Papandreou's death in 1996. Importantly, Simitis promised to join Europe's currency union (Kalaitzidis, 2010). Simitis' PASOK government (1996-2004), nonetheless struggled to shore up consent among social partners. This contributed to a lack of direction to the structural reform efforts in the late 1990s and early 2000s (Featherstone & Papadimitriou, 2008). Simitis' government initiated the 1997 social pact, aligning its vision for Greece's industrial relations with the European consensus on the virtues of a competitive, social market economy. Despite overcoming severe tensions between social partners, the government managed an agreement, and two reform packages followed in 1998 and 2000. The economic and employment impacts of the 1998 labour market reform were disappointing, and the 2000 reform was unable to bring radical change to Greece's labour and/or install a common purpose among social partners (Papadimitriou, 2005).

Despite their limited success, Simitis' efforts at reforming Greece's labour market played a constitutive role in his government's plea to adhere to the Maastricht criteria in the late 1990s. Greece's diminishing government deficit confirmed the impression of macroeconomic convergence. When Greece adopted the Euro, the size and expenditure level of the Greek government, which was at a very low level in 1980, had achieved considerable convergence with other Eurozone member states. In 1995, Greek expenditure levels as percentage of GDP reached those of Spain; in 1997, Greece and the Netherlands' expenditure levels were on par. By 2008, Greek government expenditure exceeded 50% of GDP for the first time in modern history; at this point, Greek government expenditure was the second highest in the EU, only surpassed by France.[5]

Accompanying the rapid expansion of the Greek public sector was a dramatic redistribution of income away from the working class in the early 1990s. This followed the European trends of competitive corporatism (especially in Germany and neighbouring countries) and neoliberal marketization (especially in the UK and some Eastern European countries). After the mid-1990s, Greece was a remarkable exception to the European rule of wage moderation, as Greek wage shares steadily increased, and followed this path up until the 2009 Greek crisis. This trend was more than anything caused by the failure of improving productivity in the Greek economy (Chapter 4).

It was therefore on the back of very divergent domestic experiences with modernisation, Europeanisation, and adaption to globalization that European leaders sought to develop a common strategy for reforming and improving Europe's social models and labour markets. At the European level in the mid-1990s, there was a growing sense of the urgency of the task of reforming Europe to improve its resilience in the face of accelerating technological innovation and globalization. The round of reform deemed necessary was less about European integration, and more about domestic reforms.

3.6. The emergent project of labour governance through performance management

At the European Council summits between 1994 and 1997, European leaders progressed the agenda on EU employment policy based on Delors' 1993 white paper. First, the 1994 Essen summit initiated a strategy for coordinating member states' employment policies (the EES), launched a surveillance procedure for employment and policy, and recommended a policy mix of education, deregulation, and wage restraint. Second, the 1997 Luxembourg Summit introduced the OMC as a new strategy suited to deliver reform in the area of social, employment, and welfare policy. Third, the Amsterdam Treaty's employment chapter committed the EU to 'a high level of employment' through a 'coordinated strategy' of

[5] From the OECD database on government spending: https://data.oecd.org/gga/general-government-spending.htm. Retrieved 25-09-2019.

employability and flexibility measures. The Amsterdam Treaty came largely in response to French domestic struggles and strike waves over the employment prospects of the monetary union, but was shaped by the British governments' preference for supply-side measures (Goetschy, 1999).

The European Commission had been the instrumental force behind the advancement of the EES, while the election of Tony Blair as British Prime Minister created the opportunity for the Amsterdam Treaty's employment chapter. In 1996-1998, Europe experienced a new political wave of social democrats gaining power across Europe, including in the 'big four' of Germany, France, Britain, and Italy. This wave included Schröder in Germany, Lionel Jospin in France, Romano Prodi in Italy, and Tony Blair in Britain. Blair's Third Way social democratic vision had particular effect on the emergence of the EU project for labour governance. Together with Blair, Schröder, Jospin, and Prodi's governments, social democrats headed 11 out of 15 EU member state governments by 1999.

In order to assess this project of labour market reforms through policy coordination emerging among European leaders in the mid-1990s, it is worth considering the project's social content and its mode of governance. For some observers, including many trade unionists, Europe's new strategy for employment in the 1990s amounted to a 'Maastricht for welfare' – a (potential) watershed moment for the future of European social models to complement the one-sided economic focus of the Maastricht Treaty (Rhodes, 2000). For others, it represented a 'workfarist reorientation of social policy at the EU level', in which workers' rights have become subordinated and aligned with 'the demands of labour market flexibility' (Jessop, 2006, p. 149).

These divisions in the academic assessment of the emerging EU project for labour governance reflect the wider academic and political disagreement over the reorientation of social democracy in the 1990s. Here, I follow Milena Büchs' choice to approach the strategy as decisively 'third-way', shaped in particular by the rise of a new wave of social democrats including Tony Blair and Gerhard Schöder's *neue mitte* (Büchs, 2007).

This reformed version of social democracy was mostly supportive of welfare state activity, underlined the use of activation and training for the unemployed and investment in education, but was adamant that economic, social and labour governance all had to change. In a common report outlining the European third-way vision, Blair and Schröder abandoned forms of social democracy that in their view ruined 'economic dynamism' (Blair & Schröder, 1998, p. 2). Instead, and in line with both new public management lingo and Blair's domestic political project, Blair and Schröder called for EU member states to 'steer' rather than 'row' Europe's social and economic development (Blair & Schröder, 1998, p. 4):

> *'We need to strengthen our policies by benchmarking our experiences in Britain and Germany, but also with like-minded counterparts in Europe and the rest of the world. We must learn from each other and measure our own performance against best practice and experience in other countries* (Blair & Schröder, 1998, p. 2).

Underpinning this change in the preferred mode of governance, a social philosophy of the third way emerged to transform the objectives of governance. Rather than fighting economic inequality through class struggle or redistribution, third way advocates promoted social inclusion through timely and limited state interventions (Giddens, 1999, pp. 101–111; Lister, 1998).

At the EU-level, this was translated into a commitment to policy coordination and the end of a strategy of social harmonization. Together with Schröder, Blair's vision eschewed plans for social harmonisation across Europe, as traditionally promoted by French socialists (Blair & Schröder, 1998). To advocate the end of harmonization as a strategy for promoting and safeguarding social protection was a momentous change in social democratic emphasis. This change reflected strategic decisions developed at the national level to reformulate social democracy in opposition to enduring conservative governments. Schröder's turn to third way also came after the resignation of Oskar Lafontaine as finance minister in 1998, which led Schöder's government to embracing a supply-side agenda domestically and in Europe much more forcefully.

The 1997 and 1998 European Councils summits in Luxembourg and Cardiff promoted quantitative indicators to benchmark state economic and employment performance (European Council 1997 Luxemburg, European Council 1998 Cardiff). Benchmarking came to feature prominently as a core regulatory principle in the OMC (Arrowsmith et al., 2004). The focus on the process of collecting evidence from member states and benchmarking performance neither implied nor precluded that EU employment regulation should follow. Scholarly debates reflect this openness. Owen Parker (2008, p. 409) has warned against a 'neoliberal EU by other means.' The Maastricht criteria and the institutional design of the EMU (may) impose austerity through external constraint; however, the EMU design leaves a considerable policy space of domestic politics, and gives member state the option of resisting the rules and criteria by running excessive deficits and advocating reforms (Parker, 2008, pp. 403–406). Based on the OMC, the EU labour market strategy operates not by imposing discipline in the form of external constraint; rather it works on and moulds the practices and 'mind-sets' of member state governments, bureaucracy, social partners, and – perhaps - the wider population. Streamlining the procedure for how governments evaluate their own labour market policies may, for instance, lead governments to embrace the EU strategy because it 'extends a rationality of competitiveness, flexibility, enterprise and the market into domains beyond the economic, including into the arena of government itself' (Parker, 2008, p. 413). More supportive scholars emphasized the necessity of the flexibility and voluntary nature of the Lisbon strategy, arguing that the strategy allowed for 'experimentalist governance' (Sabel & Zeitlin, 2008) and 'cross-national policy learning', and eased policy coordination in sensitive policy areas (Mosher & Trubek, 2003, p. 70).

The turn to performance management far from foreclosed the wider implications, and academics and policy-makers have since wrestled with the precise implication of this turn. It was exactly this openness over the content of EU policy that helped shore up consent among European social democrats. The openness of EU labour governance also broadened its appeal, securing consent of political actors otherwise hostile to the idea. Critical integration theory suggests that a hegemonic compromise between social democratic and neoliberal projects depended on this openness.

In practice, the EU governed European labour at a distance. The fact that it was only possible to govern labour at a distance shows the relevance of the governmentality approach (Chapter 2). Under the EES, the EU institutions started issuing annual employment guidelines and evaluations of implementation after the Amsterdam Treaty. The employment guidelines were issued alongside the broad economic policy guidelines (BEPGs). The BEPGs were introduced in 1993 to coordinate member states' economic policies under the EMU and survey member state performance in key economic policy areas, including price stability, public finances, and wage developments (Deroose et al., 2008). The BEPGs should help member states achieve the economic policy objectives of the EU (particularly around job creation and employment) and prevent member states pursuing policies that might jeopardise the macroeconomic stability of the EU/EMU (Council of the European Union, 1998; Goetschy, 1999). The 2000 Council Summit in Lisbon outlined the 'new strategic goal (…) to become the most competitive and dynamic knowledge-based economy in the world' by focusing economic governance on the objectives of 'sustainable economic growth', 'more and better jobs and greater social cohesion' (European Council, 2000). The Lisbon strategy signalled the height of the 'enthusiasm for European-level cooperation' on labour market policy (Goetschy, 2005, p. 64). For Europe's trade unions, Lisbon represented a break with the deflationary pressure of the SGP (Hyman, 2011). While this hope was eventually defeated, the Lisbon strategy involved a broad spectre of political and social actors, with social democrats and trade unions playing a central role in the policy process.

The new social democratic pitch for European labour markets under the Lisbon strategy sought to reconcile the objectives of economic integration, monetary and fiscal discipline, and social cohesion. Compared to the 1993 Delors White Paper, the Lisbon strategy had abandoned the idea of incomes policy as defining strategy, giving way instead to the formalisation of the OMC as the core, strategic tool. The OMC should support market liberalisation and thereby reinforcing Europe's 'active welfare states' by using performance management tools such as benchmarking, the exchange of best practices, etc.

The prominence of Third Way EU labour market policy at the turn of the century is significant for a number of reasons. First, the EU's Employment and Lisbon strategies have rightly been criticised for ignoring the fundamental imbalances that developed in the European economy under the EMU (Dyson & Quaglia, 2012). I deal with the development of these imbalances, their relationship to global, macroeconomic structural factors, and their impact on EU labour governance in chapter 4.

Second, the formation of new policy instruments around the launch of the Lisbon Strategy would also significantly shape reforms in the wake of the crisis. Of particular importance was the emergence of performance management as a strategy for EU wage and labour governance. Between the Cardiff Process, set up under the Blair government's EU Presidency, and the agreement on the Lisbon Strategy, EU leaders scaled up principles of New Public Management to EU policy coordination by introducing macroeconomic dialogue and member state peer-reviews based on quantitative indicators measuring state performance. These practices, turned into a core regulatory principle at Lisbon, have continued to shape the politics of EU labour governance in the aftermath of the financial crisis (Hansen & Lovering, 2019b; Chapter 4 and 5).

The EU project for labour governance that emerged in the late 1990s has since continued to shape European integration, creating institutional path-dependency on governance reforms in the 2000s and 2010s. Despite the proliferation of political compromises, most ambitiously in the Lisbon Strategy in 2000, this emergent labour governance project placed itself uneasily within the EU institutional framework. In particular, this emergent project had no bearing on Europe's monetary union. This uncomfortable institutional position was partly the consequence of the resistance of centre-right governments unwilling to contemplate reforms that would more fundamentally alter the framework for EU labour governance. Critical integration theory questions whether the emergent labour governance project could overcome opposition from the neoliberal hegemonic project. The competition between EU hegemonic projects made labour governance an uneasy fit for European integration.

Yet, the uncomfortable position of the emergent labour governance project was also the unintended consequence of the third way social democratic decision to discharge the ambition of social harmonization and instead concentrate on governance at a distance. Having made this strategic decision, social democratic leaders no longer needed EU institutional reform to push their project of EU labour governance. Proponents of this emergent project did not pursue EU institutional reform, but focused instead on developing and streamlining best practices for governance, benchmarking techniques, etc. From the perspective of critical integration theory, this wave of social democrats sought to circumvent hegemonic contestation over institutional reforms by developing new modes of governance within existing institutional frameworks. Yet, as was highlighted by the rise of Eurozone imbalances, the redistribution away from labour across Europe, and eventually the Eurozone crisis, this was ultimately a strategy unable to address the broader crises tendencies in European capitalism.

3.7. Conclusion

This chapter has addressed the early stages of EU labour governance and its complicated relationship with European monetary integration. The chapter has analysed the evolution of these two different aspects of European integration from the experiments with currency bandwidths in the 1970s up until the introduction of the single currency in 1999. From the outset, European monetary integration faced difficult questions on labour and labour markets. Domestic hegemonic competition in France and Germany laid pressure on those governments to increase economic dynamism. During the negotiations on the EMU, the neoliberal hegemonic project that had come to dominate Germany successfully insisted on founding the single currency on an institutional framework of price stability. Inducing a deflationary pressure on Europe’s economy, and translating into an EU commitment to the strategy of wage moderation, the EMU was bound to raise criticisms for inflating employment, lowering output growth and increasing inequality. In the 1990s, and in response to growing popular discontent with high unemployment in Europe, a wave of social democrats gained power across Europe. This wave decisively pushed forward the policy agenda for EU labour governance. Reluctant in pursuing Treaty changes, and adamant to move beyond “old” social democratic objectives of social harmonization, the wave of social democrats sought to govern labour from the EU-level through techniques of performance management. These techniques included benchmarking, the diffusion of best practice, and procedural streamlining, all institutionalised in the OMC and later the Lisbon Strategy.

Drawing on the concept of competing hegemonic projects, the chapter has argued that hegemonic competition at the domestic and EU level can explain the evolution of labour governance. Unintended consequences of monetary integration and changes to the global political economy, such as the growing divergence among EMU member states, shaped political contestation over EU labour governance. In the 1980s, domestic compromises on the need to reconfigure the relationship between macroeconomic dynamism and stability came in response to the global macro-structural context of floating exchange rates and slowing growth. In the 1990s, European leaders established the EMU's stability-oriented institutions amidst accelerating economic globalization. In response to the EMU's deflationary pressure, and the pressure of globalization on European labour, a strengthened social democratic project advocated the development of new modes of governing employment, labour market institutions, and wages. Yet, EU labour governance as pushed by the social democratic project of the late 1990s did not address the weaknesses of the EMU. Offering a compromise between the social democratic concern for employment policy and the neoliberal concerns for cost competitiveness, the emergent project of EU labour governance avoided confronting the question of the EMU. In effect, the social democratic project for labour governance accepted the EMU's institutional deficiencies, which included the lack of policy instruments for promoting convergence among member states. The inability to address these deficiencies highlights the fragile hegemonic compromise on which EU labour governance rested.

4. Dangerous divergence in the Eurozone

The preceding chapter analysed the developing relationship between EU labour governance and European monetary integration in the 1980s and 1990s. The chapter highlighted how domestic politics shaped contestation over EMU and EU labour governance. In return for monetary union, Germany required European integration to rely on rules-based governance aiming at deflation and fiscal discipline. In the latter half of the 1990s, European social democratic forces promoted a framework for EU labour governance that avoided the question of reforming the EMU's institutional framework. Structural transformations reshaped domestic and European political contestation. In particular, the innovation of the EMU's institutional structures interacted with economic globalization to put pressure on employment and wages. In this chapter, I argue that once the single currency was introduced, these structural changes would again reshape political contestation over EU labour governance. The nature and persistence of political contestation made the EU unable to reform the governance of labour markets within the EMU before the financial crisis hit Europe in 2008. To advance this argument, I analyse the development of EU labour governance from the introduction of the euro in 1999 until the peak of the Eurozone crisis in 2010.

4.1. Introduction

Since Europe's leaders agreed on establishing a monetary union, there has been extensive analytical interest in the relationship between Europe's labour markets, the institutions that govern wages, and the EMU (Calmfors, 2001; Calmfors & Johansson, 2006; Erne, 2008; Hancké, 2013). Signing up to EMU membership, EU member states had centralised monetary policy, and committed to the principle of price stability. With a common objective of inflation rates below 2%, member states had in principle also agreed to keeping wage developments broadly in line with productivity growth. This is because wage developments closely correlate with inflation (Flassbeck & Lapavitsas, 2015). Yet, from the beginning, the EMU did not involve a loss or pooling of sovereignty over the setting of wages and wage policies for its participating member states. Policymakers and observers questioned the sustainability of a centralised monetary union with national wage setting institutions (Glassner & Pochet, 2011). What happens in case of persistent divergence in wage inflation between member states? Would the EU have to intervene at some point?

In this chapter, I analyse the development of EU labour governance in the first decade of the EMU. The EMU provided a new, formidable challenge to labour governance for several reasons. First, the EMU was structurally and institutionally unable to address the development of the EU's wages and labour markets, even when EMU seemed to bring about ever-increasing divergence rather than convergence among its member states. Second, under the condition of global economic restructuring and domestic strategies of wage moderation, the EMU facilitated member states' increased dependence on finance, credit, and debt. The first decade of the EMU witnessed an intensification of wage moderation and an acceleration of redistribution away from income, conditioned by economic globalization and constrained European political leadership. The interaction between domestic wage strategies, the EMU institutional structure, and structural changes in the global economy reshaped the EU project for labour governance that had emerged in the 1990s (Chapter 3).

Taking a point of departure in critical integration theory's emphasis on macro-structural conditions, this chapter seeks to make the above restructuring in European and global capitalism intrinsic to the analysis of EU labour governance. Unpacking the argument, I identify the transnational causes behind the long-term trend of wages falling relative to total income in Europe and emphasise how wage moderation gained prominence as a domestic strategy with particular strength in Germany. As wage shares came under pressure across Europe, EMU member states relied increasingly on debt to maintain economic growth. The EU/EMU institutional structure facilitated the rise of wage moderation and competitiveness as the major strategies of domestic labour governance in the pre-crisis period. Yet, and following the framework of critical integration theory, the chapter stresses how the recurring hegemonic competition between social-democratic and neoliberal forces hindered the formation of a firm framework for governing labour markets and wages at the supranational level.

The chapter proceeds by following the evolution of EU labour governance in the first decade of the EMU. First, I briefly discuss how wage bargaining and redistributive questions affect the EMU and outline how critical integration theory may inform our analysis of wage developments, EU labour governance, and the EMU. Second, I analyse how long-term distributional changes in income turned into macroeconomic imbalances in the Eurozone in the 2000s. Third, I show in more detail the domestic sources and multilevel character of these distributional changes and the ensuing Eurozone imbalances. Here, I highlight the case of German labour market restructuring, and use Greece to illustrate Eurozone core-periphery dynamics. Fourth, I analyse the evolution of EU labour governance in relation to the problem of Eurozone imbalances from the introduction of the single currency to the outbreak of the financial crisis. Fifth, I analyse how the problem of Eurozone wages evolved from the first efforts to fight the financial crisis in 2008 to the reform of EMU institutions in 2010-11. I end the chapter with a conclusion.

4.2. Critical integration theory, the Eurozone economy, and the crisis

In this thesis, I have bolstered my analytical framework of critical integration theory with a Political Economy understanding of the EMU (Chapter 2). This framework stands in contrast to the baseline theory of the economics of the EMU, i.e. neoclassical economics. Neoclassical economics suggest that Eurozone wage developments should respond efficiently to market pressures or be subject to centralised wage coordination in line with low-inflation policy objectives (Calmfors, 2001; Calmfors & Driffill, 1988; Interviewee 15). From the perspective of neoclassical economics, the Eurozone's main wage-related woes therefore stem from inability of wages to respond to market pressures and to keep inflation in check.

For members of a monetary union, rigid wages come with several problems. The most severe of these problems is magnified in times of so-called asymmetric shocks, or country-specific crises. If an EMU member state, like Spain, is hit by a demand shock, its exports may quickly and severely contract. In this case, the Spanish economy would need adjustment. If Spain had floating exchange rates, market pressures would likely push down the rate to restore at least some of Spain's competitiveness. If its currency were fixed, but adjustable, like under the EMS, the Spanish government would be able to devalue the currency to improve the country's external balances (for a favourable assessment of the EMS, see for instance Höpner & Spielau, 2018).

For an EMU member, competitive devaluation necessarily takes place through the labour market, improving competitiveness by lowering labour costs through wage cuts or moderation and improved productivity. It would be a process of internal devaluation, through domestic institutions, rather than an external, exchange rate devaluation. From an (neoclassical) economic perspective, the most efficient way to adjust labour markets is through nominal down-wards wage flexibility. Nominal wage flexibility allows wage costs to adjust quickly, even in the absence of price inflation. Under the condition of perfect market competition, the hallmark of neoclassical economics, nominal wage flexibility would also allow for up-wards wage adjustment on the back of an economic recovery. Conversely, down-wards wage rigidity prolongs adjustment processes, and leads to a significant rise in unemployment as domestic firms lose competitiveness and export markets (Blanchard & Wolfers, 2000). In textbook assessments of the conditions for currency unions, wage flexibility is key in determining the costs and benefits of currency union membership: more wage flexibility gives greater benefits (de Grauwe, 2014). Empirical studies in run-up to the financial crisis, often conducted by European Commission officials, highlighted an 'insufficient degree of wage flexibility in the euro area' (Arpaia & Pichelmann, 2007, p. 300).

These textbook and official EU assessments of the EMU's problems with wage rigidity have all but systematically neglected distributional conflicts between labour and capital in Europe's political economy. To be clear, neoclassical economists have studied the distribution of income between capital and labour through the prism of factor shares. Yet, the connection between the politics of income distribution and the economics of the Eurozone is left unexplored. Economists of the European Commission's DG ECFIN have located the causes of falling wage share in the 'interplay of demand and supply conditions for capital,' in the 'increasing weight of those sectors with structurally lower labour shares', and in 'technological forces' (Arpaia et al., 2009, pp. 2, 35, 37).

Sectoral and technological changes are indeed likely to affect the relative distribution of income between labour and capital. However, neoclassical economics ignore how political processes, social conflict, and institutional change shape sectoral and technological factors. The rise of the low-paid service sector, and the prominence of innovation in financial and telecommunication sectors, are both sectoral and technological factors. Yet, they are also very prominent features of Europe's political economy under the conditions of late capitalism. For instance, the rise of the low-paid sector in Germany following the Hartz reforms in the early 2000s helped stimulate Germany's growing current account surplus. Further, government reforms and employer strategies have pushed service sector wage cuts (Hassel, 2014). Critical integration theory questions the explanatory power of neoclassical economics in assessing how micro-level changes in employment and technology connect to global processes of capitalist restructuring and social change.

Based on critical integration theory's emphasis on structural explanations, I interpret income redistribution as the strategic outcome of global economic macro-structural conditions. Various labour class fractions have pursued strategies of wage moderation in reaction to economic globalization, while some capitalist class fractions have pursued strategies of financialisation. Critical integration theory highlights two forms of structures, which in the case of EU labour governance operate as structural conditions for European labour and wage strategies. First, institutional structures, which designate the formal political relationship between trade unions, employer associations, and state actors, including central bankers. Second, global macrostructures, which include the properties of capitalist competition, modes of production and exploitation under global capitalism, and generally, economic globalization and the rise of finance.

The strategic agency of European actors, such as trade unionists or political executives, thus takes place under these structural conditions. Given the existence and power of these structures, domestic processes closely relate to the evolution of EU-level policy, as well as global processes of economic and social restructuring. For instance, domestic strategies of wage moderation and the formation of social pacts closely relate to the evolution of European integration under the condition of global economic transformations. In chapter 3, for instance, I highlighted how domestic demands for employment creation interacted with European monetary integration in the global context of the breakdown of the Bretton Woods system. Below, I unpack how economic globalization has shaped EU-level and domestic strategies of wage moderation and distributional conflict.

4.3. Wage shares and distributional conflict in the EMU

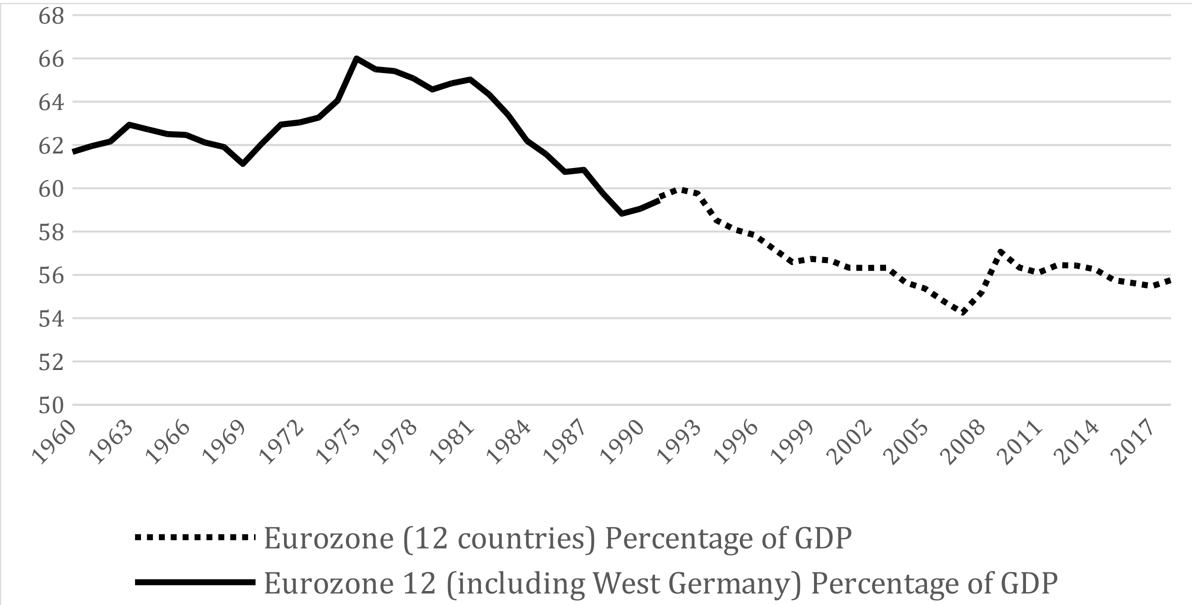
For about 30 years following World War II, the European economy experienced high growth rates and rising productivity. Workers received wages that rose in line with productivity and inflation. The political-economic order of full employment and Keynesian demand management characterised this period. Eventually, the historic settlement between labour and capital in the post-war period produced its own set of contradictions, which tested and eventually undermined the institutional foundations of the Keynesian welfare state. Since the mid-1970s, the wage share has steadily declined, except for brief interruptions in the early 1990s and in 2007-2009. While the general trend is clear from Figure 4.1, it also shows that the wage share tends to fall most rapidly in periods with higher growth rates, such as in 2004-07, whereas it tends to be considerably more stable in periods of recession (the period since 2010). In the event of a sudden economic bust, like in 2007-08, the wage share rises due to the relatively ‘sticky’ nature of wages.

Table 4.1 Wage shares selected countries and Euro area (12 countries)

Country	Wage share as % of GDP, five-year interval					
Year	1992	1997	2002	2007	2012	2017[6]
Germany	60.2	57.9	57.7	53.7	56.5	56.5
Italy	58.3	54	51.5	52	53.7	52.8
France	57.9	56.1	56.2	55.3	58.1	58.1
Spain	62.4	59.5	57.4	56.0	55.6	54.5
Portugal	60.3	60.1	59.8	56.1	54.0	52.3
Euro area (12 countries)	59.9	57.2	56.3	54.3	56.5	55.7

Source: AMECO

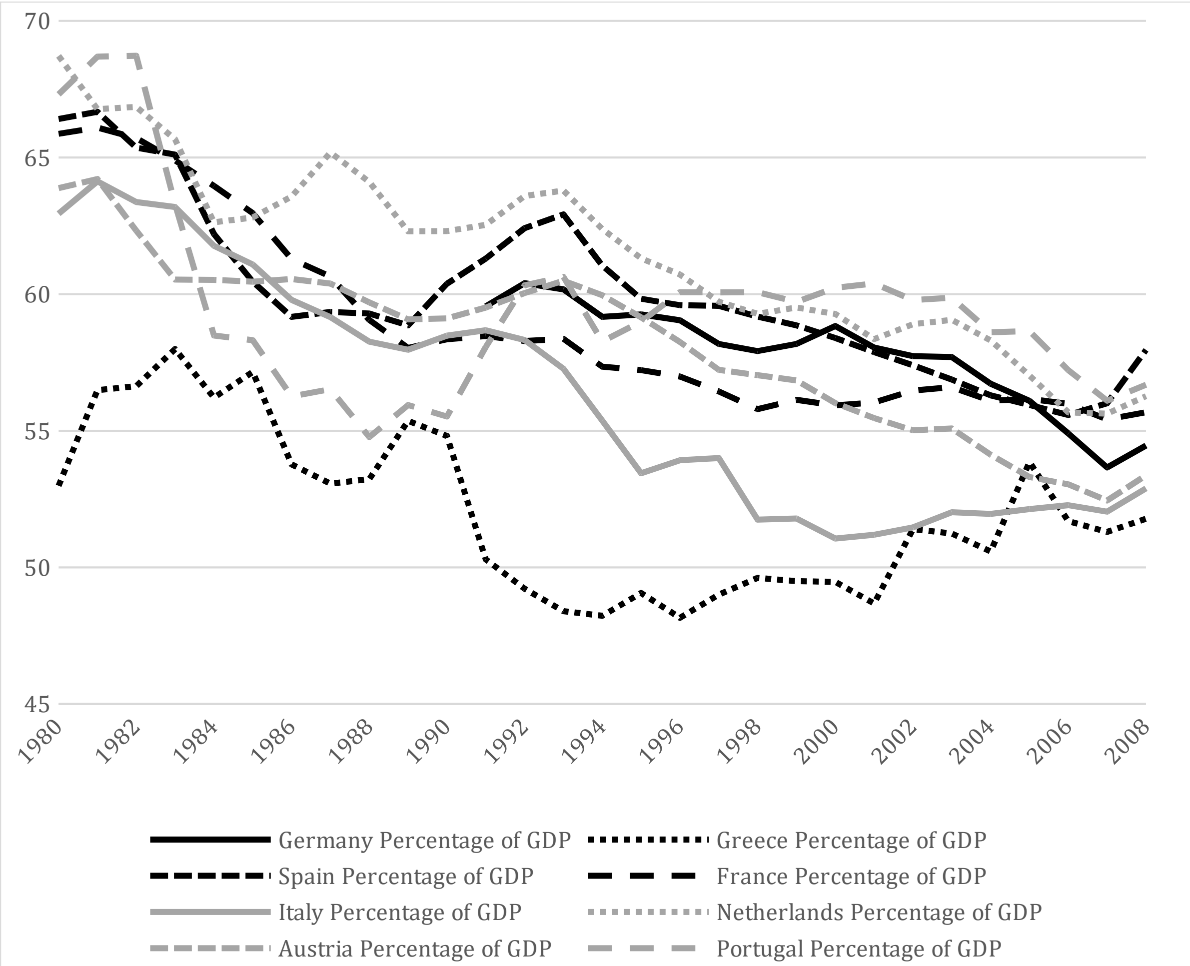
Figure 4.1 Wage shares in the Eurozone 1960-2018 (12 countries)



Source: AMECO

[6] Forecast (AMECO data updated 9 November 2017)

Figure 4.2. Wage shares in selected countries 1980-2008



Source: AMECO

The general trend towards a seemingly ever-lower wage share in the Eurozone contains some significant geographical variations. Table 4.1 and figure 4.2 highlight some of these variations. The fall in the wage share was particularly pronounced in Germany in both the 1990s and 2000s, whereas for southern European countries, the tendency has been towards stable, and in Greece's exceptional case, increasing wage shares up until the crisis.

Economic globalization, including the expansion of global financial markets, has shaped domestic social groups' strategies of wage moderation and/or expansion. Critical integration theory focuses on macro-structural changes that have shaped the strategic reasoning of domestic agents. In some member states, the domestic institutional setup and the opportunities offered by changing geopolitical and global economic developments facilitated very strong wage moderation that resulted in great redistribution of income from labour to capital. Nowhere was this the case more than in Germany, Europe's economic powerhouse.

From 2004, in the immediate run-up to the financial crisis, wages started to fall when measured against productivity (resulting in falling unit labour costs).

Germany managed to build a large trade and current account surplus as a result of stable or declining unit labour costs, rapidly falling wage share, advanced value chain integration with central and Eastern Europe, and strong non-cost competitiveness (Baccaro & Benassi, 2017). The austere approach to economic and wage development throughout the last couple of decades most likely subdued German growth rates in the pre-crisis years. However, coupled with the institutional complementarity between German economic policies and the Eurozone framework, this strategy made the German economy exceptionally resilient, both in the face of the financial crisis and the following Eurozone crisis (Hancké, 2013).

4.3.1. Wage shares and Eurozone divergence

A result of the austere wage developments in Germany and the Eurozone core, and the comparatively more expansive wage rises in Southern Europe, the development in unit labour cost has diverged significantly within the EMU since the introduction of the euro. Figure 2.1 depicted the development in unit labour costs in 5 Eurozone member states in the period 1999-2019, with 2010 as index=100 (Chapter 2).[7] Greece has had the most pronounced rise and fall in unit labour costs over this period. The comparatively rapid rise in unit labour costs in the period 1999-2010 corresponds to the fact that Greece were the only of the five countries to experience a rising wage share in the same period (Figure 2.1). Italy and Spain both experienced unit labour costs growing by about 33% in nominal terms over the 11-year period, corresponding to a 2,6% annual increase[8]. Germany, on the other hand, had stagnant or even falling unit labour costs during this period, a result of the strict wage moderation taking place after the Hartz reforms and the 2004 eastern EU enlargement.

Under the condition of economic globalisation and capitalist restructuring, wage moderation became entranced as political strategies in many Eurozone member states. A number of social democratic governments pushed for wage moderation as a European strategy for employment creation (Chapter 3). The wage moderation strategy, however, severely underestimated the economic effects of wage moderation in Europe, as post-Keynesian scholars have demonstrated (Onaran & Galanis, 2012; Stockhammer, 2011). Under the condition of wage moderation, corporate profitability increases, but private consumption

[7] AMECO estimates for 2017, 2018, 2019. Data from November 2017.
[8] Formula: (100/75)^(1/11)-1 = 0.0265

inevitably suffers. As demonstrated by a number of post-Keynesian studies, falling wage shares significantly weaken aggregate demand (Lavoie & Stockhammer, 2013). While higher profit margins may be good for long-term growth through higher corporate investments in the productive facilities, this is outweighed by the negative demand effects of a corresponding fall in the wage shares. Because domestic aggregate demand shrinks when wage shares fall (Onaran & Galanis, 2012), national output and income suffers. Summarising a large number of studies, Onaran and Galanis (2012, p. 1) state that ‘consumption is expected to decrease when the wage share decreases, since the marginal propensity to consume out of capital income is lower than that out of wage income’.

A result of the contraction in the wage share, and the associated compression of aggregate demand, Eurozone member states have been compelled to target foreign demand through exports, predominantly to be found outside Europe. Arguably, the EU agenda on competitiveness has both advocated and responded to the predominance of wage moderation strategies in Europe. However, the competitiveness agenda has come with several internal tensions. If all Eurozone member states were capable of increasing exports, this would logically lead to a significant trade surplus with the rest of the world. Most likely, the euro’s exchange rate would adjust and rebalance trade. Alternatively, a permanent trade surplus could cause geopolitical tensions, depending on the reaction of Europe’s major trade partners.

Returning to the period preceding the financial crisis, it became clear that some Eurozone countries were less well positioned to adjust their economies to the institutional demands required by a successful export-led growth model (Hall, 2012). An alternative to relying on foreign demand through exports, economies with falling wage shares could substitute aggregate demand for future income via debt issuance. The variety of domestic strategies reflects the uneven positions of member state economies within global patterns of capitalist restructuring and depends on domestic struggles over the terms and conditions of wage moderation/expansion. As long as wage moderation exists in all member state economies, the only alternative to a growth model based on exports is one based on debt-fuelled consumption. Some Eurozone countries have embarked on the latter path, resulting in a growing divergence in export performance between Eurozone core and periphery (Johnston, Hancke, & Pant, 2014). This has in turn prevented Germany’s strong export performance to turn into higher exchange rates with the rest of world.

Conversely, despite a relative higher level of wage inflation, southern Europe was unable to prop up demand, and debt-led private and public consumption increasingly compensated for limited wage-led development and growth (Stockhammer, 2011). Europe’s consumption- and debt-led economies may have tamed the trade imbalance between the Eurozone and the world. Nonetheless, due to the acceleration of large current account deficits and the ensuing debt levels, Southern Europe was most heavily exposed when government yield spreads relative to Germany rapidly picked up as global financial markets started to speculate on the ECB's willingness to act as a lender-of-last-resort for the Eurozone. This line of events suggests that the interests of state actors in the core Eurozone aligned with the EMU institutional structure and the structural forces unleashed by the global financial crisis.

In the pre-crisis era, the low-interest rates secured by the EMU institutional structure had helped sustaining Southern Europe's debt-led consumption model. However, this was also a tremendously unsustainable economic model once international financial markets dried up as part of the global financial crisis. The ensuing Eurozone crisis did everything to highlight how a few member states' export success, rapid financialisation, and the build-up of public and private debt in the remaining states, had propped up an otherwise unfeasible Eurozone growth model. A key aspect of Eurozone economic development in the lead-up to the crisis was thus the divergence between export-oriented economies at the core, and debt-led economies at the periphery (Dooley, 2018). While competing hegemonic projects had aligned on the domestic strategy of wage moderation, the institutional development of an EU project for governing the consequences of this strategy was still lacking. We return to this dilemma below.

Since the crisis, the Eurozone's external position has dramatically changed as the result of the crisis and the effects of austerity. Since 2013, the Eurozone has run a constant trade surplus with the rest of the world. The dramatic depression of domestic spending in crisis countries in the Eurozone periphery facilitated by strict austerity has contributed to this achievement. Despite the overall turn to a trade surplus since the crisis, the core-periphery divide still characterises the Eurozone. The core consists of (even stronger) net exporters where persistently high exports in Germany and the Netherlands ensures an overall trade surplus for the Eurozone. On the demand side, sharp increases in exports to the US and China sustains Europe's trade surplus (Eurostat, 2019). Conversely, the periphery has turned into low-demand, low growth economies due to austerity. I return to the issue of the Eurozone's political economy in the post-crisis era in Chapter 5 and the Conclusion.

All European hegemonic projects pursue strategies of economic growth. The downward pressure on wages lowers aggregate demand, and raises the importance of alternative growth strategies, such as export- or debt-led growth. Offering access to cheaper credit, and new avenues for cross-border trade, the EMU combined with the failure of the EU to coordinate wage policies to deepen member states' reliance on exports and debt and helped exacerbate the Eurozone crisis. Given the rise of debt and macroeconomic imbalances, European integration was increasingly in a state of crisis that called for an enhanced framework for governing labour markets. Yet, within the political and institutional constraints of the EU and the EMU, European leaders were unable to deliver.

4.3.2. From falling wage shares to the Eurozone crisis

The creation of the EMU facilitated its member states with new sources of growth through financial integration, the elimination of currency risk, and the convergence of interest rates (Sinn, 2014). Germany benefitted from the common euro exchange rate, in addition to the opportunities offered by EU enlargement. Southern member states experiencing relatively higher growth rates before the crisis, experienced a rapid increase in capital inflows, particularly from northern Europe (Baldwin & Giavazzi, 2015). The convergence and decline of interest rates in the Eurozone, enabled these economies to finance private and public debt for longer (European Commission, 2008a). Thus, the EMU institutional structure supports and solidifies export- and debt-led growth models in the Eurozone through financial and monetary integration. The effect was to transfer the underlying wage and growth crisis into an imbalance crisis by expanding capital flows and thereby establishing other sources of (temporary) growth (Hansen & Lovering, 2019a).

In addition, the EMU amplifies the dangers of the resulting macroeconomic imbalances by removing key adjustment tools. The EMU and the Maastricht criteria have matured and 'constitutionalised' the principles of price stability and fiscal discipline that had started to direct the economic strategies of European governments in the decades preceding the creation of the EMU (Gill, 1998) .

To sum up the evolution of Europe's macroeconomic development in the lead-up to the crisis, economic and financial integration under the EMU protected member states against some immediate threats from the acceleration of macroeconomic imbalances, for instance by stabilising interest rates at relatively low levels. In effect, European leaders had provided an important level of stability into otherwise imbalanced economies and injected a temporary source of growth for most Eurozone member states. Yet, the currency area's growth model in the lead-up to the crisis was almost exclusively built on financialisation and the acceleration of imbalances. Institutionally, the single currency had eliminated the option of 'promoting economic adjustment through currency depreciations/devaluations', and the EMU effectively exacerbated the severity of the ensuing imbalance crisis (Johnston & Regan, 2016, p. 320). Perhaps most importantly, the fiscal discipline imposed by the EMU had limited the ability of member states to pursue expansionist policies and restore wage-led growth while restricting the feasibility of trade unions pursuing policies for wage expansion (Hancké, 2013; Stockhammer, 2016).

4.4. Sources of instability: German domestic politics and European political economy

The general redistribution in Europe from labour to capital points to the broad trends that undermined Eurozone stability and convergence before the crisis. However, it does not explain the domestic conflicts that generate instability and shape potential EU-level governance. Following the argument of critical integration theory, transformations in European integration rely on hegemonic projects anchored in domestic politics. In the case of the pressure on wages preceding the Eurozone crisis, the domestic context of German labour market reform was highly consequential. German reforms would not only change the preferences of German state actors in European integration, but also more fundamentally alter European political economy.

For Germany, domestic and international political transformations proved highly conducive to a strategy of wage moderation. This domestic strategy would decisively shape the acceleration of imbalances in the Eurozone. Transnational factors were important for consolidating wage moderation in Germany. Export-oriented industrial firms, the backbone of German capitalism, intensified transnational restructuring after German reunification, and again following EU Eastern enlargement, as German business expanded eastwards to consolidate the wage moderation strategy. East expansion would create new business opportunities through integrated trade and production networks, while limiting labour conflict opportunities (Baccaro & Benassi, 2017; Simonazzi et al., 2013). Baccaro and Benassi (2017, p. 86) argue that the strategic restructuring of export-oriented firms whereby they ‘reduce costs and regain price competitiveness’ increases the pressure on domestic wages and consumption. The eastwards orientation of German trade and expansion of its industry’s supply chains also helped raise German competitiveness relative to the European south (Simonazzi et al., 2013).

Macro-structural changes, including the breakdown of communism in Eastern Europe, helped the economic restructuring of German business and thus the formation of an increasingly strong political-economic project around low wage developments and high exports (a neoliberal hegemonic project). In addition, the impasse of tripartite negotiations on a social pact provided the background for the German government’s implementation of the Hartz reforms in 2003-05. The Hartz reforms constituted the core of a wider process of liberalisation in German industrial relations in advance of the financial crisis (Hassel, 2014).

The reforms transformed Germany's labour markets and unemployment systems, and facilitated the creation of a number of new, low-paid jobs. As such, the reforms created a new section of low-paid jobs at the core of the Eurozone, and that way, changed the context of EU labour governance from the ground.

In response to the failure of the tripartite Alliance for Jobs (Chapter 3), in February 2002 Schröder's government took charge of the process of labour reforms and appointed Volkswagen's personnel director as head of a committee to modernise Germany's labour markets. In March 2003, Schröder announced a wide range of reforms as part of the 'Agenda 2010'. Of the reforms rolled out between 2003 and 2005, the Hartz IV reform particularly targeted labour market and welfare state institutions (Bruff, 2008b). The Hartz reforms came at a time of prolonged economic stagnation in Germany. Unemployment and sluggish growth were enduring problems in Germany, and Schröder's government followed the reasoning of both neoliberal and Third Way social democracy that liberalization was conducive to economic dynamism. However, a strategy of fiscal expansion followed the Hartz reforms. It was 'exactly because the Hartz reforms were injecting a serious ordoliberal dose of market-enhancing competition into the German economy' that Schröder 'could justify large fiscal deficits' (Matthijs, 2016, p. 381).

Despite the strengthening of the neoliberal project in Germany that the Hartz reform symbolised, there has remained ample domestic opposition to continuous labour market liberalization. Competing hegemonic projects have complicated the path towards German labour market liberalization. Recently, Germany's coalition government has introduced a minimum wage in 2014 and pursued a 'policy orientation (…) of moderate re-regulation of the labour market and welfare state expansion' since the crisis (Eichhorst & Hassel, 2018, p. 116).

The combination of neoliberal Hartz reforms and German fiscal expansion had decisive impact on EU economic governance during the 2000s. Germany was among a group of EMU member states, notably France, which transgressed the rules of the SGP in the early 2000s. Instead of Germany and France facing the consequences of such transgressions, the credibility of the SGP was severely damaged and was waiting for reform (Munchau, 2004). Over the period 2002-2005, Germany and France consistently violated the SGP. In January 2002, the Commission had first proposed issuing an early warning for Germany (European Commission, 2002). In January 2003, the ECOFIN Council of finance ministers decided to support the Commission's recommendations on the existence and the need for action on an excessive deficit in Germany (Council of the European Union, 2003b). A similar process for France led to the Council decision in June 2003 on the existence and need for action on an excessive deficit (Council of the European Union, 2003c). Yet, at an ECOFIN meeting in November 2003, Germany and France blocked the Commission's recommendations to proceed with the Excessive Deficit Procedure and created an institutional crisis in the EMU. Having effectively suspended the SGP, France and Germany relied on a European Commission initiative to reform the fiscal framework for the currency union (Fischer et al., 2006).

Placing greater emphasis on medium-term budgetary balance, the EU reformed the SGP in 2005. The reformed SGP created 'the possibility, when assessing progress towards the medium-term budgetary objectives, to take account of structural reforms that are fiscally costly in the short run but yield longer-term gains in terms of growth and fiscal sustainability' (European Commission, 2008a, p. 10). The reform allowed domestic structural reforms to have short-term, negative fiscal effects, as reforms aimed at increasing the supply and flexibility of workers would now permit member states to transgress the 3% deficit rule. Further, the SGP was becoming an increasingly political and discretionary policy tool, and the reform watered down its original rules-based elements. In October 2008, before the full repercussions of the global financial crisis had reached Europe, the ECB concluded that 'the implementation of the [Stability and Growth] Pact has lacked sufficient rigour and political will' (European Central Bank, 2008, p. 64).

The 2005 SGP reform points to the contested nature of the neoliberal hegemonic project that dominated European integration in the 2000s. Given France and Germany's multiple transgressions of the deficit threshold, the reform was a relaxation of supranational neoliberal rules for the purpose of domestic political objectives. Yet, the reform did not weaken the neoliberal project. Multiple visions and ambitions for European economic integration guided Europe's leaders, and at times contradicted each other – after all, the neoliberal Hartz reforms were part of the reason why the SGP reform was initiated in the first place.

Germany's labour market reforms would eventually have decisive impact on the Eurozone crisis and its governance. Given the lack of a response from the EU institutions, Germany was not only able to suspend the EMU's fiscal rules, they were also able to profit off – and arguably contribute to – growing Eurozone imbalances through domestic labour market liberalizations. The interaction between the German government and the EU underpins the power and limitations to the neoliberal project in the early 2000s. The fact that a social democratic government would legislate to limit unemployment benefits and introduce new low-wage jobs shows testament to the growing importance of the neoliberal project at the time. However, the reforms also involved a fiscal stimulus that transgressed the EMU's rules on fiscal discipline and effectively forced European leaders to adjust EU governance. As such, German domestic politics opened up the space for suspending and relaxing the EMU fiscal rules in 2005. Over time, the liberalization of German labour markets also contributed to the crisis itself. Due to persistent wage depression, the export countries, Germany and most of North-western Europe, started to run 'persistent current account surpluses, and in turn capital account deficits, with their Southern Eurozone trading partners', who build up massive private and public debt as a result (Johnston & Regan, 2018, p. 149).

Whereas Germany registered growing current account surpluses during the 2000s, current account deficits were growing in Southern Europe, which in the latter case increased reliance on foreign credit for growth and consumption. As a result, the relationship between Germany (and neighbouring states) and Southern Europe took on an increasingly uneven character. The relationship between German economic restructuring and the Greek crisis serves to illustrate the dynamics of North-South relations in the Eurozone.

Greece entered the crisis era in an extremely vulnerable position. The most popular explanation for Greece's growing current account deficit focuses on wage and debt-fuelled inflation (Belke & Dreger, 2013). The actual development in Greek wages in the decades preceding the crisis stresses the importance of a class-relational perspective on the causes of the Greek and wider Eurozone crisis. When compared to the Euro-average - and despite above-average growth in productivity - Greece's political economy was overall characterised by relatively low wages and relatively low productivity. In itself, contrary to widespread belief, the growth in Greece wage and labour costs in the decade preceding the crisis could hardly constitute a competitiveness crisis. In the decade preceding the financial crisis (1998-2007), Greek nominal unit labour costs grew by an accumulated 22.4% (AMECO data). Only by taking into consideration the sources of Greece's *productivity crisis*, we can start to assess the causes of Greece's eventual fiscal and economic crisis (Dooley, 2018).

Further, by comparing Greece with Germany's extraordinary feat of depressing nominal unit labour costs in 1998-2007 we can better understand the relative crisis of the Greek economy. In Greece, the capitalist class was unable to raise profitability in the critical years of EMU, and the Greek corporate sector's competitiveness was falling behind Germany and core Eurozone member states. These trends suggest the importance of a class dimension to the combined crisis of competitiveness and debt in Greece. While centralised collective bargaining provided impetus for continuing wage growth in the public sector (Giordano et al., 2011), a very high level of self-employed and a business sector characterised by low-skill small and medium–sized businesses was unable to push up productivity and wages in the tradable sectors. Inevitably, a gap was opening up between the public sector and private sector wages

(Christopoulou & Monastiriotis, 2014). From the perspective of international competitiveness as well as fiscal prudence, 'large cuts in public wages and pensions [were therefore] inevitable', according to the European Commission's 2010 assessment (European Commission, 2010f, p. 15). Some economic studies have backed this up, finding Greece's public sector wage premium to be unexplainable, and thus concluding that 'the Troika's preoccupation with public pay reductions may be justified' (Christofides & Michael, 2013).

However, mainstream economic analysis of wage levels, and the wage premium for public sector workers, can justifiably be criticized for ignoring the key question of why private sector wages and productivity was unable to converge with European standards over the years preceding the crisis. There have been domestic-political, European-institutional, and broader-structural reasons for this unsuccessful convergence. First, as Dooley makes clear, the failed industrial modernization strategy of Papandreou's PASOK facilitated the emergence of the Greek debt-led growth model (Dooley, 2018). The failure of this strategy is both a symptom and a cause of Greece's inability to renew the competitive basis of their economy.

With German trade with southern Europe deteriorating over the decade preceding the financial crisis, Greece was unable to compensate through existing or new trade markets (Dooley, 2018). Therefore, Greece had to internalise the stimulation of aggregate demand through wage and debt growth. As public sector wages occupied a significant part of Greek total government expenditure, wage growth also complicated any efforts to install firmer fiscal discipline and reduce government debt. As has become evident during the period of severe austerity following the crisis, curbing and cutting wages have grave effects on the Greek economy.

While the competitive decline preceded Greece's membership of the Euro, the flows of cheap credit saturating the economy because of EMU financial integration helped push up Greek inflation rates (Baldwin & Giavazzi, 2015). Credit flows to the Greek economy did not primarily come in the form of productive investment but materialized through rapidly increasing levels of indebtedness of non-financial corporations and households, adding a surge in private debt to the existing problem of government debt (Ebner, 2013; Reinhart & Trebesch, 2015). To sum up, Greece's developments were indicative of the dynamics of European political economy: Greece's competitive decline mirrored Germany's competitive improvement, and as a result, Eurozone imbalances started to build up.

4.5. Macroeconomic imbalances and hegemonic competition in the Eurozone

A consequence of the general pressure on labour costs in Europe, wage-led aggregate demand diminished across Europe in the decades before the financial crisis. The continent witnessed a bifurcation of its economies into export- and debt-led growth models. The combination of financial deregulation and the fixing of exchange rates was of short-term advantage to debt-led growth models that attracted greater investment. Yet, European financial flows in the 2000s would rapidly increase public and private debt levels, and create sectoral bubbles, in southern Europe. Institutionally, the EMU reproduced the formation of export- and debt-led growth models by facilitating private credit flows from North to South. As Engelbert Stockhammer (2016, p. 370) states:

> *'The debt-driven and export-driven growth models (...) were in symbiotic relation, where credit-driven growth in the south pulled in exports from the north and Nordic trade surpluses were recycled as private credit flows to southern Europe, where they financed property bubbles and rising household debt.'*

In the first place, domestic strategies of wage moderation had facilitated the need for exports and debt to sustain Eurozone economic growth. How did EU institutions and political leaders react to the twin phenomenon of falling wage shares and growing divergence in labour costs between EMU member states? In line with critical integration theory, I here briefly outline an account of how competing hegemonic projects wrestled with the development in domestic wage levels and competitiveness in the decade before the crisis. Arguing that the pro-European social democratic and neoliberal forces settled on the dual strategy of competitiveness and employment, this section then focuses on wage policy recommendations issued under the Broad Economic Policy Guidelines (BEPGs) from 1998-2003. The next section then interrogates how this employment-competitiveness compromise fared under the condition of strengthened neoliberal hegemony in the immediate years preceding the financial crisis.

In the first years of the EMU, Europe's leaders showed little concern for the divergence among European labour markets, and their interaction with potentially dangerous financial flows. One indicator of the Eurozone's divergence that would eventually enter the centre stage of the crisis negotiations was unit labour costs. Essentially an indicator of the relationship between productivity and wage developments at the national level, it would become one of the key discussions in the aftermath of the financial crisis, and a cornerstone in the struggles to reform EU labour governance. Early on, European institutions attached little importance to role of divergent rates of unit labour costs across the common currency area. The Commission found that, '(i)n terms of unit labour costs, there is relatively little variation across the Union and, certainly, no tendency for unit costs to be lower in places where the average cost of employment is also low' (European Commission, 1997).

For neoliberals, European wage moderation in the 1990s and 2000s was a positive contribution to the project of restoring competitiveness. Yet, many major reform initiatives were taken by social democrats, hereunder by Schröder and Blair's governments. For the social democratic project, which wielded significant power around the turn of the millennium, talk of competitiveness was acceptable to the extent that it led to job creation. Further, once the premises of the single market and the common currency had been accepted, social democrats largely saw their role as ensuring employment under the conditions of market liberalization and fiscal discipline. Examples of this new devotion to a neoliberal context of European integration include the Delors Commission's commitment to fiscal discipline and supply-side reforms as well as the Blair and Schröder's belief in individual, rather than collective responsibility for social and economic wellbeing (Blair & Schröder, 1998; European Commission, 1993). In line with this reasoning, wage moderation, welfare reforms, and deregulation were acceptable policies if followed by a political commitment to new jobs.

Underpinning the social-neoliberal compromise on competitiveness and employment was the promise of the EMU to deliver real convergence in living standards. That is, if poorer member states made sure to abide by the rules of fiscal discipline, economic integration under the EMU would make wages and living standards approach those of North-West Europe. Therefore, European leaders would be hesitant to treat the divergence in wage developments as anything but an element of real convergence.

The seminal contribution of Blanchard and Giavazzi (2002) did much to bring academic evidence to settle the consensus of neglecting the growing divergences in wage developments and current account imbalances. For Blanchard and Giavazzi, current account imbalances and competitiveness divergence should be treated with 'benign neglect', because the accelerating current account deficits in the Eurozone in the early 2000s were caused by successful economic, financial, and monetary integration (Blanchard & Giavazzi, 2002).

In essence, the economic argument goes, as poorer countries with higher growth rates get easier access to cheaper goods, services, and credit abroad, their current account deficits grow. Not only does cross-border trade increase, domestic savings are falling and investment increases. Growing trade and investment make a positive contribution to economic growth but inflates the current account deficit. For lower-income countries, current account deficits may be considered benign if they can be explained by the 'catching-up effect', where growing deficits are natural phenomena for open economies catching up and converging with its richer trading partners. Consequently, Blanchard and Giavazzi argue that while 'benign neglect [of the growing deficits] may not be optimal, it appears to be a reasonable course of action' for EU policy-making (Blanchard & Giavazzi, 2002, p. 186).

From this perspective, benign neglect of wage and current account deficits was necessary to allow the monetary union to bring about economic change in the poorest countries. Countries like Portugal and Greece, who exhibited growing and persistent current account deficits, exemplified 'exactly what theory suggests can and should happen when countries become more closely linked in goods and financial market' (Blanchard & Giavazzi, 2002, p. 148). Instead of tackling imbalances, in the decade preceding the financial crisis, the EU rolled out a strategy of wage moderation, even where such a strategy would be counterproductive to macroeconomic stabilisation.

The main framework for EU wage strategy in this period was the Broad Economic Policy Guidelines (BEPGs). Member states had explicitly ruled out EU competence in the area of wage policy in the Social Protocol of the Maastricht Treaty. Through the BEPGs, the EU focused on global or absolute competitiveness, while neglecting relative competitiveness and macroeconomic imbalances within the Eurozone. In line with the hegemonic compromise at the turn of the millennium, competitiveness was the means to achieve job creation, rather than an end in itself.

In 1998, the Council approved the first set of BEPGs. Member states committed to pursue a 'growth- and stability-oriented' macroeconomic strategy, which required of governments and social partners to 'make all the required efforts to support the stability objective of the single monetary policy' (Council of the European Union, 1998, p. 26). Even prior to EMU, price stability had already been a key monetary policy objective in most capitalist economies (Bernanke & Mishkin, 1997). The price stability objective meant keeping inflation below 2%, as specified by the ECB's governing council in 1998 (European Central Bank, n.d.). Having set price stability as the precondition for macroeconomic policy-making, EU member states would remain vigilant against increases in real wage developments exceeding productivity growth, given the close correlation between unit labour costs and inflation (Flassbeck & Lapavitsas, 2015).

The BEPGs most of all represented a forum for the dissemination of macroeconomic ideas. Together with EES, and from 2000, the Lisbon Strategy, the BEPGs developed a strategy for wage and labour market governance based on positive experiences primarily in core Eurozone member states, as well as the UK. For instance, based particularly on the Dutch experiences, the social-liberal agenda of 'flexicurity' gained prominence in EU economic governance during the 2000s (Viebrock & Clasen, 2008; Wilthagen & Tros, 2004). Flexicurity prescribes a socio-economic model that combines labour market flexibility with social security. The social security dimension necessitates a relatively expensive welfare state, arguably made difficult under the conditions of fiscal discipline, particularly so since the crisis (Hastings & Heyes, 2018) Around the turn of the century, a clear strategy for wage moderation developed through the BEPGs. Member states agreed to keep ‘nominal wage trends consistent with the price stability objective’, with the objective of keeping ‘real wage developments’ in line ‘with increases in productivity’ (Council of the European Union, 1998, p. 26).

While the BEPGs consistently argued for the importance of keeping wage developments in line with productivity, the implicit message of the BEPGs was to encourage wage moderation that would cause redistribution from labour to capital as productivity increased. For the EU, productivity growth should define the ‘available room for real wage developments’ but the latter did not need to mirror the former (Council of the European Union, 1998, p. 31). Thus, the BEPGs disseminated the idea that coordinated efforts were required to secure a general redistribution of income from labour to capital in order to improve competitiveness. Therefore, governments and social partners were expected to ‘take into account the need to strengthen the profitability of investment in order to create more jobs’ when negotiating wage developments (Council of the European Union, 1998, p. 26). The BEPGs did not encourage generic liberalization of all labour market institutions, but rather the mobilisation of these institutions for the purpose of redistribution away from labour. Part of this strategy was also to encourage greater wage differentiation. Wages should ‘properly reflect productivity differences across skills and local labour-market conditions’ (Council of the European Union, 2003, p. 65). In other words, the EU encouraged greater redistribution away from labour *in general*, and away from low-skill, low-productivity labour in particular.

The priorities of strengthening profitability and differentiating wages also applied to countries where wage moderation was already the practice. The wage moderation and differentiation strategy applied to countries on divergent trajectories. At a time when Germany’s unit labour costs were trailing far behind the inflation target of 2%, the BEPGs warned Germany that ‘labour costs of low-skilled workers or people in depressed regions risk exceeding their productivity due to the application of coordinated tariff wages’ (Council of the European Union, 2003a, p. 73). Thus, the BEPGs recommended Germany to deregulate labour markets and lower wages for job starters in order to activate low wage earners (Council of the European Union, 2003a, pp. 73–74). Experiencing more gradually rising unit labour costs, Spain and Italy received similar policy recommendations (Council of the European Union, 2003a, pp. 78, 85).

Of the EMU member states, Greece's labour markets caused particular concern. According to the European institutions, Greece had had a consistent problem with implementing structural reforms that would strengthen its supply-side institutions, such as the employability of its unemployed workforce, and fiscal consolidation in the decade preceding the crisis. Starting with the 1998 Broad Economic Policy Guidelines, the Council had consistently pushed for expenditure cuts, privatisation, public sector reform, and social welfare reform (Council of the European Union, 1998). The Council underpinned the importance of labour market reforms aimed at enhancing the flexibility of contracts and working hours in the 1999 BEPGs, and recommended 'loosening restrictive employment protection legislation' through 2001-2005 (Council of the European Union, 2001, p. 85, 2002, p. 93). Through 2000-2005, the Council further recommended reform of the wage formation system to avoid excessive wage inflation and align wages with productivity.

Despite the concern over Greece's labour markets, European institutions mostly assessed Greece's economic development positively in the lead-up to the crisis. In particular, the European Commission noted that Greece had 'performed well over the period' since 1999, with its total factor productivity outperforming the Eurozone average in the same period (European Commission, 2008a).

4.5.1. Neoliberal domination and the growing concern for imbalances

In the first decade of the new millennium, social democrats' political fortunes changed. The political development and the change of leadership in all EU institutions strengthened the power of the right wing EPP and neoliberal economic and monetary visions. At the domestic level, a number of major governments shifted left to right, which also altered the composition of the European Council and the Councils. Examples include the Italian 2001 general election that allowed Silvio Berlusconi to replace the centre-left Olive Tree coalition, and the formation of the grand coalition in Germany after the 2005 election, led by Chancellor Merkel. In 2003 came the appointment of the Bank of France Governor Jean-Claude Trichet to replace Wim Duisenberg, a former Dutch Labour minister, as President of the ECB. Finally, the EPP group's strong performance in the 2004 European Parliament election led to the nomination and approval of José Manuel Barroso.

Within this context of a significantly strengthened neoliberal project in the EU institutions, European leaders eventually came to terms with the dangers of macroeconomic imbalances. The dominance of the neoliberal project is mirrored in the emphasis on market-based solutions to the problem of Eurozone imbalances. Reviewing the EU economic development of 2006, the European Commission assessed EMU member states' capacity in adjusting to 'to country-specific economic disturbances' (European Commission, 2006, p. 5).

In the report, the Commission analysed 'the marked and persistent divergence of growth and inflation among euro-area economies' and 'what factors lay behind such divergences' (European Commission, 2006, p. 5). The analysis found that with wages and price levels being too sticky to adjust adequately to economic shocks, under-performing countries like Italy and Portugal need 'further structural reforms (…) to increase the responsiveness of domestic prices to shocks', with action 'required in labour markets' (European Commission, 2006, p. 7).

At the time of the outbreak of the US financial crisis in 2007, the political momentum in EU labour governance was strongly in favour of the agenda of liberalization (Zeitlin, 2008). This momentum in turn reflected the long-term reconfiguration of European welfare states in the era of global economic liberalization (Jessop, 1993; van Apeldoorn & Hager, 2010). Despite the general streamlining and strengthening of neoliberal EU policies in the years preceding the crisis, EU labour governance was made up of mostly voluntary policy instruments aiming to speed up domestic processes of liberalization (Bruff, 2017; Erne, 2008). There was, in short, no effective framework for governing wage developments and ensuring greater convergence among EMU member state economies.

In economic terms, the divergence inside the Eurozone between the export-led growth models of the north and the debt-led growth models of the south had intensified. Since 2003, German nominal unit labour costs had contracted, pushing Germany's already competitive labour market further away from its southern European counterparts. As the macroeconomic imbalances of the Eurozone accelerated in the run-up to the financial crisis, the pressure was building on EU leaders to act. Benign neglect, happily taken up on the advice of Blanchard and Giavazzi (2002) was no longer an option. Yet, as the 2006 European Commission report on adjustment capacities reflects, there was considerable resistance to reinforcing EU labour governance. A sentiment prevalent in Europe's business community and among many policy-makers on the right, there was a strong faith in the ability of market forces to enact the necessary pressure on domestic workers and policy-makers. Firmer European-level labour market governance, it was feared, would become a vehicle not for liberalisation but for regulation and red tape at the supranational level (Erne, 2008).

The policy recommendations in the 2006 European Commission report reflected the neoliberal resistance to firmer governance of labour and wages at the EU level. The recommendations for EU-level policy action focused on financial integration and the 'development of a shared understanding of wage, price and competitiveness trends' among

Eurozone governments (European Commission, 2006, p. 9). While the latter was already part of the Lisbon strategy, the report urges policy-makers to continue the work to improve financial integration (European Commission, 2006, p. 10). At the domestic level, the report advocates a now familiar combination of fiscal consolidation and structural labour market reforms to foster economic convergence within the Eurozone. Yet, the lacking ambition for EU-level governance reform reflected neoliberal policy-makers' firm believe in market-based adjustment. With the 2006 report's strong emphasis on deepening financial integration as a means of macroeconomic stabilisation, the EU approach to wage and labour governance was strongly in line with classic neoliberal preferences for market-based and -enhancing policies. Comparatively, the Commission paid little attention to demand management and the important role of labour market institutions in providing stability.

Given EU institutions' reluctance to contemplate a non-market-based framework for governing Eurozone wages, imbalances, and divergence, expressed by the Commission as late as 2006, a remarkable shift in preferences took place in the years around the financial crisis of 2008. By 2010, there was broad support among EU leaders and institutions for a macroeconomic governance framework to include labour governance in the EMU. The intermediate period marked an end to the neoliberal hegemonic project's laissez-faires approach to EU labour governance. The rest of this chapter analyses the formation of this new interventionist urge.

4.6. The changing role of wages from crisis to governance reform

The financial crisis allowed for reforms to EU labour governance that had hitherto not been possible. By 2010, macroeconomic imbalances, and their relationship to Eurozone wages and competitiveness, stood at the centre of negotiations on a new framework for economic governance in the EMU. The analytical work that would place macroeconomic imbalances at the heart of the Eurozone crisis management negotiations took place under the anniversary evaluation of the EMU for the 'EMU@10' report published in May 2008. In an otherwise mostly celebratory evaluation of the first decade of the Euro, the Commission warned that the Eurozone's productivity growth was falling behind that of other developing countries (European Commission, 2008a). Analysing this report in detail, the following section shows the efforts of the Commission to promote a response to the accelerating macroeconomic imbalances inside the Eurozone. The Commission had several tasks. First, it needed to convince European leaders of the severity of macroeconomic imbalances. Second, it should align the project of macroeconomic imbalance governance with the EU's existing macroeconomic governance agenda to avoid unnecessary political disruption. Third, it should propose a new framework for governing imbalances that could fit within the existing EMU institutional structure to avoid any need for Treaty change – at the time, European leaders were still in the process of finalising the revised Lisbon Treaty after the traumatising experiences of introducing a European constitution. The solution that the Commission found to these three problems was to align the governance of imbalances with the agenda on competitiveness and propose a revised EMU framework that would extend to macroeconomic imbalances.

As the 'unwinding' of global imbalances spilled over into the Eurozone in 2007 (European Commission, 2008a, p. 3), the Commission noted how the 'substantial and lasting differences across countries in terms of inflation and unit labour costs' would require 'long periods of adjustment' to restore competitiveness (European Commission, 2008a, p. 6). The Commission identified some member states' deteriorating competitiveness as the result of 'comparative productivity decline along with an increase in relative wage' (European Commission, 2008a, p. 60). Further, the Commission found that member states' labour market flexibility was too weak to 'offset the loss of adjustment capacity through the more flexible nominal exchange rates' and that market-driven adjustment in price and wage levels to correct imbalances was too slow (European Commission, 2008a, p. 60).

In response to growing divergence between member states in terms of competitiveness, the Commission started advocating 'enhanced surveillance' of macroeconomic imbalances, which 'would help the affected countries to devise early responses before divergences become entrenched' (European Commission, 2008a, p. 9). The Commission was increasingly concerned by the EMU's lack of adequate governance instruments to coordinate member states' necessary economic adjustments. The challenge of growing 'cross-country externalities between policy actions' requires stronger coordination of economic policies 'also in the area of structural reforms.' Yet, the existing framework was absent 'of strong forms of policy co-ordination in the area of structural reforms' (European Commission, 2008a, p. 264).

The report symbolised the beginning of the end to the neoliberal hegemonic project's hesitant approach to the direct governance of imbalances and labour markets in the Eurozone. Linking macroeconomic imbalances to lacking structural labour market reforms, the Commission made the governance of imbalances a question of restoring competitiveness. The mounting evidence that 'joining the euro area has not motivated Member States to accelerate the pace of structural reforms' particularly worried the Commission (European Commission, 2008a, p. 264). Comparing EMU member states to non-EU industrialised economies, the Commission found that 'membership in the euro area has slowed down liberalization', and attributed the difference in the speed of labour market liberalization to the protection offered by a common currency (European Commission, 2008a, p. 52). Whereas fluctuating exchange rates were pushing states to pursue economic reform, 'the disappearance of the exchange risk may have tended to weaken the incentives for reform, notably in labour markets' (European Commission, 2008a, p. 88).

Because the EMU effectively operates as a buffer between domestic labour markets and the world economy, the Commission advised the EU to strengthen EMU governance to 'to extend surveillance to address macroeconomic divergences' (European Commission, 2008a, p. 252). The European Commission therefore proposed to put an end to the "benign neglect" with which imbalances had hitherto been treated: 'The weight of the growth and adjustment challenge in the euro area contrasts with the absence of strong forms of policy co-ordination in the area of structural reforms' (European Commission, 2008a, p. 263). The purpose of an extended surveillance system at the EU-level would be to incentivise a set of familiar domestic policy priorities, not least structural labour market reforms. The Commission envisioned a reform to European economic governance that could 'reinforce the tool of peer review to encourage Member States undertaking adequate measures to address competitiveness problems' (European Commission, 2008a, p. 258).

Putting pressure on member states to address competitiveness, the Commission pushed for a solution that would make labour markets a much more central vehicle for adjustment in case of exogenous shocks. If a Eurozone member state is hit by a demand shock, 'price and wage flexibility are key for efficient intra-area adjustment in the absence of internal exchange rates' (European Commission, 2008a, p. 180). In other words, as long as wages are set by institutional agreements and legislation, and not by market forces, Eurozone member states in crisis will be unable to adjust.

The Commission stressed that the objective of labour market liberalization was not intended to start a race to the bottom on wages. If member states started pursuing aggressive wage reductions, this would resemble 'beggar-thy-neighbour' policies that could potentially destabilise the Eurozone economy (European Commission, 2008a, p. 238). Beggar-thy-neighbour designates deliberate policies intended to stimulate exports through currency devaluation or wage reduction. Within a common currency union, beggar-thy-neighbour policies can logically only take place through wage reduction. As a result of the fixed exchange rate, and the relatively closed economy of the Euro area, they are also considerably more dangerous for other countries (Flassbeck & Lapavitsas, 2015). Economists and other observers have warned about dangers of beggar-thy-neighbour policies in the Eurozone since the launch of the Euro (The Economist, 2007; Tilford, 2010).

The Commission expressed concerns about the use of wage reduction and internal devaluation as a crisis management tool. Concerted efforts to reduce costs could have significant negative spill-over effects in the case of a crisis:

> *‘Countries that are adjusting to a negative shock may be tempted to resort to "competitive devaluation" policies. However, this would have a negative impact on the trade balance of partner countries, which may be induced to respond in a similar fashion. Coordination in this area serves to contain such beggar-thy-neighbour behaviour’* (European Commission, 2008a, p. 238).

Despite the identification of the potential problems with ‘competitive devaluation’, the Commission reiterated long-standing EU agenda of competitiveness, using the acceleration of imbalances to highlight the dangers involved in slowing down labour market liberalisation. Beyond general liberalization, including the decentralization of wage bargaining, the Commission stressed that addressing productivity was not enough to tackle imbalances. Instead, member states should directly address the problem of wages, which unlike productivity, ‘are potentially subject to policy influences… Public wage agreements, minimum wages, labour taxation, moral suasion and, in countries where they exist, tripartite agreements are possible channels through which governments can have an impact’ (European Commission, 2008a, p. 262).

To sum up, the report called for an enhanced EU framework for the governance of the Eurozone’s labour markets and wages. The enhanced framework should help government strike a balance between the necessary devaluation of wage levels and ‘competitive devaluation’, which was to be avoided. The rise of political attention to macroeconomic imbalances did not precede a straightforward neoliberal trajectory in EU labour governance. Rather, it altered the way the terrain of EU labour governance took part in hegemonic competition. Over the following decade, substantial political contestation would take place over the exact meaning of macroeconomic imbalances, and especially their relationship to labour markets and wages. Chapter 5 discusses hegemonic competition in the post-crisis EU framework.

Intra-Eurozone macroeconomic imbalances - previously thought of as insignificant – thus began to dominate EU policy-making discourse around 2008. Having identified imbalances as a major threat to Eurozone stability, EU institutions found it pertinent to ensure that the EMU regulatory and institutional framework was capable of effectively dealing with the relevant imbalances. The unfolding of the financial crisis in 2007-08 coincided with efforts at strengthening EMU and EU economic governance based on the Commission's identification of persistent 'inadequacies in the prudential framework and crisis management procedures at the EU level' in the case of currency or financial crises (Commission 2008, p. 100).

In the face of the crisis, the EU maintained the strategy of macroeconomic liberalisation, such as labour market and wage deregulation, for improving competitiveness. At the same time, reaching agreement on the importance of macroeconomic stabilisation, the EU launched a strategy with the purpose of a stronger coordination of Eurozone wages. The integration of these two objectives into a single strategy, took place in the context of a strengthened centre-right majority in Europe. This majority represented the neoliberal preference for minimalist EU level governance, which sought to achieve stabilisation through disciplinarian policies and avoid more costly stabilisation measures.

However, the EU's immediate response to the financial crisis, once the latter started to show its severe and detrimental effects on the real economy in Europe, was to coordinate a recovery framework between the EU institutions and member states. The efforts to coordinate economic recovery are reflected in the Commission Communications of 29 October and 26 November 2008 (European Commission, 2008c, 2008d).

The economic crisis recovery plan sought to add additional layers of fiscal stimulus and crisis management on to the existing macroeconomic and fiscal policy coordination frameworks, including the Lisbon Strategy and the SGP. In early 2008, the unfolding financial crisis was mostly perceived and referenced to as the US 'subprime crisis' and the spilling-over of 'financial turbulence' (European Commission, 2008a). While EU institutions maintained the exogenous nature of the crisis, events over the summer and early autumn of 2008 revealed how 'the shocks hitting the European economy' reduced the expected 'potential growth rate in the medium term and [expected] actual growth significantly in 2009 and 2010 (European Commission, 2008c, p. 2). In response, the Commission outlined a recovery plan 'proposing major injection of purchasing power into the economy, to boost demand and stimulate confidence,' combined with 'direct short-term action to reinforce Europe's competitiveness in the long term' (European Commission, 2008d, p. 2).

The Commission stressed that those member states 'that took advantage of the good times to achieve more sustainable public finance positions and improve their competitive positions have more room for manoeuvre now' (European Commission, 2008d, p. 7). For member states with manoeuvre to act, the Commission proposed measures that would directly stimulate private consumption, such as temporarily increased 'transfers to the unemployed or low-income households, or a temporary lengthening of the duration of unemployment benefit' (European Commission, 2008d, p. 9). Conversely, financial pressures had pushed member states with less fiscal space, relatively higher inflation rates, or continued competitiveness problems, to 'reinforce the link between the wage setting mechanism and productivity developments' (European Commission, 2008d, p. 10). The EU supported that 'complacent' member states embarked on such a process of internal devaluation.

In the recovery phase of 2008-09, the concern for macroeconomic imbalances as a major threat to the Eurozone's economic stability was a prominent feature in the Commission's economic policy-making, as reflected in the Communications in Table 4.2 (Appendix). As for wages, the Commission's concern for inflation was manifest in the repeated emphasis on the urgent need to 'reinforce the link between the wage setting mechanism and productivity developments' (European Commission, 2008a, p. 10) and reverse 'accumulated wage and cost divergences' (European Commission, 2009a, p. 7).

As such, the general emphasis through the crisis phase remained on wage moderation. Yet, in a number of Communications, the Commission also addressed the role of wages in maintaining wages and alleviating poverty (see Table 4.2 in Appendix). The crisis-induced slump in income and demand made efforts to support income 'at the lower end of the labour market' (European Commission, 2008c, p. 7) and increase 'transfers to the unemployed' (European Commission, 2008a, p. 8) a high priority. However, this priority should be compared to the Commission's expressed concern for the 'significant disincentives against entering the labour market' that ran the risk of making welfare more attractive than work (European Commission, 2008d, p. 4). Therefore, fiscal stimulus and increased direct transfers to low-income groups should be 'accompanied by structural reform measures' to promote active labour market policies and tax and benefit reforms (European Commission, 2008c, p. 5).

Having identified the potentially devastating effects of intra-Eurozone imbalances, EU policy-making turned focus on identifying and acting upon macroeconomic imbalances, both as a mean to manage the escalating crisis stemming from the financial crash of 2007-08, and as a mean to establish the institutional foundation for withstanding future financial and economic crises. This would also involve a change in the mode of governance of Eurozone member states' wage policies, with the new framework for economic governance enabling EU institutions to target potentially inflationary wage developments in case of macroeconomic imbalances.

The proposed changes to the governance framework effectively sought to carve out a single strategy for addressing the Eurozone's macroeconomic imbalances and competitiveness losses. The Commission carefully presented the proposed changes as enhancing the Eurozone's economic stability and improving its economic performance. This integration of the governance of competitiveness and imbalances took place in a midst of major macro-structural changes. Significantly, the single-most pertinent issue in monetary policy-making before the crisis was that of ensuring price stability against inflationary pressure. Since the financial crisis, upwards inflation has ceased as a policy concern all together, as Europe has instead struggled with severe *deflationary* pressure. The new EU economic governance framework did much to target the problem of pre-crisis inflationary pressures, but has been less relevant for addressing the post-crisis European economic conditions of stagnation and deflation (Green, 2018).

After a brief period of coordinated economic stimulus in response to the global financial crisis, European leaders became increasingly worried about the levels of fiscal deficits, public debt, and current account deficits during late 2009 and early 2010. The Commission increasingly emphasised member states' need for adjustment and structural reform as part of the wider process of fiscal consolidation in response to the stimulus packages of 2008-2009 (e.g. European Commission, 2010k; table 4.3 in Appendix). The call for fiscal retrenchment was accompanied by the identification of 'a broad range of policy issues covering macroeconomic policies, wages and labour markets' in need of immediate and sustained political action (European Commission, 2010g, p. 4). Specifically, the Commission stated, '(m)ajor policy reorientation is needed to bring about the necessary adjustment in terms of costs and wages' (European Commission, 2010k, p. 4).

When the financial crisis took a more forceful toll at Europe starting in late 2009, many political leaders drew the lesson that EU economic governance had proved too 'soft' and required substantial transformation (e.g. Barroso, 2014). The crisis of the common currency reignited the debate over the appropriate role of the EU economic governance: should it be confined to regulatory activities or resemble a proper government with greater redistributive power (European Trade Union Confederation, 2011; Sinn, 2010)? At this point of the crisis, European leaders struggled to reach conclusive agreements on solving the crisis, and German domestic politics would again influence European-level reforms. German politics delineated the strategic options for Merkel's government, often reinforcing the Chancellor's own reservations against decisive interventions and sweeping reforms. Significantly, the 2009 federal election made the Euro-sceptic, libertarian Free Democratic Party (FDP) Merkel's coalition partner. A result of the Christian Democratic Union's (CDU) enhanced role in the new government, the strict fiscal conservativism of Wolfgang Schäuble shaped the government's fiscal policy stance. In addition, a 2009 ruling in the German Federal Constitutional Court 'circumscribed the future autonomy of the Federal Government in European policy' (Paterson, 2011, p. 66). Together, these events in German politics highlighted the dominance of the neoliberal hegemonic project.

4.6.1. Greece's crisis and the quest for European reform

The unfolding of the Greek crisis in 2009-10 played a decisive role in strengthening the case for the programme of crisis management pushed by the neoliberal hegemonic project: combining fiscal consolidation and structural reform. The timing and character of the Greek crisis was, in words of an EU civil servant interviewed for this research project, 'a bit of a bad luck in political terms' (Interviewee #14). Given Greece's multiple crises of debt and competitiveness, it shaped the crisis response around the central mantras of austerity and structural reform. In the words of the civil servant, the lessons were: 'you have to bring your fiscal house in order, and you have to restore your competitiveness' (Interviewee #14).

After 4 years in opposition, PASOK regained power in October 2009. At this point, what initially appeared a North-Atlantic and liberal-Anglo financial crisis was quickly driving the Eurozone economy into ever-deeper recession. While in 2007 and early 2008, the epicentre of the financial crisis was firmly on American ground, its entry into Europe was marked by the nationalisation of UK bank Northern Rock in February 2008 and the bank bailouts of three major UK banks in October 2008. The nationalisation of Ireland's Anglo Irish in January 2009 bank helped turn the Eurozone crisis 'into its full-blown phase characterized by highly intertwined financial and sovereign shocks' (Mody & Sandri, 2012, p. 203). The Eurozone financial crisis was in other words already in 'its full-blown phase' when Greek PM George Papandreou and Finance Minister Papakonstantinou made public the severity of the Greek public deficit.

While the Greek sovereign debt crisis was not the beginning of the Eurozone crisis, the state of the Greek public finances led Greece to make austerity a central crisis management strategy – at a time when Keynesian stimulus programmes still dominated the policy agenda across Europe (Seccareccia, 2011). Within months of the PASOK government gaining power, the Greek parliament had approved three austerity packages to curb government deficits, with the government further pledging to enact comprehensive structural reform of labour and product markets. The hope of the Greek government was that fiscal contraction could guarantee Greece's access to credit in global financial markets. The inability or unwillingness of previous

Greek governments to maintain proper accounting systems and report correct fiscal statistics undermined the PASOK government's efforts to regain investor confidence.

At the European level, there was insufficient political unity to make interventions into the Greek crisis in a swift and forceful way. While European leaders mostly realised the importance of the Greek debt crisis, they were reluctant to intervene in a manner capable of avoiding the prolonged Greek and economic recession to follow. In effect, the ECB initially restrained itself from expansionary monetary policy in the style of the US Federal Reserve, political leaders rejected calls for early financial assistance with IMF involvement, and few were willing entertain the idea of significant debt restructuring (Tooze, 2018). The French government and the ECB expressed particularly strong reservations against IMF involvement and debt restructuring (Tooze, 2018).

Rather than an early and timely intervention involving substantial debt restructuring, EU member states entered into a prolonged period of stalemate over the conditions for European financial aid to Greece. After the German government turned to support IMF involvement, and used this as a precondition for a Greek bailout, the European leaders could finally reach an agreement in March 2010. The agreement reached suggested that Greece was loaned money to keep the country solvent, but under harsh conditions of austerity and structural reform. In chapter 5, I discuss the consequences of these conditions for Greece's political economy.

Shortly before the agreement to bail out Greece in March 2010, the European Commission had proposed the Europe2020 strategy to replace the Lisbon strategy as the EU's 10 year agenda for social and economic policy priorities (European Commission, 2010e). As Kenneth Armstrong notes, the agenda for Europe2020 'was being pulled in different directions' (Armstrong, 2012). Europe 2020 placed the objective of social inclusion on equal footing with growth, innovation, and business opportunities. Yet, from the point of view of many trade unions, Europe 2020 did not provide a roadmap for exiting economic recession (European Trade Union Confederation, 2013).

Following the Europe2020 agenda, the EU's governance framework for wages and labour was substantially reformed in the period 2010-2011, with the introduction of the European Semester of economic governance and the MIP. This formed part of a larger reform of the EU economic governance framework which also included a revision of the SGP and a clear procedure for financial support to Eurozone member states in crisis (European Commission, 2010k). The European Commission and the European Council reached similar conclusions on Europe's needs: strengthen the governance of fiscal discipline, broaden economic governance to include macroeconomic imbalances, and create a '(r)obust framework for crisis management' (Task Force on Economic Governance, 2010, p. 2). Later, in 2011, the European Council adopted the Euro-Plus Pact to moderate wages, improve competitiveness, and align taxation (European Council, 2011a, pp. 13–20).

On the negotiations over new EU economic governance, consensus had formed around the need to broaden EMU governance from fiscal to macroeconomic policy. A revised governance framework should aim at preventing and correcting "macroeconomic imbalances, including deteriorating competitiveness trends" by addressing, among other things, domestic wage policies (European Commission, 2010h, pp. 4, 9). Engineered by the European Commission, EU emphasis would turn increasingly towards the importance of fiscal consolidation, structural reform, and wage moderation, and away from stimulus and social protection. Therefore, the inherent tension between the competing objectives of wage moderation and income protection became increasingly pronounced over the period of 2010-2011.

Facilitating the strategy of wage moderation, as it had developed in the pre-crisis era, the European social-democratic hegemonic project had accepted wage moderation in return for growth and employment. When the crisis hit, and growth and employment plummeted, the compromise on wage moderation proved fragile. The main competing view came from agents with more neoliberal preferences. From the perspective of neoliberals, linking wage developments to productivity growth was not enough. For them, the crisis had revealed the unsustainability of Europe's models of regulated labour markets and social protection. This view was outlined in no uncertain terms by ECB President Draghi, when he declared that the European social model was 'gone' (Blackstone, et al., 2012).

The negotiations over the design of the MIP proved difficult; while agreement had consolidated on the need for reinforced governance, disagreement persisted on the design of the reinforced framework. Former EU President Van Rompuy's Task Force on Economic Governance initially endorsed the Commission's plan for the MIP in October 2010 – but the European Parliament and the Council did not adopt the revised legal regulations until November 2011 (European Union, 2011).

The political and institutional context, with centre-right majorities in the Councils, influenced the disciplinarian design of the European Semester and the MIP. More expansive tools of macroeconomic stabilisation, such as the proposed introduction of Eurobonds, were non-starters in this climate (Matthijs & McNamara, 2015). The MIP involved an asymmetric approach to macroeconomic imbalances. An imbalanced, export-led growth strategy with current account surpluses and stagnant wages is more permissible than a debt-led strategy with current account deficits and rising labour costs. This reflects in the asymmetric thresholds for current accounts in the MIP scoreboard.

The MIP also involved potentially great concentration of power in the Commission, who could determine the severity of imbalances, detailing policy recommendations, and propose financial sanctions in case of non-compliance – and the introduction of reverse qualified majority voting (RQMV) would complicate efforts by the Council to overturn the proposals. Through a new alert mechanism, the Commission should be able to detect potentially harmful imbalances and conduct in-depth reviews to determine their severity. If the in-depth review determines imbalances to be harmful, the member state in question is subject to a procedure involving national action plans and country-specific policy recommendations. In case of excessive imbalances, the EU can introduce an ‘excessive imbalance procedure’ in which member states are legally required to undertake policy action to address the problems, or ultimately face fines.

The MIP was a controversial piece of legislation as it mirrored the framework for EMU fiscal governance, and expanded the realm of legally binding policy recommendations to include social and employment policy and possibly wage questions (Scharpf, 2014). The prolonged negotiations on the MIP involved political contestation over the rules and the automaticity of the MIP. At the inter-institutional negotiations, there was ample disagreement on concrete elements of a new macroeconomic governance framework, but broad support for such a framework in general.

The Commission received support for the imbalance procedure from the ECB, the European Council’s van Rompuy task force, and in the European Parliament. The main controversies in the ensuing EU negotiations concerned the indicators on which member states’ macroeconomic performance would be evaluated, and the level of discretion offered to the Commission in assessing member state performance and compliance. The ECB preferred a very short list of indicators focusing exclusively on competitiveness (European Central Bank, 2010). The Commission and the European Parliament preferred a longer list of imbalances for a more encompassing approach to imbalances. The Parliament even wanted to address economic and social imbalances ‘on an equal basis’ through indicators such as environmental externalities and income inequality (European Parliament, 2011a). The compromise was a scoreboard of 10 indicators, with one ‘social’ indicator on unemployment.

Part of the controversy around the indicators also concerned the asymmetry of thresholds: while the Commission had proposed a current account imbalance threshold of 4%

of GDP for surplus and deficit countries, the final scoreboard had a 6% threshold for surplus countries. As for the Commission's discretion, the ECB and the Parliament both wanted a high degree of automaticity in the procedure. For the ECB, the preference was for a competitiveness procedure with bite, to ensure swift compliance for deficit countries. For the Parliament, the fear was that the most powerful member states would be de-facto exempt from the procedure. In the end, the Commission successfully argued that the procedure's legitimacy would stem from in-depth reviews in addition to broad surveillance, and that greater discretion was needed to assess member states' economic performance in depth. Therefore, the Commission should have discretionary powers to determine when member states were experiencing 'excessive imbalances', and when to escalate the procedure and enter the 'corrective imbalance procedure'. The MIP was set up as an in-complete contract, which has given the Commission significant room to adjust the scoreboard and selectively apply the procedure on member states (Karagiannis & Héritier, 2013).

Within the EU institutional negotiations to establish the MIP, the DG ECFIN had initially proposed a scoreboard of 'hard' macroeconomic indicators focusing on current accounts, real effective exchange rates, and investment positions (European Commission, 2010j). The Commission initially preferred a clear distinction between the MIP's task of governing imbalances, and the Europe 2020 strategy for economic growth. Hence, the MIP should target imbalances that reflect market or public policy failures that distort market equilibria. Conversely, Europe 2020 was the proper forum for addressing employment, growth, and social inclusion (European Commission, 2010i). In response to this narrow focus privileging economic concerns, the European Parliament proposed indicators on a range of social imbalances like unemployment and income inequality (European Parliament, 2011a). Reluctantly, the Commission included unemployment on the scoreboard of indicators of macroeconomic imbalances in the final proposal approved by the European Council in late 2011 (European Commission, 2011d; European Council, 2011b).

Ultimately, and on the insistence of the European Parliament, the institutional negotiations resulted in a greatly empowered Commission, which retained the power to determine and subsequently amend the scoreboard of indicators (European Union, 2011). Further, the European Parliament stressed the importance of limiting the Council's role in the application of recommendations and sanctions for member states (European Parliament, 2011b). Therefore, under the Excessive Imbalance Procedure (EIP), the Commission may propose financial sanctions under the provision of RQMV. In this case, the proposed sanction applies unless a qualified majority in the Council blocks the sanction.

4.7. Conclusion

The period from the introduction of the single currency in 1999, over the outbreak of financial crisis in Europe, to the process of reforming the EMU institutional framework in 2010-11 had brought with it a growing economic divergence between the Eurozone core and periphery. As this chapter has argued, the Eurozone's divergence arose from the diverse domestic responses to a set of interacting global and European structural processes. In particular, stakeholders in Europe's labour markets – trade unions, employers, governments – responded to the EMU's deflationary institutional framework and the forces unleashed by economic globalization. As highlighted in chapter 3, European labour markets had already transformed in the 1980s and 1990s through social pacts and government interventions putting Europe's economy on the path of wage moderation, income redistribution towards capital, and lower growth rates. In return, Europe's leaders hoped, Europe would achieve higher stability, greater convergence between different economic regions, and greater long-term growth prospects.

This chapter has argued that the result of wage moderation was not macroeconomic stability and real economic convergence, but the growth of finance and debt-led growth, increased financial and economic instability, and economic divergence. In the years after the introduction of single currency, macroeconomic imbalances started to build up in the Eurozone as the result of Europe's crisis of productivity, the redistribution of income from labour and capital, and the ensuing financialisation of the European economy. These macro-structural transformations posed a radical challenge for EU labour governance: it was simply unfeasible for EU labour governance to ignore the perverse effects of the EMU. Eventually, EMU divergence ended in the deep and prolonged Eurozone crisis.

Why was the EU unable to anticipate and act upon the worrying economic trends in the EMU? Based on critical integration theory, I have argued that competing hegemonic projects struggled to develop a comprehensive project of labour governance. In particular, an effective programme for tackling the EMU's tendency towards divergence would counteract the proliferation of coordinated wage moderation and pro-capital redistribution at the domestic level. The neoliberal hegemonic project, which shaped European integration in the years leading up to the crisis, aligned the emergent project of labour governance with the project of competitiveness, and sought to target the EMU's macroeconomic imbalances as a problem of competitiveness losses. Once the Eurozone crisis accelerated during 2009, wage adjustment surged to the top of the EU policy agenda together with fiscal discipline. As the Greek crisis evolved, there was quickly developing the idea that neoliberal adjustment of labour markets was a cure not only for the troubled Hellenic Republic, but also across the Eurozone.

5. Reform in the absence of hegemony

The preceding chapters 3 and 4 have deployed critical integration theory to analyse the evolution of labour governance in the EU since the Maastricht agreement on a single currency in December 1991. In particular, I have used the concept of competing hegemonic projects to highlight the recurring contestation around the kind of labour governance needed for a functioning monetary union. In chapter 3, I analysed how monetary integration was secured in the absence of a framework for governing Europe's diverse labour markets, and the emergence of a project for EU labour governance in the late 1990s. In chapter 4, I analysed the decade from the introduction of the euro to the most acute phase in the Eurozone in 2010, when debt crises were escalating across the Eurozone periphery and the work to reform EU labour governance had started. In this chapter, I analyse EU labour governance since 2010, where it has organised around the project of managing Eurozone imbalances by improving member states' competitiveness. The chapter approaches EU labour governance since the crisis from critical integration theory perspective by focusing on the relationship between competing hegemonic projects and practices of labour governance. The chapter argues that after the crisis, EU labour governance has reformed in the absence of hegemony, which prevents lasting, institutional transformations. In terms of implications, this means that post-crisis labour governance combines pre-crisis disciplinarian and managerial governance practices

5.1. Introduction

After the financial crisis, EU economic governance was shored up in an effort to restore fiscal discipline and accelerate labour market structural reforms among member states to ensure market confidence in the European project. Former President of the European Commission José Manuel Barroso warned that 'without public finances in order there will be no confidence' (Barroso, 2010). In line with the long-running EU discourse on competitiveness, Barroso condemned those European leaders who 'turned a blind eye to an underlying reality: that Europe's global competitiveness is slowly eroding.' Barroso therefore stressed the need for strengthening EU governance of structural reform. European leaders initiated a number of reforms to the Eurozone's governance framework. Some reforms addressed the governance of wages and labour markets, such as the procedure for rebalancing the economies of member state facing large macroeconomic imbalances - the MIP.

The purpose of this thesis is to analyse how and why EU labour governance has developed in the context of monetary integration and the Eurozone crisis. The contribution of this chapter is the analysis of EU labour governance in the wake of the Eurozone crisis. The thesis has progressed via a theoretical and conceptual discussion of the relationship between EU labour governance, European integration, and the EMU (Chapter 1 and 2), and an empirical analysis of the evolution of EU labour governance in relation to progress in European monetary integration since the 1980s (Chapter 3 and 4). The analysis in Chapter 4 ended with the reorganisation of EU labour and economic governance in response to the accelerating Eurozone crisis, which threatened the functioning of the EMU at large.

Turning to the analysis of the evolution in EU labour governance since the financial crisis, in this chapter I focus on the politics of governing wages and labour markets continent-wide, in key EMU member states, and in the peripheral member state Greece. Drawing on critical integration theory, I argue that an absence of deeper hegemony has shaped the recent evolution of EU labour governance. The effect of the Eurozone crisis has been to put creditor country governments more firmly behind the neoliberal project. This is because the EMU and the crisis have increasingly shaped the identity of EMU member state governments as representatives of either creditors or debtors. The new framework for economic governance established after the crisis expanded the realm of EMU governance from fiscal to macroeconomic policy. It represented an acknowledgement that fiscal prudence was not enough to stabilise the currency union. Yet, in its institutionalisation, it reproduced the disciplinarian framework of the SGP within the context of macroeconomic governance and combined this framework with the existing managerial framework of EU labour governance. The distributional effect has been that the EU's disciplinarian economic governance framework has put the main burden of adjustment on workers in southern Europe.

To substantiate this overall argument, I analyse the European Semester and the MIP as a new terrain for political contestation that offers the basis for political compromise in the absence of hegemony. Examining the durability of this compromise in light of its structural conditions, I argue that EU labour governance is unable to develop deeper hegemonic stability because it leaves fundamental questions of political responsibility unresolved. In particular, the new framework for EU labour governance maintains the EMU's institutional reliance on centralised monetary policy and decentralised macroeconomic responsibility. In effect, EU labour governance is unable to address the structural causes of the crisis in the first place, particularly the long-term contraction in wage shares and domestic demand, and the divergence of competitiveness within the EMU (Chapter 4).

Despite the instalment of a disciplinarian framework for labour governance, the power and coherence of the neoliberal hegemonic project has eroded. Yet, social democracy as a coherent alternative has not delivered. In response to the lack of (neoliberal) political hegemony for EU labour governance, the Commission has used its institutional prominence at the supranational level to emphasise the EU's social dimension. In particular, the Commission has mobilised performance management practices to the purpose of balancing competitive structural reforms for internal devaluation with uncontroversial structural reforms for training and social inclusion. The turn to consensual policy guidance under the EMU depends on political contingencies and economic cycles and allows for only superficial political compromises on relatively uncontroversial structural reforms and selective wage stimulation. In the absence of deeper political hegemony and transformations to the institutional structure of the EMU, current compromises are contingent on the 2016-2018 economic boom cycle, and therefore remain fragile.

The chapter is organised as follows. First, I outline a critical integration theory of the labour governance in the Eurozone crisis. Second, I analyse EU labour governance under the new economic governance (NEG) framework established in 2010-11 and discuss the strategies of actors located at the supranational level. Third, I discuss two futile efforts to transform EU labour governance more radically. Fourth, I compare EU labour governance in Germany, France and Italy, with labour governance in Greece. I end the chapter by concluding.

5.2. Critical integration theory, labour governance, and the EMU in crisis

EU labour governance has changed since the financial crisis, as reforms to EU economic governance have led to further EU surveillance of labour costs, unemployment, and more. The nature and consequences of the changes to EU labour governance divide observers. For Fritz Scharpf, the MIP was a particularly concerning development for European democracy, as it extended 'the Commission's supervision and control to an undefined range of national policy areas where the EU lacks hard-law competences' (Scharpf, 2014, p. 27). For Scharpf, post-crisis changes to EU governance solidified the 'priority of negative over positive integration, and the priority of saving the euro' over democracy (Scharpf, 2015, p. 385). Strengthening this line of reasoning, others have presented the EU's NEG framework as the culmination of a long process towards authoritarian constitutionalism, (neo)liberalism, or 'statism' (Bruff, 2017; Oberndorfer, 2015; Sandbeck & Schneider, 2014; Wilkinson, 2015). Europe's trade unions have also expressed concern (European Trade Union Confederation, 2011).

Yet, a number of policy-focused studies of the MIP and the European Semester have challenged the harsher assessments of the reinforced framework for governing wages and labour in the Eurozone (Bekker, 2015, 2018; Zeitlin & Vanhercke, 2018). They study the practice of EU governance through these institutions, and point to the non-hierarchical mechanisms involved. Zeitlin and Vanhercke emphasize how a process of 'progressive socialization of the European Semester' has involved a 'set of procedural developments, which have reinforced the role of social and employment policy actors in its governance' (2018, pp. 153, 158).

Sonja Bekker studies the issuance of country-specific recommendations (CSRs) to find that more than half of all recommendations 'address social and employment policy issues' (2015, p. 16). Bekker notes a procedural infusion of social and employment policy with economic governance, as the relatively 'hard' legal instrument of the MIP frequently addresses social and employment policies. While this may seem to support Scharpf's suspicion that the Commission 'controls' social policy, Bekker concludes that the MIP does not 'neglect the social dimension, and suggests a potentially constructive role for various social actors in the future development of the procedure (2015, p. 17). David Bokhorst, in his thesis on the MIP, emphasises the non-hierarchical mechanisms in the relationship between the Commission and member states. Commenting on the divergent opinions mode of governance and the content of the MIP, Bokhorst asserts the importance of judging the MIP on its practical implementation rather than its legal basis (Bokhorst, 2019).

At the level of institutional analysis, this chapter assesses the evolution of the EU's NEG framework of the European Semester and the MIP. The existing studies of the European Semester and the MIP suggest a two-dimensional institution. One dimension is the MIP's legal basis, which implies that member states defying the Commission's MIP recommendations, once the Council approves them, may receive financial sanctions. Given the MIP scoreboard's strong focus on cost competitiveness, this could also occur in policy areas such as wages in which EU has limited competence. Scharpf and other political economists have emphasised this dimension. The other dimension concerns the practice of MIP governance, in which the governance of wages and labour operates in a less hierarchical fashion and involves a wide range of actors, including experts, civil servants, and social actors.

Here, I stress the importance of a third dimension. In addition to the disciplinary legal basis and the non-hierarchical policy mechanisms, the post-crisis EU labour governance also builds on managerial policy practices, particularly benchmarking. In particular, the MIP centres on a scoreboard of macroeconomic indicators on which member state performance is measured.

Building on managerial ideas, non-hierarchical mechanisms, and a regime of legally binding recommendations and sanctions, post-crisis EU labour governance has brought together existing modes of EU governance in a new and unprecedented constellation. To appreciate how post-crisis labour governance works requires moving beyond the assumptions that underpin the policy-focused literature. Bokhorst, Bekker, and Zeitlin, all assert the importance of studying economic governance in practice and highlight how the European Semester and the MIP rest on negotiations and pragmatism, rather than coercive measures. Yet, in this literature we find little discussion of the significance of managerial practices or the continued potentiality of stricter application of sanctions, e.g. in times of crisis. The managerial practice of benchmarking helps set the agenda for structural reforms, by highlighting problems with e.g. productivity, unemployment, or labour costs. Together with the potentiality of sanctions, benchmarking, and non-hierarchical mechanisms, the MIP is an institutional framework with little 'input responsiveness (…) to peoples' preferences, as shaped through political debate in a common public space and political competition in political institutions that ensure officials' accountability via general elections' (Schmidt, 2015, pp. 91–92).

Beyond the institutional analysis, in this chapter I use critical integration theory to posit the Eurozone crisis as structural crisis of European integration: the inability to bolster the European project of monetary integration, arguably Europe's prestige project in the post-Maastricht era. The financial and Eurozone crises signalled a dramatic structural change at the intersection of European institutions and global capitalism. Over the short course of 2008-2009, the interaction between the EMU and global financial markets had quickly deteriorated, from one of mutual benefit to a potential doom-loop. In the pre-crisis era, the EMU and international finance had enjoyed a mutually beneficial relationship. For international finance, EMU sovereign bonds offered a safe asset, not least given Germany's anchor of price and financial stability (Hall, 2012). Thus, by entering the EMU, most member states enjoyed a significant lowering of sovereign interest rates. Yet, in the months and years after the Irish banking crisis and the Greek sovereign debt crisis, the premium governments in the Eurozone periphery would pay on sovereign debt dramatically rose (Mody & Sandri, 2012, p. 205).

The EMU no longer provided a corridor for its member state governments to access global financial markets. Rather, the EMU institutional structure and the no-bail out clause now permeated the structural power of global finance, as the latter withdrew lending from countries unable to declare bankruptcy as EMU member states (Roos, 2019). For the

Eurozone's hegemonic projects, these structural shifts would embolden hard-liners within the neoliberal project willing to dispose of poor-performing EMU member states like Greece. For example, in 2011, German Finance Minister Wolfgang Schäuble prepared for a Greek default and possible subsequent exit from the EMU (Spiegel Online, 2011).

The EU's structural crisis consisted of institutional and macro-structural components, following critical integration theory: the institutional crisis arrived as the EMU reproduced the existing economic divergence between core and periphery member states, while the macro-structural crisis reflected the vulnerability of the EU and its single currency under the condition of global financial turmoil in 2008-2009. Yet, political contingencies and economic conjunctures, and not only the more fundamental, structural deficiencies of the EMU, shaped the Eurozone crisis. The delayed and half-measured nature of Europe's political leaders' response to the crisis perpetuated the economic recession (Mody, 2018; Sandbu, 2015; Tooze, 2018).

Perhaps most influential in shaping the Europe's economic trajectory was the decisions made in the ECB governing council. The ECB's commitment to price stability led to a near-disastrous set of decisions to tighten monetary policy in 2011. In April and July 2011, the ECB twice decided to raise interests to keep inflation in line with target of 'below, but close to 2%'. Conversely, the ECB's decision to roll out extensive quantitative easing and do 'whatever it takes' to save the euro in 2012, eased pressures. Before President Draghi's major intervention in July 2012, the ECB had interpreted its mandate in conservative fashion. For example, former President Trichet stressed the limited nature of the ECB's first adventures in unconventional policy: 'we have decided to engage in the purchase of covered bonds (…) as a segment of the private securities markets that in general has been particularly affected [by the financial crisis] (…) to help to revive this particular segment of the market' (Trichet & Papademos, 2009).

Under Trichet, the ECB was not seeking to stabilise financial markets in general, but only particular segments. Under Draghi, the ECB changed its rhetoric from "credibility" to "stability" and developed a diverse toolbox of unconventional monetary policy (Schmidt, 2016). Draghi, in his own words, wanted to bring 'certainty to markets that the ECB was unwavering' in its support for the Euro (Barber & Jones, 2019). At the same time, this specific decision provided Europe with an unprecedented economic phenomenon: the unconventional policy enacted since 2012 has installed what appears to be permanently low interest rates in the European economy. The ECB's interventions have sparked new forms of political contestation: for instance, the legality of the ECB's bond buying programme has been tested at the German

Constitutional Court, and the controversial nature of the ECB's programmes helped the formation of the nationalist-neoliberal *Alternative für Deutschland*.

Once the most acute phase of crisis had passed in 2012, political work began to restore some consensus around the appropriate direction of the EMU and Europe more broadly. Critical integration theory focuses on the domestic sources that may facilitate a new consensus. Here, I argue, the relationship between structural conditions (e.g. EMU deficiency), political contingencies (e.g. half-measured responses) and economic variables (e.g. negative interest rates) is crucial. At the current conjuncture of low interest rates and low growth, there is much less pressure on the EMU and its member states, even if there is still a great deal of real economic divergence between member states. The conditions of low inflation and growth rates has slowly nurtured political decisions more conducive to demand management. As such, EU institutions have promoted wage rises in some countries, while increasingly emphasizing more consensual structural labour market reforms, focusing on elements like training and active labour market policies. As such, the current economic conjuncture of zero interest rate policy, low inflation, and low growth has been conducive to the privileging of consensual reform guidance. However, I argue, this contingent political situation cannot overcome the structural antagonisms and weak forms of political hegemony that permeates European integration and the governance of Eurozone labour markets.

5.3. The New Economic Governance framework for wages and labour

At the height of the Eurozone crisis, the Commission framed their approach to governing macroeconomic imbalances as 'holistic'. For the ECB and the Commission, tackling macroeconomic imbalances was also about improving competitiveness. The 2008 report on the EMU anniversary, which had helped bring the issue of macroeconomic imbalances to the forefront of European politics, had suggested a combined framework for monitoring and governing competitiveness and imbalances (European Commission, 2008a). In order to strengthen Europe's competitiveness, the governance of imbalances should target labour costs and structural impediments to productivity and growth, such as centralised labour bargaining.

The Commission and European Council's response to the growing concern for the dangers of imbalances was not institutional reform to address the sources of divergence, but a reinforced disciplinarian macroeconomic governance framework. The Commission, under the presidency of José Manuel Barroso was responsible for initiating the set of reforms to install the NEG framework. Barroso outlined in a speech at OECD in 2010 that the proposed governance framework represented a ‘holistic approach’ to crisis management based on ‘ex-ante coordination’ of macroeconomic policy (Barroso, 2010, p. 3.5).

The MIP scoreboard lists current account imbalances, unit labour costs, and exports as indicators of potential macroeconomic imbalances. The first step in the annual cycle of the MIP is the Commission’s surveillance of member state performance on these indicators. For instance, as France’s export performance deteriorated during the financial crisis, France crossed the indicator threshold for export market shares within the MIP procedure in 2012.

While the MIP scoreboard of indicators constitute one such set of benchmarks, member states performance vis-à-vis these indicators does not automatically determine whether a member state is experiencing excessive imbalances that require correction. At the insistence of the Commission, only in-depth country reviews conducted by country specialists within the Commission (‘s economic and employment departments) can determine the significance of a country’s macroeconomic imbalances and the urgency of the corrective action required. In this aspect, I argue, the MIP is a managerial practice in which EU officials cooperate with domestic policy actors to improve domestic economic performance on a clearly defined set of criteria.

Outside the EU institutions and member state governments, trade unions and employers were adjusting their approach to EU labour governance. Up until the financial crisis, employers, financial elites and neoliberal leaders were resisting what they saw as the building blocks to a political union, preferring instead non-intervention into European wage and employment conditions (Erne, 2015).

This changed when Europe was plunged into deep existential crisis. For the neoliberal hegemonic project, the crisis confirmed that the time of Europe’s expensive social models was gone. In the absence of decisive policy action at the domestic level, the remnants of the social model were lingering on, but markets had lost faith and it was time for fundamental change. At least so was the thinking among many EU leaders. The context for what Barroso called ‘a silent revolution in terms of stronger economic governance by small steps’ (Phillips, 2011) was the acute risk of ‘government bankruptcy’ due to the reluctance of European leaders and the ECB to guarantee the solvency of crisis countries (Barroso, 2010, p. 4). This was undoubtedly the direst phase of the crisis, before the ECB initiated the controversial programme of Outright Monetary Transactions (OMT) and relieved Eurozone governments from the most severe market pressure. In this phase, Commission vice-president Olli Rehn stressed that the solution for ‘vulnerable Member States under close market scrutiny’ was to ‘convince both the market forces and policy-makers over the capability to tackle the fiscal challenges and create confidence’ (Rehn, 2012).

ETUC warned that workers were 'being presented with all of the huge costs of the crisis' (ETUC, 2010b, para. 2). ETUC expressed concern that the MIP would give EU institutions 'yet another possibility to intervene in areas where they have no competence' under the TFEU, make workers 'pay for the entire cost of the crisis', and enforce prolonged economic recession upon its member states (ETUC, 2010a, pt. 2). However, ETUC never resisted European economic coordination *per se,* but only concrete deflationary proposals targeting workers unfairly (ETUC, 2010a). The representative of European organized labour thus denounced the NEG at its conception but accepted the need for a framework that more effectively could mediate the various wage and labour demands at the national, European, and global level, and safeguard the Eurozone against financial speculation and macroeconomic imbalances. A strategy of pushing for better economic governance trumped that of resisting economic integration.

From a critical integration theory perspective, ETUC's strategic positioning reflects EU institutional and macro-structural conditions. Pre-crisis EMU would provide governments and social partners with a stability-oriented framework. The EMU framework in place since 1992 had allowed governments and social partners in several countries to successfully negotiate social pacts, but the result had generally been towards ever-lower wages relative to productivity (Chapter 3 and 4). The crisis hit hardest the countries that had managed to reverse the trend of falling wage shares, such as Greece. While the interaction between EMU institutions and macro-structural pressure was not conducive to trade unions' redistributive demands, a potential monetary disintegration was not an attractive proposition either. The power of trade unions had eroded over decades, and disintegration was unlikely to reverse that trend. Further, given the context of severe economic crisis, monetary disintegration was likely to release an enormous pressure on member states from decisions in global financial markets, likely to inflict capital flight, interest rate hikes, and more.

In this period, what was at stake was arguably the survival of Europe's currency union. Domestic politics, particularly in Germany, hindered a decisive intervention to stabilise the Eurozone, whether fiscal transfers, risk sharing, or other measures. The dominant narrative that it was in the interest of taxpayers in EMU creditor member states to avoid transfers and bailouts allowed creditor member state governments to unite behind the neoliberal hegemonic project. The ideas and values underpinning this project opposed the moral hazard that would allegedly follow fiscal transfers or risk sharing. At the same time, the ECB's institutional interpretation of its mandate translated into its initial reluctance to pursue large-scale asset purchases.

The dominance of neoliberal ideas on crisis management at the EU level helped the mostly disciplinarian spirit of EU governance after the crisis. At this point, the major point of contention was the extent to which the neoliberal project could muster institutional support from the Councils, the European Council, and the European Parliament. To this end, the protests from Europe's trade unions were less of a concern.

5.3.1. Building consensus around labour governance

The adoption of the reinforced governance framework for fiscal and macroeconomic policy in 2011 did little to calm the still accelerating Eurozone crisis. Only after ECB President Mario Draghi's announcement 'to do whatever it takes to preserve the euro' (Draghi, 2012), Europe's political and economic conditions shifted - even if the ECB intervention did not address the EMU's structural inability to govern its own crisis of competitiveness (Talani, 2015). In terms of political-economic conjunctures, the ECB's new interventionist approach to the Eurozone crisis brought with it a severe decline in Eurozone government bond yields. The acute pressure on crisis government finances had faded. For instance, between 2012 and 2014, Greece's 10-year government bond yields slipped from above 30% to below 10% (Wigglesworth, 2019).

As the immediate existential threat to the Eurozone vanished, the political work of restoring and broadening elite consensus over the long-term direction of EU economic governance regained prominence. In two speeches in spring 2013, Barroso and Rehn outlined the reform priorities that would take the Eurozone out of crisis mode and restore growth. For Rehn and Barroso, structural reforms for competitiveness remained key to secure the stability and resilience of Europe (Barroso, 2013; Rehn, 2013). Under the conditions of continued consolidation and structural reform, Barroso noted 'the space to slow down the pace of consolidation' and take 'specific focused action' on Europe's 'social emergency' of unemployment and inequality (Barroso, 2013, p. 4). Thus, the crucial thing for Europe was to move beyond the 'futile' debate 'about austerity versus growth' that had shaped European political conflict since the crisis and install among policy-makers the 'consensus (…) vital for confidence' and growth (Barroso, 2013, p. 5)

Across the EU institutions, European leaders committed to strengthening the social dimension to the EMU. The president of the European Council, after consulting the Commission, the Eurogroup of Eurozone finance ministers, and the ECB, identified the 'building blocks' 'towards a genuine Economic and Monetary Union' that could promote social fairness (Van Rompuy, 2012, p. 1). Despite the renewed focus on social issues such as unemployment and inequality, trade unions were mostly unimpressed. ETUC maintained that the rhetoric on social issues could not hide how EU economic governance ‘institutionalizes a structural bias towards the domination of economic over social governance’ (ETUC, 2013a, pt. 3).

Thus, the Commission rhetoric changed after the ECB’s decisive intervention in 2012. As the immediate existential threat to the Eurozone vanished, the political work of restoring and broadening elite consensus over the long-term direction of EU economic governance regained prominence. The Commission has attempted to build consensus among actors with different interests and preferences from within the NEG framework, thereby increase the political hegemony of the Commission’s labour market structural reform agenda. This argument is in line with critical integration theory and its emphasis on the importance of hegemonic projects, contestation, and compromises for the direction and speed of European integration.

Lead by the Presidency and the College of Commissioners, the Commission developed a strategy for balancing the project of correcting macroeconomic imbalances with a better surveillance of the EMU’s social development. In June 2013, the European Council announced its intention to take ‘urgent action’ against youth unemployment through a Youth Guarantee, and improve the surveillance of ‘the social and labour market situation within EMU’ (European Council, 2013, pp. 1, 11). The Commission followed up by adding five auxiliary indicators on unemployment, social exclusion, and poverty, to the MIP scoreboard. The Commission Presidency was also vocal about the importance of monitoring the Eurozone’s ‘social dimension’ within the procedure of the MIP. Outlining the strategy for strengthening the social dimension of the EMU, the Commission had made clear the purpose of ‘incorporating the social dimension in surveillance of the macroeconomic imbalances’, as ‘stronger coordination of employment and social policies within the European Semester’ would ‘focus the efforts of governments’ (European Commission, 2013b, pp. 5–7).

Running for the post of Commission President in the first-ever *Spitzenkandidat* process in 2014, former Prime Minister of Luxembourg, Jean-Claude Juncker, outlined his ambition of targeting Europe’s record-high unemployment rates (Fontanella-Khan, 2014). Upon election, Juncker championed the idea of socialising the NEG framework by further strengthening the social indicators within the MIP, and in September 2015, the Commission elevated three employment indicators on activity rate, long-term unemployment, and youth unemployment, to the main scoreboard. The Commission would use these indicators to strengthen the accuracy of its surveillance of imbalances, but transgression of the indicator thresholds would not trigger any additional steps in the procedure. Including and elevating social indicators on the MIP scoreboard, the Commission did not intend on treating social deterioration as an economic imbalance. Instead, monitoring unemployment should minimise the social consequences of correcting imbalances (European Commission, 2015b). The inclusion of social indicators in the MIP did not resolve the tensions inherent to the project of governing labour through the governance of imbalances: rather, the Commission's explanation for including social indicators highlighted the expectation that the governance of imbalances would come with negative social consequences.

Despite the intention of gathering broader support for the EU governance framework, this new, more socially oriented scoreboard did not gain universal approval. Rather, the inclusion of social indicators in the MIP scoreboard effectively disenfranchised both member state ministers of finance as well as of employment and social policy. For many member state ministers, the inclusion of employment indicators in the MIP scoreboard would cause a blurring of the purpose of the MIP, which should be responsible for preventing potentially harmful imbalances, particularly in the Eurozone. Social consequences were the natural remit of the European Semester, which had responsibility for carrying out the Europe 2020 strategy for a competitive, inclusive, and sustainable economy. Ministers in the Employment and Social Policy Council (EPSCO), following this line of reasoning, argued in favour of a clear distinction between social and employment policy recommendations, issued through the European Semester, and the macroeconomic recommendations of the MIP. Social and employment ministers were reluctant to let social policy be guided by the predominantly economic concerns of the ECOFIN Council of Finance ministers in change of the MIP. They therefore wanted to maintain social policy issues 'within the EPSCO remit' rather than subsuming them to the MIP process (EPSCO Council, 2015; Hansen & Lovering, 2019b)

The ECOFIN Council of finance ministers also questioned the Commission altering the MIP to take into account social imbalances (ECOFIN Council, 2014), and later, in 2016, they expressed their 'concern about the inclusion by the Commission of three additional employment indicators given the need to preserve the effectiveness of the scoreboard' (ECOFIN Council, 2016, p. 4). On the side of Europe's trade unions, ETUC 'deplore(d)' that the social indicators, unlike the original indicators, could 'not result in a binding sanction mechanism' (ETUC, 2013b). Even when the social and employment indicators were elevated to the main scoreboard in 2015, they could not trigger further steps in the MIP. In response to the lacking procedural power of social indicators, ETUC announced it would try 'enhancing the trade union position' in EU economic governance by launching a new 'ETUC semester' of European-level trade union coordination (ETUC, 2013c, n.p.).

In the context of EU labour governance, the focus on the social dimension to economic imbalances forms part of the Commission's strategy to use the MIP to promote and accelerate structural labour market strategy *and* monitor their likely negative social consequences. One way the Commission has sought to build consensus has been through the annual CSRs, in which the Commission has increasingly emphasised the importance of (sustainable) public spending, wage rises, and social challenges (European Commission, 2017a, 2018b). In addition, focusing increasingly on the likely social costs to economic adjustment and internal devaluation, the Commission also took a lead on the alteration of the content of the structural reforms promoted through the NEG framework. Within the College of Commissioners, Laszlo Andor, the social-democratic Commissioner for Employment and Social Affairs, actively championed the project of socialising economic governance in order to broaden political consensus. During the critical phase of the crisis, Andor had repeatedly stressed the importance of making Europe's recovery 'job-rich' to avoid a persistent structural unemployment crisis (Andor, 2011a, 2011b).

As highlighted by a former advisor to the Commission, Barroso, Rehn, and Andor all contributed to 'a redefinition of what structural reforms mean' from 'the kind of notion known from the paradigm of the Washington Consensus' to 'a second generation of structural reforms' (Interviewee #4). In short, second generation structural reforms aim at facilitating adjustment by improving productivity rather than cutting costs and dismantling labour organisation. Policies supporting productivity may include education and training, active labour market policies, and adequate social protection.

5.4. Two (futile) efforts at more fundamental transformation

As highlighted above, the NEG framework left EU labour governance sufficiently unspecified to allow for a range of interpretations by different political leaders and Commissioners. In the language of critical integration theory, EU labour governance remained a project of European integration open for hegemonic competition and political contestation. In short, EU labour governance rests on weak political compromise in the absence of deeper hegemony. To compare post-crisis labour governance with the counterfactual – governance underpinned by hegemony – I use this section to analyse two hitherto futile efforts at fundamental transformation in EU labour governance: the introduction of an intergovernmental competitiveness pact (Euro-Plus Pact), and a Eurozone budget with fiscal transfers.

The futile introduction of an intergovernmental competitiveness pact symbolised the simultaneous dominance and weakness of the neoliberal hegemonic project. At the time of the launch of the NEG framework in 2011, Europe's most powerful leaders, Merkel and Sarkozy embarked on an effort to align EU labour governance on a programme of neoliberal adjustment. Their proposal was to strengthen EU economic governance to ensure firm coordination of member states' competitiveness. The objective was to install an instrument that at once improved Europe's long-term growth prospects and provided insurance against the dangerous divergence experienced in the lead-up to the financial crisis. In effect, Europe's leaders would have to push EU labour governance considerably further than what was achieved with the European Semester and the MIP. The following year, European Commission President van Rompuy proposed to create a Eurozone budget to combine macro-economic stabilization with a tool for structural reforms, effectively proposing a fiscal union. Both proposals would have significantly transformed EU labour governance and its relationship to the EMU, but for reasons of hegemonic competition and political contestation, they never materialised.

As we have seen, the European Semester and the MIP streamlined the (preventive) procedure for intergovernmental policy coordination and installed a new corrective procedure for member states unable to achieve wage moderation and macroeconomic stability. The proposed Euro-Plus Pact, conversely, would directly govern member states' competitiveness by installing a rules-based procedure for the reform of key wage setting mechanisms at the domestic level. The German and French governments announced their intentions to shore up the governance of competitiveness in three letters to the Eurozone governments during 2011 (Brand, 2011; Reuters, 2011; Sarkozy & Merkel, 2011).

Like the MIP, the rationale for the Pact lies in the (causal) relationship between cost competitiveness and the macroeconomic imbalances believed to constitute the core of the Eurozone crisis. Targeting and containing unit labour costs, through wage restraint, labour market reforms, and pension and benefit reforms, the Pact was supposed to help member states running large current account deficits to restore external balance and avoid further losses in cost competitiveness. The scientific support for the supposed causal relationship running *from* cost competitiveness *to* current account imbalances is, at best, modest. Some studies do find such a relationship to exist. Belke & Dreger find that 'a lack in competitiveness is the main explanation for the external deficits' of the crisis-ridden Eurozone countries, and advocate a 'depreciation of the real exchange rate in the deficit countries via a cut in their unit labour costs' (2013, pp. 6, 14). Gros (2012), Marzinotto (2011), and Gabrisch & Staehr (2015) however, have all repudiated this finding, and implicitly questioned the basic rationale for the Euro-Plus Pact.

Of the two instruments to restore competitiveness and reduce imbalances, the Euro-Plus Pact had the most concrete policy implications. As such, it would be a responsibility of every participating member state to bring wage developments in line with productivity. The preferred method of the original German-Franco Competitiveness Pact, proposed in February 2011 was the abolition of indexing of wages to inflation combined with a generalised decentralisation of wage bargaining (Barnard, 2012). The Pact that Europe's leaders agreed at the European Council meeting of 24/25 March 2011, slightly opened up the policy space for member states, but still commits member states to pursue strategies that lower labour costs and improve competitiveness.

While clear on the overall objective (rebalancing through competitiveness) as well as the domestic policies it implied, member states were unable to agree on a procedure and a set of enforcement mechanisms that would move the Pact beyond the governance framework of the OMC. In contrast, the MIP sets up transparent criteria for enforcement and sanctions and uses the RQMV procedure to limit the ability of member states blocking sanctions in the Council. Compared to the eventual manifestation of the Pact, the MIP had the greater potential to shift the authority to govern imbalances in favour of EU-level governance.

The Euro-Plus Pact eventually came to symbolise the futile efforts of key European leaders to transform EU labour governance into a powerful vehicle for neoliberal adjustment. There were several factors behind the failure of the Pact in causing fundamental change in EU labour governance. Prominently, the role of the European Commission was very vague, and the kind of 'governance-at-a-distance' characteristic of the Commission was missing - in terms of economic surveillance, the Pact merely replicated the European Semester and the MIP. Furthermore, Commission actors were sceptical about anchoring enforcement and sanctions in the Commission (Smeets & Beach, 2019). Alternatively, Europe's leaders could have anchored the new Pact in EU law through treaty change. However, reluctant to engage in treaty changes, this was never viable route in the reform of EU labour and economic governance after the crisis. In effect, while member states in principle could sign up to the neoliberal purpose of the Pact, the available institutional routes for anchoring the pact were unattainable. The problem for the Euro-Plus Pact was not its neoliberal ideational foundation but its uneasy fit with the existing EU institutional structure.

While many European leaders are very keen to provide financial incentives for structural reform, they have hitherto been unable to muster support for the necessary institutional reform. In the wake of the Eurozone crisis, the Commission has also proposed a Eurozone budget to combine macroeconomic stabilisation mechanisms with incentives for structural reforms. If realised, a Eurozone budget intended to promote structural reform would combine Keynesian principles of counter-cyclical stabilisation with supply-side economics focusing on structural labour and product market reforms. Therefore, a Eurozone budget directly linked to structural reform should attract neoliberal and social democratic actors and could form the basis for hegemonic compromise. If fully implemented, such a budget would constitute a more fundamental reorientation in EU labour governance than what has been achieved since the crisis. This is because the proposed budget could add a macroeconomic framework to the long-standing structural reform agenda.

However, this has hitherto been a futile effort. After years of extensive analysis and political negotiations, in June 2019 Eurozone leaders reached an agreement on a Budgetary Instrument for Convergence and Competitiveness (BICC) that links financial support to structural reform (Euro Summit, 2019). Yet, it was 'designed explicitly without a countercyclical stabilization function and without its own sources of funding' (Kirkegaard, 2019). After agreeing on the budgetary instrument, political contestation among Europe's leaders continued, with Dutch Prime Minister Mark Rutte declaring the idea of a Eurozone budget 'gone' (Smith-Meyer, 2019).

The opposition of the Dutch government and other Northern member states to a fiscal stabilisation mechanism in the EMU reflects the long-term stance of the neoliberal hegemonic project to support only disciplinarian modes of EU labour governance and oppose any steps towards a union of fiscal transfers between member states. The compromise outcome provides modest financial incentives to labour market and other structural reforms and continues the EU's institutional legacy of pursuing macroeconomic stabilisation via domestic structural reforms rather than counter-cyclical demand management.

5.5. Labour governance in key Eurozone members: Germany, France, and Italy

In the absence of political hegemony to enable structural transformation in EU labour governance, hegemonic competition and political contestation has shaped EU labour governance since the introduction of the NEG framework in 2011. The European Commission has sought to continue a practice of governing European workers at a distance by using performance management techniques. At the same time, the Commission has sought to build more compromises among EU institutional actors by simultaneously promoting neoliberal adjustment and expansionary demand stimulation. In effect, the Commission has pursued a differentiated strategy of neoliberal adjustment in Southern Europe and demand stimulation in the North. While starting to target Germany's suppressed demand after 2013, the Commission also continued recommending structural reform to improve competitiveness across Southern Europe and in France.

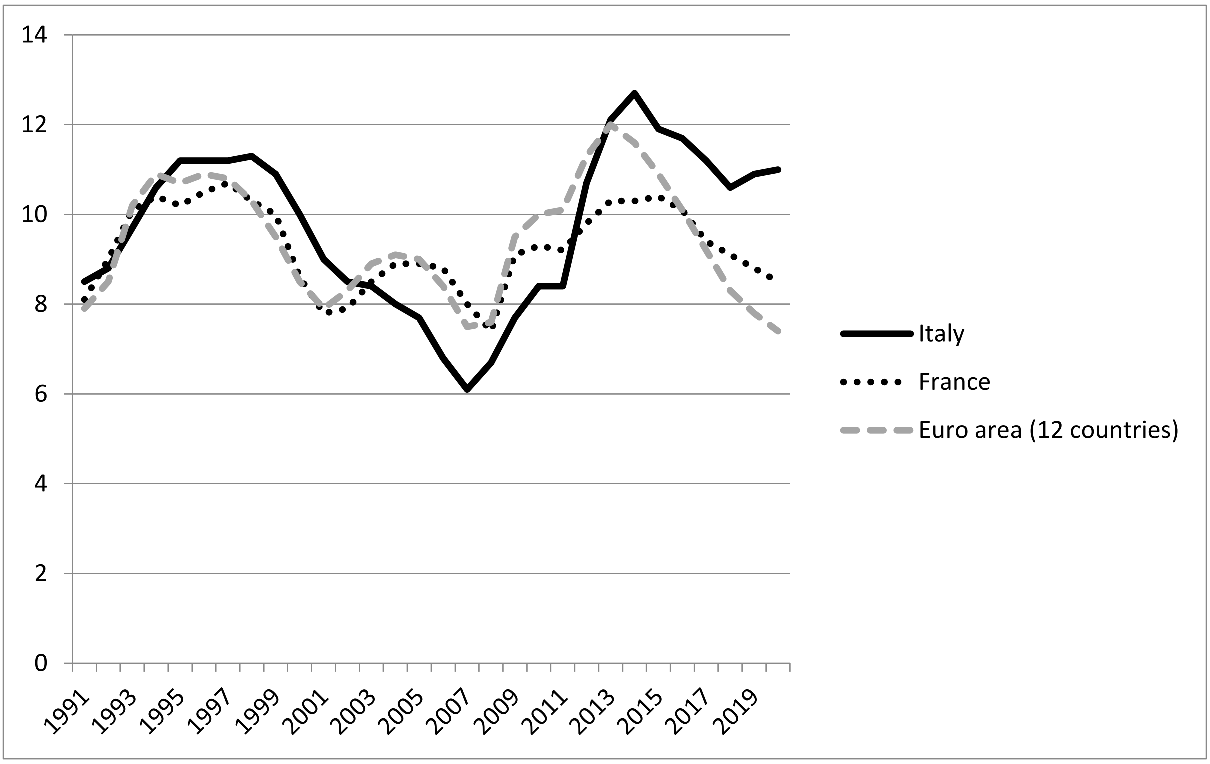
Seeking to broaden the political support for economic governance, both inside the European institutions as well as among European policymakers, the Commission increasingly targeted countries running current account surpluses and potentially supressing demand. The structural context as well changes in Europe's economic conjunctures also explain the EU's gradual change. The prolonged period of low growth and high unemployment has limited the Eurozone's economic divergence, through discouraging credit flows to southern Europe, and limiting wage inflation. In recent years, Germany has been only member state to transgress the key MIP indicator of current account imbalances. In November 2013, the Commission targeted Germany's surplus for the first time (European Commission, 2013c). Assessing the factors leading to this (perhaps tangential) reorientation, the former employment Commissioner adviser emphasises the EMU institutional structure and the shift in economic conjunctures after 2012:

> *'Barroso and Rehn also understood the reality and the downside of the internal devaluation strategy, so they were kind of pursuing it as long as they had to because there was financial market instability. But as soon as the ECB stepped in and helped with the OMT in 2012 … Andor and Rehn started to criticise the German surplus position (…) and suggested that Germany could increase internal investment* (Interviewee #4).

Thus, a rhetorical and practical reorientation took place in the final two years of the second Barroso Commission (2012-2014). Increasingly, the Commission promoted what they perceived as consensual structural reforms and stressed the importance of implementing the necessary structural reforms for competitiveness with an eye for the 'care of the most vulnerable' (Barroso, 2013, p. 4)

This programme of consensual reforms supplements rather than replaces the programme of austerity and internal devaluation. For instance, the EU's policy recommendations for Italy and France in the area of wages and labour markets bear clear signs of the continued strategy of neoliberal adjustment. In recent times, France and Italy have both mirrored the long-term European problem with unemployment. Since the early-1990s, unemployment rates in Italy and France have mostly followed the trend in Eurozone unemployment, typically ranging at 8-11%, with a few cyclical exceptions (see figure 5.1).

Figure 5.1. Unemployment in Italy, France, Eurozone 12



Source: AMECO

For the EU institutions involved in wage and labour governance in France and Italy, the main problem is *structural* unemployment, not cyclical unemployment. This means that, in the eyes of EU institutions, the solution to the problem of unemployment becomes structural reforms, and not stimulating economic demand. In effect, the high structural unemployment rates suggest that France and Italy's labour markets are marred by rigidities and poor competitiveness, and not by the (demand) effects of economic recession. In France, structural unemployment slowly increased from below 8% in the early 1990s to around 9.5% following the financial crisis. In Italy, structural unemployment decreased in advance of the financial crisis, reaching a low of 8.1% in 2007, only to increase to above 10% by 2015. Here, structural unemployment refers to the non-accelerating wage rate of unemployment (NAWRU), which the Commission's DG ECFIN estimates for all member states.[9] For France and Italy, actual and structural unemployment remained in relatively close proximity throughout the period, with a few exceptions around the boom years of 2006-07, and the crisis period of peak unemployment in 2013-15. As of 2018, France's unemployment rate of 9.1 closely mirrored

[9] AMECO online: https://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm

its structural level of 9.4%, while Italy's unemployment rate of 10.6% was slightly higher than its structural level (10%).

The significance of this is that the EU has deemed Italy and France's actual unemployment levels to be at or near the lowest possible level that allows for price stability. If the two countries' unemployment rates fall further below the structural level, and the NAWRU estimates are correct, the effect will be accelerating inflation and a violation of the EMU commitment to price stability. Therefore, one of the major objectives of the EU's governance of wages and labour markets in Italy and France has been to lower structural unemployment through a range of structural labour market reforms. For a period after the financial crisis, this involved explicit recommendations to undertake reforms aimed at internal devaluation. The NAWRU figures highlight the advanced economic modelling that the Commission produces to improve policy recommendations. As the NAWRU consistently increases in the wake of economic recessions, the figures provide justification to the EMU's structural, deflationary bias: in France, for instance, the NAWRU suggests that demand stimulation to fight unemployment would risk spiralling inflation out of control. All this suggests that the Commission's production of economic knowledge is important for construing political contestation over EU labour governance.

Italy has been under close macroeconomic inspection since the MIP's initial surveillance in 2012. Here, Italy transgressed the indicator thresholds for export market shares and public debt, which they repeated in 2013. Both years, the Commission followed up with closer, in-depth reviews based on the country's 'significant deterioration in competitiveness', and found Italy to be 'experiencing macroeconomic imbalances' but not excessive ones (Council of the European Union, 2012b, 2013b; European Commission, 2012b, para. Italy). From 2014 onwards, the EU has identified excessive imbalances in Italy, based on 'very high level of public debt and weak external competitiveness, both ultimately rooted in the protracted sluggish productivity growth' (Council of the European Union, 2014b, para. 7).

In the first three years of the European Semester, 2011-2013, among more controversial recommendations, the EU urged Italy to review its employment protection legislation on dismissals, to reform the wage-setting framework to restrain wage growth to the country's productivity growth, and to tackle labour market segmentation. In 2012 and in 2014-15, the Italian government adopted two labour market reforms. In 2012, the technocratic government under Prime Minister Mario Monti adopted the Fornero Reform, while Matteo Renzi government adopted the 'Jobs act' reform bill in 2014. Both reforms reduced dismissal rules and procedures, increased coverage of unemployment benefits, and sought to strengthen active labour market policies by improving training and guidance and make better use of penalties against inactive benefit claimants (Iudicone & Arca Sedda, 2015; Picot & Tassinari, 2017; Pinelli et al., 2017).

Having detected excessive imbalances for the first time in 2014, the Commission continued to highlight the issues of competitiveness and productivity, and followed up with recommendations to implement the proposed labour market reform and improve cost competitiveness and job creation (European Commission, 2014a). From this point, the Commission also started publishing annual reviews of relevant policy measures. Following the explicit EU focus on wages and cost competitiveness from 2011 up until 2015, the Commission's language slightly shifted thereafter. As overall wage moderation started to consolidate, the EU continued pushing for decentralised wage bargaining; but the purpose of this was now less about aligning current wages to productivity. Instead, reforms should induce flexibility into the system in anticipation of a coming crisis to avoid a repetition of the 'wage rigidity during the crisis, with nominal wages rising above inflation even when unemployment rate was sharply increasing' (European Commission, 2017b, p. 12). As of 2018, the Commission remained concerned by 'the persistent and unintended changes in real wages' likely to occur in case of a crisis (European Commission, 2018c, p. 14)

Since 2015, Italy's CSRs have focused on politically uncontroversial reforms, such as better childcare facilities and better-targeted investment in research and education, in addition to the more contentious issue of wage bargaining. In particular, the 2018 recommendations emphasise social issues and investment, and has even avoided recommending a decentralisation of wage bargaining, despite the Commission's in-depth country report on Italy suggesting that bargaining remained an unsolved issue (Council of the European Union, 2018b; European Commission, 2018a). The decision to avoid this contentious issue in a year of increased budgetary conflict between Italy and the EU suggests the active political role played by the Commission within the NEG framework, and its acceptance in the Council.

For France, the Commission identified the combination of falling export market shares and high private and public debt as constituting excessive imbalances in 2015. Before 2015, these imbalances had not been excessive, but had required decisive policy action. The fall in export shares reflected France's deep competitiveness problems in the eyes of EU institutions. In line with this view, the EU has recommended labour reforms 'to ensure that wages evolve in line with productivity' and 'that minimum wage developments are consistent with the objectives of promoting employment and competitiveness (Council of the European Union, 2015, recommendation 3). As with Italy, the Commission has consistently pushed a number of politically appealing, if administratively difficult reforms, such as more effective, more strongly coordinated, and better-targeted active labour market policies (Council of the European Union, 2011, 2012a, 2013a).

The politically more controversial recommendations concern the minimum wage, unemployment benefits, collective bargaining, and employment protection legislation. Out of the eight years of MIP governance 2011-2018, the EU has recommended France to make developments in the minimum wage more conducive to competitiveness and job creation seven times. In addition, the EU has recommended France bring the unemployment benefit system ‘back to budgetary sustainability’ and increase ‘incentives to return to work’ four times; to deregulate employment protection two times, and more flexible wage bargaining once, in 2015 (Council of the European Union, 2011, 2012a, 2013a, 2014a, 2015, 2016, 2017, 2018a). The only year the EU has recommended action across three of the four policy areas (minimum wage, unemployment benefits, and collective bargaining) is 2015. Since 2015, the EU has focused increasingly on the minimum wage, the only of the four areas addressed in 2017 and 2018.

The Commission’s insistence on structural reform for cost competitiveness in France and Italy continued almost unbridled until 2016. Over time, the EU increasingly emphasised politically uncontroversial reforms such as training, and in the case of France, the EU issued increasingly detailed recommendations after 2016. In recent years, the focus on training and social inclusion has tended to replace, and not merely complement the structural reform recommendations aimed at internal devaluation (Council of the European Union, 2017, 2018).

Asserting hegemonic competition as a fundamental feature of European integration, the framework deployed in this thesis suggests that institutional evolution, such as the European Semester and the MIP are likely to reproduce existing hegemonic competition. However, changes to the institutional context may change the more specific dynamics of political contestation. The use of sanctions in the MIP, one of the most controversial aspects of the new procedure, highlights the reproduction of hegemonic competition and the changes to political contestation. Under the MIP, the EU can impose financial sanctions of up to 0.1% of GDP if member states experiencing excessive imbalances repeatedly submit insufficient action plans or fail to take corrective action (European Commission, 2016a). Financial sanctions, therefore, do not apply to lacking implementation of policy recommendations (i.e. CSRs), but to insufficient (plans for) action on excessive imbalances. Only under the EIP may financial sanctions apply. Yet, the Commission has never taken the politically controversial move of launching an EIP. This decision reflects the continued relevance of hegemonic competition.

Various EU institutional actors, including the ECB, have criticised the Commission for not invoking the EIP (European Central Bank, 2017). Yet, the Commission has maintained that they would only invoke the EIP in cases where governments show 'insufficient commitment to reforms' to correct 'severe macroeconomic imbalances that jeopardise the proper functioning of the economic and monetary union, like those that led to the crises' (European Commission, 2015c, pp. 9–10). This stance suggests a reluctance to engage in overt conflict with domestic state actors over reform implementation. A Commission official interviewee outlined that while sanctions have been proposed for excessive deficits '*with labour market and social policy, we are very much in the point and blame and discussing, trying to have, so to speak, an incitative* (sic) *approach, but we cannot impose any* [sanctions]' (Interviewee #15).

We are yet to see what conditions could result in an EIP. Given the importance ascribed to Eurozone current account imbalances for the crisis in the first place, current accounts undoubtedly stand at the centre of the MIP. This suggests that the current economic conjuncture of low growth and depressed demand cycles is counter-conducive to the use of the EIP as current account deficits have evaporated in the post-crisis era. In other words, the political-economic evolution in Europe after the financial crisis, particularly the application of austerity in the Eurozone periphery, brought about a situation in which a number of core MIP scoreboard indicators quickly rebalanced. In addition to the current account balance, under the impetus of economic recession and the rise in unemployment, wage developments were also very moderate in the Eurozone periphery after 2008, and unit labour costs mostly stagnated.

Given the macroeconomic consequences of austerity, deficit member states in the Eurozone periphery have generally performed well on the MIP scoreboard, as it seeks to detect primarily inflationary trends of wage rises and 'real effective exchange rate' developments. Conversely, Germany's persistently excessive current account surplus has been insufficient for an EIP. From the existing evidence, it looks clear that the Commission is unlikely to launch EIPs in the absence of grave current account deficits. That means that the current conjuncture in Europe's political economy prevents EIPs and thereby the potentiality of sanctions.

Rather than an instrument for enforcing cyclical convergence, the MIP has developed into a governance instrument of persuasion and performance management techniques. In particular, we have seen how the EU institutions have focused on the indicator for export market shares in order to mobilize the MIP procedure for the strategy of wage moderation and labour market structural reform. In the case of France, in the absence of recorded wage inflation, export market shares would play a significant role in the EU institutions' efforts at moderating French wages. The indicator on export market shares suggests that member states experiencing 6% fall in export market shares over 5 years may be experiencing macroeconomic imbalances in need of correction. Eurozone member states have recurrently crossed the threshold on export market shares: 12 of the current Eurozone member states have crossed the threshold at some point since 2012. This is largely unsurprising, given the decline of the Eurozone's export market shares, particularly in the early stages of the crisis (European Commission, 2012b) and the Commission has rarely concluded that export market shares constitute harmful macroeconomic imbalances.

There are, however, important exceptions, including France and Italy. In France, in particular, decreasing export market shares have shaped the Commission's In-Depth Reviews and CSRs on labour markets. During the crisis, French unit labour costs have remained well-below the MIP threshold of 9% over three years, and mostly corresponded to ECB inflation targets – for instance, in 2009-2011, unit labour costs rose 6% over three years (European Commission, 2012d). Yet, in France's In-Depth Reviews, the Commission repeatedly pointed out that the intersecting export and labour cost dynamics exposed serious competitiveness issues in the French economy (European Commission, 2012c, 2013a, 2014b). When nominal unit labour costs all but stagnated from 2012 onwards, the EU nonetheless strongly warned France against the longer-term futility of measures reducing labour costs that did not directly target 'the wage-setting process and [contained] minimum wage development [reform measures]' (European Commission, 2016b, p. 2).

How would critical integration theory interpret EU labour governance in key member states in the post-crisis era? In efforts to overcome continued political contestation, the European Commission has used the broad scope of the indicator scoreboard to monitor and recommend action on labour market policy for member states. Yet, by deferring the question of increased use of EIPs and sanctions, the Commission has itself become subject to criticism from institutional actors keen to speed up structural labour market reforms in the EU. For instance, the ECB has repeatedly criticised the Commission for excessive reliance on surveillance, persuasion, and benchmarking, and its allegedly insufficient use of the full repertoire of instruments in the MIP (European Central Bank, 2012, 2013, 2015).

5.6. Governing peripheral labour: the exceptional case of Greece

Compared to EU governance of labour in Italy and France, the EU has engaged much more actively in the restructuring of labour markets in Greece. In order to analyse the development of EU labour governance in Greece since the crisis, we need to return to the beginning of the Greek crisis and contextualise this in light of the wider Eurozone crisis. For many European leaders, the Eurozone crisis really started when Greece announced an expected government deficit of 12.5% of GDP, and within months, asked for the EU to circumvent the EMU 'no-bailout' clause and provide financial assistance to avoid a government collapse. Up until this point, European leaders had mostly treated Europe's crisis as a purely financial crisis stemming from across the Atlantic. Now, with the Greek government effectively bankrupt, it was inevitably also a political crisis. For months, there was nonetheless a clear lack of the required political consensus among European leaders to intervene in an effective and timely manner. Merkel's options were constrained by domestic German politics, with growing conservative opposition to any reform of the Eurozone to help Greece and other countries in trouble. The ECB under President Jean-Claude Trichet provided a strict interpretation of the constraints on their mandate. The French government refused to let IMF participate in any potential bailout. Yet, eventually Sarkozy would negate his government's opposition to IMF participation, and Merkel's government agreed to a Greek bailout before any conclusive agreements on private sector debt restructuring. In return came strict policy conditionalities, monitored by the Troika institutions of the ECB, the Commission, and the IMF, with the Eurogroup of Eurozone finance ministers the coordinating actor. With the installation of the Troika and the ensuing policy conditionalities, Greek workers and citizens became subject to fundamental reforms of employment protection, benefit systems, and wage institutions.

The inability of any major European actor to determine the conditions of a bailout hindered a decisive intervention in late 2009 and early 2010. Critical integration theory interprets this inability to act as reflective of the competitive dynamics between Europe's hegemonic projects. Europe's leaders could justify their inaction by pointing to the institutional framework of the EMU, which included the no-bailout provision, the independence of the ECB, and the fiscal discipline of the SGP. The institutional structure was the basis for performing intergovernmental restraint. Without a bailout provision, what could the EU really do? The EMU institutional framework was itself the result of domestic and supranational conflicts over the purpose and structures of European integration (Chapter 3). As such, the legacies of the compromise reached in the early 1990s shaped the decision-making process as the Eurozone crisis accelerated.

In early 2010, a solution to the stalemate depended heavily on the German government, which combined an institutionally dominant ordoliberal variant of the neoliberal project with the personal, Atlanticist preferences of Angela Merkel. For decades, the pro-European social democrats had offered the main rival project to the neoliberals, but the fall-out of the crisis suggested a significant weakening of their position. Besides newly elected Greek Prime

Minister Papandreou, only six social democrats headed the European member states in late 2009. In German domestic politics, the economically liberal, but partly Eurosceptic, FDP party had replaced the Social Democratic Party (SPD) as the CDU's coalition partner in autumn 2009. Therefore, a great deal of domestic opposition came from conservative and libertarian forces, which vehemently criticised any EU-level policy innovation beyond that of supposedly restoring discipline and feared how a Greek bailout might endanger Europe's commitment to stability. In Germany, various newspapers described the eventual loan agreement as 'nightmare' for German citizens now expected to 'pay for Greece's luxury pensions' (cited in Peel, 2010)

For the EU, Greece's potential bankruptcy loomed large and various EU actors started questioning the country's membership of the EMU. Once European leaders eventually agreed on providing financial assistance to Greece, policy conditionalities included severe wage moderation. The Commission's concern for Greece's macroeconomic performance focused on '(t)he rapid rise of wage costs and mark-ups in excess of productivity growth', while '(t)he disconnection between wages and labour-market conditions and productivity developments' had contributed to the marked deterioration of Greece's macroeconomic position (European Commission, 2010d, pp. 3–4). Consequently, 'the high and persistent external imbalances' highlighted the urgent need for competitive adjustment through '(s)tructural measures and wage moderation' (European Commission, 2010d, p. 19).

With the economic conditions quickly deteriorating between autumn 2009 and spring 2010, the EU made clear that the successful restoration of the Greek economy would now rest on four contingencies. First, that the Greek government's 2010 'fiscal consolidation measures were quantified in a prudent way' so that expenditure cuts and revenue increases would at least meet the stipulated budget targets (European Commission, 2010f, p. 19). Second, that the bailout programme would set clearly defined budget objectives for 2011 and 2012 in addition to the existing 2010 budget commitments. Third, that austerity and fiscal contraction would cause economic expansion in the medium run through low fiscal multipliers and 'release of resources for the private sector' (European Commission, 2010f, p. 19). Fourth, that austerity and structural reform would transform Greece into an export-led growth model. Together, the four contingencies formed the basis for the agreed Memorandum of Understanding (MoU) between Greece and the Troika institutions (European Commission, 2010f).

In other words, having delayed the necessary intervention by approximately 6 months, the EU-IMF bailout now depended on Greece dramatically upscaling the severity of its austerity programme. At the same time, however, avoiding a deep and prolonged recession also depended on the immediate materialisation of the doctrine of 'expansionary fiscal contraction' (Giavazzi & Pagano, 1990). The basis for the bailout was the (rather wishful) thinking that fiscal contraction would only have moderate effects on aggregate demand (so-called low fiscal multipliers); that private sector investment would pick up immediately in response to public sector contraction; and that exports would improve as soon as structural reforms were implemented.

There was an element of ideological naivety behind the policy conditionalities attached to Greece. Combining fiscal contraction and internal devaluation was never going to get Greece's economy going. Yet, the conditionalities did not only reflect ideological preferences for unrealistic restructuring. As critical integration theory suggests, they also reflected a number of structural conditions under which the Greek bailout took place. First, Greece was a special case of a country in a severe productivity and competitiveness crisis, which had used public as well as private debt to maintain output growth. Second, the EU institutional delay in agreeing to a bailout, and the ECB's restrictive interpretation of its mandate to intervene, helped escalate the crisis between October 2009 and May 2010. Third, in a global context of financial crisis, measures that were more dramatic would likely dampen panic mode among financial market actors. Together, these institutional and structural conditions for the Greek bailout help explain why the EU was able to enforce severe labour market reforms in Greece.

5.6.1. Targeting Greek workers

The conditionalities of the first bailout package primarily targeted Greece's fiscal conditions. The primary way Greece was to reduce its fiscal deficit was through public sector cuts, privatisation, and a more efficient tax collection practice. Already in February-March 2010, paving the way for an agreement on the initial bailout programme, the Greek parliament passed legislation to reduce the government wage bill by enacting public sector wage freezes and reducing employee allowances and bonuses. With the launch of the bailout programme, the EU institutions reiterated the need for labour market reforms. In addition to budget changes, the conditionalities concerned structural policies, whereby Greek (private sector) wages where to be made more flexible by liberalising the wage bargaining system. Concretely, the MoU pointed out, the government should legislate to 'pay rates for overtime work and [enhance] flexibility in the management of working time' and introduce a new sub-minimum wage for 'groups at risk' (European Commission, 2010f, p. 73). To this extent, a new, lower minimum wage would also be a strategy of social inclusion – only through substantially lower wages, could 'groups at risk' hope to retain employment. Presenting wage cuts for low-income groups as a case of social inclusion was not new to the EU, but directly instructing minimum wage cuts under the auspice of social inclusion was a new role for the EU. The EU institutions were adamant about Greece's need to reform labour markets. Employment protection legislation caused segmentation and hindered mobility, inclusion, and transition in the labour market, the universal wage bargaining system caused wage inflation and the minimum wage was hostile to employment (European Commission, 2010f, p. 28).

In spring 2010, alongside the negotiations on the terms of the bail-out package, the Greek government shored up plans for minimum wage and other pay-related reforms. 15 July 2010, the Greek Parliament approved a labour market reform (Law 3862/2010), which introduced a sub-minimum wage for under-25s and reduced overtime premium (European Commission, 2010c). As for the longer-term reforms to Greece's labour markets, the 2010 bailout conditionalities showed relative patience. The Greek government and the institutions agreed to 'follow a two-step approach' with social partner consultations preceding government enforcement of 'the required changes in the wage-setting mechanisms and labour market institutions' (European Commission, 2010f, p. 27)

Structural labour market reforms outside the public sector played mostly a complementary role in the first bailout conditionality agreement. Yet, in recurring compliance reports, and in the updated MoUs agreed with the Greek government, the Troika institutions subsequently stressed the importance of wage and labour reforms. In particular, attention centred on the vested interests delaying 'reforms of the remuneration system in the public sector and of the wage bargaining system' (European Commission, 2010b, p. 2). In response, the Troika required a "new law [which] establishes that firm-level agreements prevail over those under sector and occupational agreements without undue restrictions" as well as legislation removing impediments to temporary, fixed-term, and part-time work (European Commission, 2010b, p. 89)

In line with Troika requirements, the Greek parliament approved a new round of labour reforms in December 2010. However, the Troika strongly criticized the Greek government for limiting the range of the reform and for its inability to implement the law swiftly (European Commission, 2011c). The Troika specifically criticised that the new law had been applied 'as a tool for only limited wage decentralisation' and not promoted 'as a powerful instrument to increase employment and improve competitiveness'(European Commission, 2011c, p. 33).

The effects of Greece's wage decentralisation have been substantial in international perspective. Together with Ireland and Romania, Greece was the only EU member state that radically changed the primary level of wage bargaining (Waddington, et al., 2019). Whereas the sectoral level dominated in pre-crisis Greece, post-crisis legal and institutional reforms brought about a ‘significant extent of bargaining contraction and decentralisation’ to the company level (Koukiadaki & Grimshaw, 2016).

Given the potentially significant distributional consequences of an upheaval of the Greek public sector and labour markets, the Commission also emphasized the programme’s ‘socially-balanced approach’ protecting ‘the most vulnerable’ (European Commission, 2010f, p. 33). Nevertheless, the Commission noted, ‘the social costs (of the policies) are significant’, with ‘social unrest and acute political tensions’ constituting obvious risks to the programme’s implementation (European Commission, 2010f, p. 34) Therefore, the programme sought to protect low-income groups from the planned wage and entitlement cuts (point 8 in the Memorandum of Economic and Financial Policies (MEFP), European Commission, 2010f).

The extensive rhetorical commitment to a socially balanced adjustment approach reflects the competing hegemonic projects involved in designing the terms of the bailout. As such, these social commitments reflect political compromises in the Eurogroup and the Troika institutions. They also reflect the broader context of social upheaval in Greece and beyond. Beyond the acknowledgement – or fear – of the danger of social unrest, the social provisions of the agreements between Greece and the Troika delineate a specific and limited role for the Greek government. The EU expected the Greek government to liberalise labour markets and enforce wage cuts, while protection the most vulnerable groups better. This compromise severely limited the Greek governments’ ability to intervene in the allocation of resources in society. It left the government with the diminished task of alleviating the worst forms of social hardship brought about by the apparently necessary competitive adjustment. In the context of a dictated ‘realignment of incomes to sustainable levels’ to restore budget balances and competitiveness, the agreement’s assurances of social fairness would be difficult to uphold (point 7 in the MEFP, European Commission, 2010f). In addition, the public sector cuts involved a substantial reduction in social spending, meaning that the adjustment targeted the Greek working class twice: both as wage earners and as social welfare recipients (Roos, 2019). The effects of these changes were therefore not only industrial or economic, but also social and political. After 2010, the level of social unrest increased in Greece, begging the question of whether new political projects could emerge from the ground.

5.6.2. Intensifying reform efforts and growing social unrest in Greece

As noted above, the EU had foreseen 'social unrest and acute political tensions' as a result of its bailout programme, and it did not take long before this started to materialise through occupations, demonstrations, and mass strikes in Athens and other major Greek cities. The first major strike took place on 5 May 2010, accompanied by a major demonstration and deadly riots in Athens (BBC, 2010). However, it was in spring 2011 that a coherent anti-austerity movement gathered pace in Greece. Inspired by the Spanish *Indignados* movement, 25 May 2011 marked the first day of the prolonged occupation of the Syntagma Square in Athens (Vogiatzoglou, 2017). The anti-austerity movements marked the beginning of one of the most successful counter-hegemonic forces in European integration in recent decades. As this movement eventually had to consider how to change existing hegemonic competition and political compromises at the European level, critical integration theory helps illustrate the set of tensions and contradictions that faced Greece's emergent, counter-hegemonic force.

Greece's social unrest gathered steam while its economic recession worsened. In response to the worsening economic situation, the EU and the IMF prepared for a completely new bailout package. At the same time, they were drawing up considerable stronger policy conditionality in an updated MoU for the first bailout. The July 2011 updated MoU effectively made it the responsibility of the government to ensure the alignment of 'wage developments with productivity developments at firm level' (European Commission, 2011b, p. 127). The July 2011 updated MoU also contained provisions to bring public sector wages in line with the private sector norms and to 'decompress the wage structure to better reward performance' (European Commission, 2011b, p. 86). In addition, the updated agreement required 'cuts in the public sector wage bill (…) achieved by eliminating most allowances in the context of a comprehensive wage grid reform and an increase in working hours' (European Commission, 2011b, p. 2). Simultaneously, a new medium-term fiscal strategy announced 'the implementation [in the public sector] of the rule of 1 recruitment for 10 exits in 2011' leading to an estimated 20% reduction in public sector workforce in four years (European Commission, 2011b, p. 25). Further, the strategy announced an 'increase in the weekly working hours for public sector employees' and reduction in overtime payments and allowances (European Commission, 2011b, p. 142).

Based on critical integration theory, I argue that the policy conditionalities of the bailout packages depend on the on-going hegemonic competition in the EU. The Greek policy conditionalities were an emergent outcome of the contingent combination of structurally emboldened EMU creditor states and strong neoliberal economic views proliferating in those member states. The updated MoU of July 2011 included de-facto requirements imposed on the Greek government to test its willingness to commit to a more general reconfiguration of Greek labour markets than envisioned in the initial MoU. As such, the fundamental conditionality for continued financial assistance evolved from fiscal consolidation to a broader societal transformation. This reflected the compromise at the EU level to expand EMU governance from fiscal to macroeconomic policy with the introduction of the MIP, which included targeting labour costs and labour markets more directly. Greece was part of a broader European turn to labour as an instrument for achieving macroeconomic adjustment.

The fixation on Greek labour as a central macroeconomic adjustment variable did not involve relaxation of the conditionality of fiscal consolidation. As the political focus turned increasingly on Greek labour, the effect was a more long-term adjustment channel. In short, it would take time to adjust wages and employment conditions in Greece, and even longer for this adjustment to help bring down Greek debt. Therefore, it was increasingly necessary to act on Greece's debt sustainability. As such, debt restructuring became integral to EU institutions' preparations for Greece's second bailout package. In July 2011, Greece, the Troika institutions, and international private creditors, agreed on what the latter had calculated to be a 21% debt "haircut". This level of debt restructuring was a condition of the German government, which required substantial private sector involvement, but it was a level of restructuring most likely insufficient to make Greece's debt sustainable, and did in fact not involve any real debt relief (Tooze, 2018, pp. 384–389, 404–408; Zettelmeyer et al., 2013). Three months later, the European leaders, the IMF, and the private creditors agreed on a 50% haircut of privately held debt as the condition for a second bailout package. This way, creditor haircuts and bailout packages were now fully intertwined, with a 200bn euro debt restructuring agreed to bolster the sustainability of Greece's debt before launching a new bailout package.

Greece's ability to pay back even its restructured debt obligations depended greatly on an immediate and sustained economic recovery. In the eyes of the EU institutions, this transformation required substantial cuts in wages and labour costs. Depressingly, therefore, the European Commission noted that "(d)espite a considerable reduction in per capita income, downward rigidities in wage-setting systems have prevented the necessary adjustment of private sector wages, thus contributing to a sharp increase in unemployment" (European Commission, 2011a, p. 35) and prolonged economic recession. To promote fiscal and wage adjustment, the agreed adjustment of public sector wages was front-loaded for immediate implementation, with legislation planned to lower average wages by 17% (European

Commission, 2011a). Further, to reduce downward wage rigidity, the government agreed to suspend 'the extension of occupational and sectoral collective agreements … to give flexibility to firms and their staff in order to agree wage setting at the firm-level' (European Commission, 2011a, p. 36). From the perspective of critical integration theory, these agreements show an increased fixation on labour and wage flexibility as a solution to the structural flaws in the EMU and their repercussions for Greece's economy. The bailout conditions forced Greek labour to show the adaptability that the EMU institutional structures lack.

Politically, these frontloaded requirements were putting Greek Prime Minister Papandreou under severe domestic pressure: The Syntagma square occupation, started on 25 May, ended in two days of violent and costly clashes between protestors and the police in June 2011. In October, a two-day general strike culminated in demonstrations involving up to 500.000 protestors and violent clashes in Athens' streets (Vogiatzoglou, 2017). Politically, PASOK MPs were splitting from the party in protest over the continued austerity measures. Ultimately, in November 2011 Papandreou proposed to hold a referendum on the second bailout package. After strong opposition from European leaders, Papandreou was not only forced to back down on his referendum promise, but to step down as prime minister in order to gather support for a left-right coalition government under a technocratic leader, former ECB vice-president Lucas Papademos.

With a new bailout package agreed in October, and a technocratic, ECB-aligned prime minister installed in November 2011, everything suggested that the terms of the second bailout could be spelled out during winter 2012. Yet, in February 2012, reports emerged that Troika representatives had made an immediate 25% cut in both the minimum wage and public sector wages a central condition for finally agreeing on the second bailout. The Greek counter-offer, which included a 3-year wage freeze was firmly rejected by the Troika (Hope & Spiegel, 2012). Even under Papademos' technocratic government, the relationship between Greece and the Troika institutions was characterised by conflict. However, edging closer to the prospect of bankruptcy, the Greek parliament approved an extensive round of austerity measures on 12 February 2012, including a 22% minimum wage cut, clearing the way to an agreement on the second bailout before the expected point of bankruptcy in March 2012.

With the second programme of 2012, 'implementation of the growth-enhancing structural reform agenda [gained] prominence in the overall implementation of the programme' (European Commission, 2012a, p. 1). These measures were triggered primarily by a much larger than expected contraction in domestic output. The 2010 bailout was based on a macroeconomic framework forecasting a cumulative GDP contraction of 8.6% in the 2009-

2011 period, after which real GDP growth was expected to pick up (European Commission, 2010f, p. 17). The Greek economy instead shrank by almost 19% in the same period and contracted by more than 25% before stabilizing in 2014 (see table 5.2). While the success of the first bailout hinged upon fiscal contraction having only a small impact on aggregate demand, in fact the negative effects of the austerity measures showed how the Greek economy in significant parts hinged upon government expenditure.

The greater-than-expected contraction of the Greek economy did not cause a greater rethink on the role of wage and labour policies in the process of economic adjustment. As the pre-crisis boom and crisis bust revealed, government expenditure and private debt-led consumption generated aggregate demand and sustained Greek growth rates. Earlier in this thesis, I have described the relationship between Greece's comparatively, but not excessively, high wage inflation and Greece's demand-led growth regime. With Greek wages under increasing pressure, and with employment rates falling, the contraction in Greece's economy rapidly accelerated (table 5.2). Rather than acknowledging the growth-stimulating role of Greece's existing demand institutions, including public sector employment, the EU institutions continued the strategy of internal devaluation. In fact, the Troika hardened its insistence on the necessity of 'ambitious internal devaluation … (with) an upfront reduction in nominal wage and non-wage costs' (European Commission, 2012a, p. 2).

The 2012 bailout package rested on the agreement that Greece would not only lower the minimum wage by 22%, but also a general labour cost reduction of 15% (European Commission, 2012a, p. 3). Despite persistent so-called "downward rigidities in wage-setting systems" – essentially collective bargaining agreements protecting workers – which had "prevented the necessary adjustment of private sector wages", the new bailout programme expected unit labour costs to decrease by 7.8% in 2012 alone (European Commission, 2012a, p. 9). Achieving a reduction in labour costs of almost 8% in one year, and 15 % over three years would be a remarkable cost-cutting achievement, albeit one with potentially significant social costs. After years of hitherto unseen levels of internal devaluation, the 2012-2014 produced a cumulative 11% contraction in unit labour costs.[10]

[10] OECD Stat. Productivity and ULC by main economic activity. https://stats.oecd.org/Index.aspx?DataSetCode=PDBI_I4

Table 5.2. Greece annual GDP growth percentage

	2009	2010	2011	2012	2013	2014
Troika forecast	-2	-4.0	-2.6	1.1	2.1	2.1
IMF data	-4.3	-5.5	-9.1	-7.3	-3.2	0.7

5.6.3. The rise of SYRIZA

The 2011 Athens occupations, demonstrations, and mass strikes not only undermined Papandreou's leadership, but also signalled the coming reorganisation of Greek politics. At the 6 May and 17 June 2012 elections, SYRIZA would win 16.8% and 26.9% of the votes, effectively replacing PASOK as the left-of-centre option in Greece's two-party political system. Compared to the 2009 election that had brought PASOK back into power, in the 2012 elections SYRIZA first tripled its votes from 4.6% and immediately after grew by another 10%points (Stavrakakis & Katsambekis, 2014).

As Katsambekis (2016; Stavrakakis & Katsambekis, 2014) argues, it was during this period that SYRIZA transformed from a youth movement mainly associated with anti-globalisation protests and particular events such as the 2008 Greek riots following a police killing. Instead, it increasingly turned into a left-populist party aiming to represent the popular resistance to bailout conditionality austerity. However, SYRIZA also continued its close association with civil protests, which intensified in reaction to the rollout of austerity measures (Vogiatzoglou, 2017). The successful transformation of SYRIZA would then come to rest on a general legitimation of the civil disobedience that SYRIZA both participated in and sought to represent (Katsambekis, 2016).

Building strong rhetorical and personal links to the anti-austerity protest movement, SYRIZA committed to the project of reinvigorating the Greek society through the instalment of 'the sovereign people' and direct democracy (SYRIZA, 2015, cited/translated in Katsambekis, 2016). At the same time, SYRIZA's leadership committed to Greece's continued membership of the EMU and sought to build an alliance of progressive forces in peripheral member states (Spiegel, 2013). While the SYRIZA's position mirrored the sentiments of many citizens, its pro-euro, anti-austerity stance pitted the SYRIZA leadership against other Greek left parties and the party's left wing.

The SYRIZA strategy invoked two images of European political cooperation at once: the democratic power of the sovereign people and the creation of a progressive European alliance. For SYRIZA, like many other radical left parties, restoring the sovereign people to take back democratic control over economic policies was a project that ultimately runs through the powers and institutions of the nation state, including sovereign states' right to reject the demands of international creditors.

Therefore, SYRIZA were embracing "national and popular sovereignty", while appealing to a European alliance of insurgent left-wing movements. Sovereignty was always understood in relation to the EU, particularly the Eurogroup. In this image, the relationship with the EU has been thought of as a question of wrestling for power in a zero-sum game, which has been reiterated by leading left-wing politicians and observers, such as Costas Lapavitsas (2019). Building European alliances, conversely, appealed to the image of international alliances' constitutive power in transforming European integration. SYRIZA's project always depended on the realisation of the second imaginary: that of building a progressive alliance to forge a counter-hegemonic project to the EU doctrine of fiscal discipline and internal devaluation. Yet, squaring the narrative of national sovereignty with the rhetoric of transformative-international alliances relied on the alleged distinction between the *institutions* and the *potential* of European integration.

The domestic economic policy programme that had brought SYRIZA to power in the first place, announced in Thessaloniki in September 2014, prioritised a write-off of 'the greater part' of Greece's public debt, with the remaining bulk to be repaid only once economic growth had been restored (SYRIZA, 2014). In budgetary terms, this would involve ending the EU institutional requirement of Greek primary surpluses. As for wage and labour policy, the Thessaloniki programme announced a gradual restoration of wages and pension. Specific policy proposals included the 'restitution of the Christmas bonus' for low-income pensioners; the 'restoration of the minimum wage to €751'; 'restitution of the institutional framework to protect employment rights'; abolition of relaxed layoff regulations; restitution of collective agreement frameworks; and an employment programme for 300.000 new jobs at a price of 3bn euros (SYRIZA, 2014).

To fulfil any of these proposals, it would require SYRIZA to annul the 2nd MoU and renegotiating a new agreement with the Troika creditors. After coming first in the European Parliament elections in May 2014, SYRIZA started to poll consistently above 30%, and secured 36.3% of the votes at the January 2015 general elections. Able to form a coalition government with the right-wing, Eurosceptic party Independent Greeks (ANEL), SYRIZA began negotiations with Eurozone finance ministers and Eurogroup officials in late January 2015 (Varoufakis, 2017). Within days of initiating negotiations, the Greek government announced its refusal to accept the conditions for the final instalment (or sub-tranche) of the second bailout package. Immediately, the ECB acted to put the Greek government under severe pressure by making 'the provision of liquidity to Greek banks (…) harder and more expensive (Theodoropoulou, 2016, p. 16). Unable to convince European leaders of the virtue of renegotiating the policy conditionalities and debt obligations under the 2nd bailout programme, the Greek government eventually agreed to extending the programme. However, with serious disagreements persisting between Greece, on the one side, and the EU institutions and most European political leaders, on the other, Greece remained under severe liquidity pressures throughout spring 2015. This contributed to yet another economic downturn in an economy that had otherwise stabilized in 2014 after a five-year long recession.

The public referendum in June 2015, in which Greek voters overwhelmingly supported the government's rejection of the Troika's condition for concluding the 2nd bailout programme, failed to change the relationship between Greece and its institutional creditors. For their part, European leaders seemed mostly uninterested in rethinking the strategy for dealing with Greece and the SYRIZA government. Instead, it emerged that EU leaders were drawing up contingency plans for the likely humanitarian crisis in case of a disorderly Grexit (Theodoropoulou, 2016). The public referendum, rather than giving the SYRIZA project an advantage in negotiations to change debtor-creditor relations within the Eurozone, became symbolic for the unravelling of SYRIZA's alternative European project. As the SYRIZA-led government eventually capitulated to their European counterparts and accepted a 3rd bailout programme with more extensive and much tougher policy conditionalities than in the previous programmes.

The 3rd programme underpinned in particular the need for an 'ambitious reform of the pension system' to compensate for the accumulated obstacles and delays in reforming the pension systems since the first bailout (Eurogroup, 2015). Further, the EU institutions, under the auspice of the Eurogroup, stressed the importance of 'a significantly strengthened privatisation programme' under the governance of an independent, depoliticised privatisation fund (Eurogroup, 2015). The third bailout programme further required the Greek government to generate savings of 0.5% of GDP annually by reforming a series of social security schemes. The government also committed to rolling out a guaranteed minimum income scheme targeting the poorest and most vulnerable (European Commission, 2015a, p. 17). Concerning labour reform, the MoU stipulated a comprehensive review process to bring "collective dismissal and industrial action frameworks and collective bargaining" in line with the European best practices with the view to strengthen employment incentives and supporting inclusive growth.

EU intervention into the governance of wages and labour in Greece changed dramatically because of the financial crisis, as Greece's deficit- and debt-levels rapidly soared after 2008. The EMU, which had provided for massive inflow of cheap credit as well as historically low interest rates on government bonds, was unable to facilitate a solution to the Greek crisis within the existing institutional framework. Instead, a novel political innovation – a Troika of institutions both within and outside the EU – was required to unlock the situation. In return for a bailout of the Greek government, the Eurogroup of Eurozone Finance Ministers and the EU institutions in the Troika demanded a combination of strict fiscal discipline and severe wage cuts to restore cost competitiveness. During 2010, as it became clear that the initial bailout package was far from enough to restore Greece's economy and debt sustainability, the EU institutions increasingly targeted Greece's labour markets in an attempt to make the more fundamental reconfiguration of the Greek political economy the condition for another bailout.

Coinciding with the broadening of the scope of the EU's policy conditionalities, Greek popular discontent with the austerity programme was beginning to translate into decisive political change. Yet, quickly upon entering government, the contradictions of the SYRIZA project materialised. From the perspective of critical integration theory, SYRIZA's strategy of defending the potentiality of European integration while fighting its institutional reality was ultimately untenable.

To be sure, insurgent ideas and movements have transformed European institutions, even radically so. For instance, the once insurgent brand of Thatcherite neoliberalism transformed European integration via the European Single Act, although Europe's eventual Single Market was not created in her image. Yet, the recent history of the EU, including the creation of the Single Market, suggests that "radical" ideas and movements transform European integration by working from within the institutions. Alternatively, they may seek to disrupt the institutional framework through (threats of) withdrawal (e.g. Brexit) or by wilfully breaching the Union's fundamental values (e.g. Hungary and Poland). While the disruptive effects of such movements may be tangible, their institutional-transformative potential nonetheless remains unrealized. Critical integration theory stresses the path-dependencies of EU institutional change, including in the event of emerging political projects at the domestic and EU levels. This complicates processes of institutional transformation and makes EU institutions difficult channels for the formation of transnational alliances. Instead, the creation of powerful European hegemonic projects depends on the formation of increasingly transnational social groups. The role of European industrial and financial capital in the formation of the European neoliberal project is the case in point (van Apeldoorn, 2002).

In the absence of a new progressive European project, SYRIZA could not uphold the two narratives of popular sovereignty formulated against EU intervention and in favour of European transformation through transnational alliances. After the referendum to reject the EU's demands for a third bailout package, the party's leaders deemed the political and economic costs of a disruptive break with the European institutions unbearable. Rather than unilateral default followed by a Greek exit from the EMU and potentially from the EU, the SYRIZA-led government capitulated to the demands of the EU institutions. This way, SYRIZA's popular rise and its eventual fall to the demands of the EU reflects the processes of institutional reproduction and occasional transformation. Contesting the principles of European monetary integration, including the dominance of creditor states in times of crisis, SYRIZA was bound to either succeed in transforming the EU institutions and the already established creditor-debtor relations - or contribute to their reproduction. SYRIZA arguably reproduced the EMU framework by eventually capitulating and thereby supporting Greece's continued membership of the single currency.

5.7. Conclusion

This chapter has outlined the evolution of EU labour governance in the post-crisis EU landscape. In this chapter, I have argued that there is an absence of deeper political hegemony in EU labour governance, which allows for superficial compromises but restricts structural and institutional transformations. The evolution of labour governance within the EU economic governance framework has taken place through the new institutions of the European Semester and the MIP. As I have argued in this chapter, the absence of political hegemony has resulted in a large degree of continuity when comparing EU labour governance practices before and after the financial crisis. In particular, the practice of performance management techniques, including benchmarking and other elements of 'governance-at-a-distance', has allowed the European Commission as the central EU institution to develop and reproduce EU labour governance in the absence of hegemony. Attempts to install greater institutional transformation, via the Euro-Plus Pact or a Eurozone budget, has proven unable to materialise in the absence of hegemony.

The Greek crisis and ensuing bailout programme provide a test case for my argument on the absence of deeper political hegemony. I have shown in this chapter that Greece has indeed undergone severe neoliberal adjustment, which has upended Greek labour markets and its welfare state. However, the Greek case also adds to a picture of great geographical and institutional differentiation in EU labour governance. In Greece, EU labour governance took on the form of coercion, as the Troika institutions instructed the Greek government on the labour market reforms required to avoid default. Comparable processes have taken place in other programme countries. For most EMU member states, EU labour governance has hitherto not relied on sanctions. This political and institutional differentiation reflects the continued hegemonic competition over EU labour governance, and the very different power constellations that develops in the case of bailouts *versus* institutional reform. In the case of bailouts, the preferences of very few actors, particularly the German government, are decisive and thoroughly shape the institutional form and political-economic content of labour governance. In the case of institutional reform, a broader set of actors, with preferences and identities rooted at the domestic level in different member states may constrain efforts to transform EU labour governance. In the absence of structural transformation, EU labour governance in the context of EMU remains underdeveloped as an EU project.

Conclusion

This conclusion summarises the key findings of the thesis and analyses the current state of EU labour governance in the context of the EMU.

Summary of findings and contributions

This thesis has studied the evolution of EU labour governance since the move to monetary union in the late 1980s. In particular, it has addressed the relationship between EU labour governance and the EMU. The key objective has been to address *why* and *how* EU labour governance has evolved over the last three decades and analysing what difference the financial crisis made. When Europe moved towards monetary union and a single currency, developments in EU labour governance did not match up. The EU did not develop a comprehensive framework for ensuring labour market liberalisation within the Eurozone, and neither did the EU build a framework for supporting employment and stimulating the economy in times of crises. Instead, a range of strategies and procedures for labour governance developed alongside but detached from monetary integration.

EU labour governance, as it developed during the 1990s and 2000s suffered from structural and institutional weaknesses. The wave of social democratic leaders entering European politics in the late 1990s embraced the use of performance management techniques like benchmarking, which in turn helped overcome reluctance to EU labour governance from centre-right policy-makers. During this period, the project of EU labour governance remained institutionally weak and ineffective in assisting European integration and bringing economic convergence forward. The growing macroeconomic imbalances, the lack of real economic convergence, and the benign neglect with which European leaders treated these issues, are all illustrative of this. Nonetheless, domestic labour market strategies of *inter alia* wage moderation and deregulation nurtured EU-level labour governance. Shaped by the strengthened neoliberal hegemonic project of the 2000s, the EU increasingly targeted cost competitiveness as the guiding objective of domestic structural reform. Recent evolution in EU labour governance reflects the enduring competition of EU hegemonic projects. When the Eurozone crisis accelerated from early 2010, European leaders passed a series of reforms to EU labour governance via reforms to the EMU's macroeconomic governance framework. The integration of labour governance within the EMU has led to radical change in the social organisation of selected member states but has not led to comprehensive labour market liberalisation across the monetary union. EU labour governance since the crisis takes place through differentiated interventions, putting workers in crisis member states under severe pressure. Effectively, this strategy strengthens the tendencies in the EMU towards greater inequalities and political and economic instability.

The thesis has stressed the importance of the EMU for Europe's labour markets and *vice versa*. Analysing how EU labour governance has evolved since the first moves towards the Euro currency in the 1980s, this thesis has contributed to the European integration literature. One of the big gambles of the EMU was to establish separate layers of political responsibility for labour and monetary governance. At the domestic level, member state governments would remain responsible for macro-economically sound employment and wage policies. The launch of the EMU placed the responsibility for monetary policy at the supranational level, delegated to the (governing council of the) ECB. Entering a union with a single currency, EMU member states have also ceded the macroeconomic adjustment tool of currency readjustment. The separation of the political responsibility for monetary and labour governance has produced contentious results.

The academic literature on EU labour governance often neglects the contentious relationship between labour governance and European monetary integration. Academic observers have noted the constraints on domestic social policy (spending) set by the EMU, and the interdependencies that arise from economic and monetary integration (Trubek & Trubek, 2005). The literature then tends to explain the underdevelopment of EU-level labour governance by referring either to adverse policy coalitions or to national interests. Other times, focus is on the ideological content or the degree of intrusiveness of EU labour governance (de la Porte & Heins, 2015a; Zeitlin & Vanhercke, 2018). In either case, these studies rarely interrogate the deeper social causes of the enduring political disagreements over labour governance. In addition, the existing literature mostly neglect the dynamics that is unleashed from the policy disequilibrium between European monetary integration and EU labour governance. This thesis has contributed to the existing literature on EU governance by stressing the contentious politics of EU labour governance and the important role competing hegemonic projects play in reproducing the EU's deficient efforts to bring convergence and stability to Europe's labour markets. Further, this thesis has explicitly analysed EU labour governance in the dual context of monetary integration and economic globalization.

Analysing the relationship between EU labour governance and the EMU, this thesis has also contributed to the literature on European political economy. Labour markets are complex social structures that constitute an essential part of Europe's political economy. The ability to pursue macroeconomic policies conducive to employment creation is arguably important for the political legitimacy of governments. Given the close relationship between employment, inflation, and money supply, labour governance and monetary policy are intimately connected. The enduring power relations and social struggles that constitute labour markets make labour governance a complicated social phenomenon. Social groups struggle over wages, regulations, institutions, etc., which complicates government interventions.

A multi-level polity with supranational monetary policy and domestic labour market institutions only exaggerates the difficulties for macroeconomic coordination and political legitimacy. In the context of economic globalization, social struggles over labour governance have resulted in growing economic inequalities and instability. This thesis has demonstrated how the evolution of labour governance amplifies rather than lessens the problems of inequality and instability in the EMU. Focusing on the competition of hegemonic projects, the thesis has argued that enduring political conflict throughout the EU multilevel polity causes these problems. This way, the thesis has provided a novel interpretation of EU labour governance of relevance to EU studies as well as IPE.

This thesis has advanced critical integration theory, and in particular the concept of competing hegemonic projects, to conceptualise the contested development of EU labour governance. To do this, the thesis has argued for the necessity of reconsidering European integration and discussing the social theories that underpin contrasting theoretical approaches to European integration. In contrast to the main theories of integration pursuing parsimonious explanations for European integration, this thesis has advanced a critical theory of integration that incorporates material and ideational structures, and institutional as well as macro-structures (Chapter 1). Pushing a concept of the political and economic forces capable of reforming those structures, the thesis has argued for the utility of understanding agency in relation to structures through the concept of hegemonic projects. Due to the enduring nature of structures, and the comparatively shorter lifespan of political and economic agency, the task of transforming structures is difficult. However, structures also depend on the reproduction of supportive ideas, adequate institutions, etc., and therefore agency. Hegemonic projects designate comprehensive programmes of political and economic action that are capable of operating within existing political and economic orders and institutions.

In EU labour governance and European monetary integration, pro-European social democratic and neoliberal hegemonic projects have dominated political contestation. However, the ongoing hegemonic competition in European integration, including labour governance and monetary integration, has not facilitated the creation of an integrated institutional framework for governing labour within the EMU (Chapter 2). Therefore, the EMU has facilitated a range of political and economic crises tendencies with severe consequences for European labour: divergence in living standards as well as competitiveness levels within the Eurozone; the rise of wage moderation and anti-labour redistribution in response to economic globalization; and the rise of macroeconomic imbalances which triggered the Eurozone crisis.

Empirically, the thesis has highlighted the political conflicts and hegemonic competition that has shaped the evolution of EU labour governance since leading European policymakers first moved towards monetary integration in the late 1970s. In the 1980s, domestic economic and political concerns were gradually drawing Europe's leaders towards the idea of a monetary union with a single currency (Chapter 3). Using critical integration theory, the thesis has analysed domestic contestation over monetary policy in the context of global structural forces. The thesis has highlighted the slowdown in economic dynamism after the mid-1970s that pushed domestic demand for monetary integration, particularly in Germany. At the same time, economic instability pushed French leaders towards championing the idea of a single currency. All this took place in the post-Bretton Woods context of floating exchange rates.

Under Delors' reign as European Commission president, EU labour governance as well as European monetary integration accelerated in ambitions and effort. Yet, neither the criteria for EMU membership nor the framework for EMU governance addressed the performance and governance of Europe's labour markets. The EMU institutional structure reflected the relative dominance of the preferences of German state actors, in particular the federal government and the *Bundesbank*. Therefore, EMU rules-based governance addressed fiscal discipline and price stability, which came with consequences for *inter alia* wage bargaining and labour market policy. However, there was little institutional integration of EU labour governance and monetary integration; instead, EU labour governance developed alongside, but separate from the EMU. Initiated by the Delors Commission, and since led by the wave of social democratic governments rising to power in the late 1990s, the EU developed a set of procedures for coordinating member state labour policy under the common objectives of competitiveness, employment, and social inclusion. While centre-right governments remained sceptical about EU labour governance, European leaders successfully launched new modes of labour governance based on benchmarking, peer review, and other 'soft' policy tools inspired by performance management.

At the domestic level, trade unions, employers, and government actors had responded to global macro-structural transformations by promoting tripartite social pacts and other strategies of wage moderation. By the late 1990s, domestic wage moderation strategies had caused a significant redistribution between labour and capital in the Eurozone. In 1998, wages amounted to 56.6% of total income; by comparison, in the 1960-1985 period, the wage share was constantly between 61% and 66%, reaching its periodic high in 1975 (Figure 4.1). The redistribution from labour to capital would eventually destabilise the Eurozone. Once 12 member states had introduced the Euro between 1999 and 2001, this permanently removed some important domestic macroeconomic policy instruments, including interest rate and exchange rate adjustments. This meant that member states would be unable to respond to growing divergence in the Eurozone by currency devaluation or expansionary monetary policy. As the Eurozone crisis demonstrated, growing economic divergence among EMU member states threatened to undermine the project of monetary integration. In the absence of an integrated EU labour governance framework, the EU had little direct control over these developments.

In this thesis, I have also followed post-Keynesian economics in arguing that growing inequality and redistribution from labour to capital caused the crisis (Chapter 4). This is because redistribution away from wage income lowers aggregate demand and increases economies' dependence on exports and debt. Facilitating both exports and access to cheap credit, the EMU facilitated member states' reliance on these sources of growth. Adding to the existing contributions of post-Keynesian economics, I have analysed the domestic political contestation and class conflict that facilitated the rise of debt- and export-led economies. In addition, analysing EU-level governance as reliant on competing hegemonic projects, I have analysed how EU institutions, and in particular the European Commission, approached the growing problem of macroeconomic imbalances. Importantly, by the time the Commission ended its practice of neglecting the issue of macroeconomic imbalances, the balance of power between social democratic and neoliberal policy-makers had tilted in favour of the latter. Under the dominance of neoliberal political leaders, EU labour governance remained an essentially contested project of European integration. Hegemonic competition at the domestic level resulted in great variation of labour market reforms. In Germany, the neoliberal trajectory of Schröder's *Neue Mitte* project led to far-reaching labour market liberalization in the decade before the financial crisis. In other EMU member states, including the Netherlands, wage moderation had long constituted the basis for a compromise between labour market social partners. However, at the EU level, there was little appetite for fundamental EU reforms following the EU's constitutional crisis. Therefore, the degree of EU intrusiveness was low, and there was little integration of labour governance into the EMU institutional framework.

After the financial crisis, and at the height of the Eurozone crisis, momentum for deeper EU labour governance in the Eurozone was growing. This is seen by the prominence of labour costs and structural reform in the MIP, in the adjustment programmes in Greece (and other crisis countries), and in the efforts to establish a contractual Competitiveness Pact (the Euro-Plus Pact). I have argued that EU labour governance, even after the crisis, remained a highly contested emergent project in European integration (Chapter 5). Political contestation over the content and procedures of EU labour governance continued, but the Eurozone crisis had reinforced existing power relations. While the EMU institutional structure had reflected the preferences of German state actors and the dominance of the neoliberal project in Germany, developments in the first decade of the Euro currency had reinforced the export growth model at the Eurozone core.

This way, the preferences of German, Dutch, and Austrian state actors had consolidated around the neoliberal project of European integration. During the financial and Eurozone crises, the preferences of this alliance of creditor member state actors aligned with the EMU institutional framework and the forces unleashed in global financial markets. Aligned with the EU institutions and global macrostructures, state actors in creditor member states were able to push through much more intrusive labour governance in member states requiring financial aid. Even if the neoliberal project of European integration had not overcome social democratic competition, the empowerment of creditor member states opened up the possibility of imposing structural reforms in some crisis countries.

In the case of Greece, this allowed a project of EU labour governance that fundamentally transformed labour markets and society. Under the conditions of the EMU's no bailout clause, Europe's political leaders and central bankers were first reluctant to act when the sovereign debt crisis accelerated in Greece and started spreading from there. Following the delayed decision to bail out Greece, European leaders agreed on a MoU that started the process of transforming the living conditions and rights of labour in Greece, a process that has been reinforced by updated memoranda and new bailout programmes.

The current state of EU governance and its relationship to the EMU

Given the enduring tensions in EU labour governance that I have highlighted in this thesis, I find it relevant to reflect on the current state of this contested project of European integration and its relationship to the EMU. By the time of writing this conclusion, October 2019, it has been a decade since the first escalation of Ireland and Greece's combined financial and sovereign debt crises. During this decade, Europe's single currency has moved from the existential threat of the accelerating financial and sovereign debt crisis after 2009, to economic stabilisation following the ECB's decisive intervention in 2012. Despite stability, the Euro is still under pressure. Institutional reform efforts have often been slow and characterised by indecision and inconclusive results. Latest, Eurozone economic performance slowed to 0.2% in the second quarter of 2019 (Reuters, 2019).

In the post-crisis period, the emergent project of labour governance of European integration has still been characterised by political contestation. Despite the relative dominance of the neoliberal hegemonic project that allowed for major restructuring in e.g. Greece, EU labour governance is characterised hegemonic competition. Recently, hegemonic competition has materialised in political conflict over the relationship between EU funding, the EMU's macroeconomic stabilisation needs, and domestic structural reforms. Like the MIP, the compromise on a Eurozone budget, the BICC, straddles the project of EU labour governance and the issue of Eurozone macroeconomic stabilisation. The BIIC compromise reached in June 2019 left open the arguably crucial question of financing.

Beyond the politics of EU labour governance, the European electorate has deserted the political centre in favour of the radical left and populist right (Lynch & Hopkin, 2018). This too signals the fragile dominance of the neoliberal hegemonic project in European integration as well as the evolving forms of hegemonic competition. The French, Dutch, and Greek social democratic parties are among the most prominent casualties of the infusion of electoral instability into European politics in the aftermath of the financial crisis. This feeds back into the dynamics of why and how EU labour governance evolves. In Italy, for instance, the 2018-2019 coalition government of the (neoliberal) far-right *Lega* and the Five Star Movement reversed some key labour market and pension reforms, initiated constraints on non-standard employment, and proposed early retirement. This way, the (now former) Italian government broke the consensus established between the preceding Democratic government and the European Commission on what constituted sustainable labour market regulation and pension policy. The rise of right-wing challenges to the European policy consensus is an example of the new forms of contestation over EU labour governance in period since the crisis. In the Italian case, the rise of new political movements and the surge of a former peripheral, right-wing party brought new elements of political contestation to domestic and EU labour governance, including conflict over the proposed citizen's income.

Despite political instability, the relative stabilisation of Europe's economy means the single currency is no longer in danger of immanent collapse. The Eurozone has achieved relative economic stabilisation in the absence of political hegemony. Political leadership, arguably, bears little responsibility for the delicate stabilisation. While European leaders were focusing on fiscal contraction and internal devaluation, it was ECB President Draghi’s forceful rhetoric and the ECB’s package of expansionary and unconventional monetary policy that calmed market pressure. Currently, no member states are in danger of sovereign default. Meanwhile, the German finance ministry has stopped drawing up plans for the expulsion of weaker members (Spiegel Online, 2011). The monetary context of EU labour governance is therefore no longer characterised by existential threat, but I argue, continued structural weakness. The primary structural weakness comes from the seeming inability to restore growth, and the unavailability of institutional capacity to stimulate the economy in case of another economic crisis.

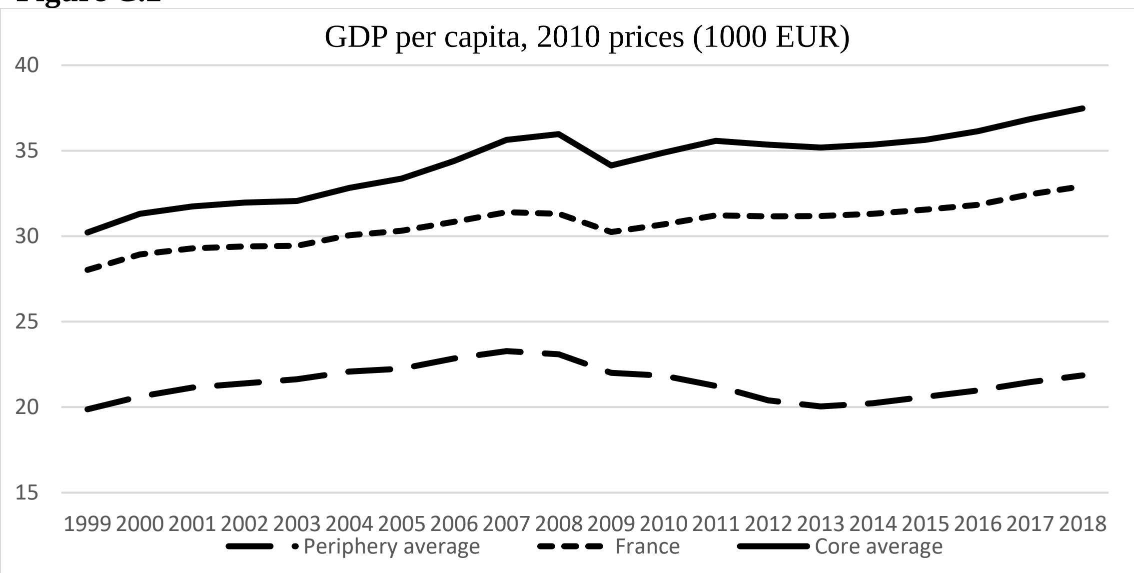
EU labour governance has been essential to the wider project of restoring Euro legitimacy after the crisis. This has happened through the promotion of investment for reform-eager member states, the pursuit of consensual labour market reforms such as further education, and efforts to restore social dialogue at the EU-level. Yet, EU labour governance suffers from the EMU’s structural crisis tendencies and from political contestation over European integration. EU labour governance suffers from EMU structural weaknesses to the extent that the EMU continues to produce divergent outcomes for its member states with enduring potential for political and economic crisis. The longstanding issue of Eurozone economic divergence - as well as the structural forces unleashed by the EU policy response to the crisis - suggests that the governance of labour within the Eurozone remains in highly uncharted territory. There are several indicators of persistent divergence in the Eurozone.

First, macroeconomic imbalances persist in the Eurozone. In Germany, high saving rates and strong export performance produce large current account surpluses. Since 2011, Germany’s current account surplus has remained consistently above the MIP threshold of 6%. In 2018, the Eurozone ran a current account surplus with the rest of the world of 3%. Nonetheless, eight EMU member states were running current account deficits in 2018. This highlights the disparity in macroeconomic positions of different EMU members.

Second, the unemployment rate is another indicator of the continued divergence in the Eurozone. In Germany, unemployment was at 3.4% in 2018. Conversely, the unemployment rate in Greece was 19.3 % while in Spain it was 15.3%. Economic estimates suggest that while Germany has a natural rate of unemployment at 3.4%, Greece’s is 13.4%. According to standard economic reasoning, Greece’s economy remains cyclically depressed (with unemployment significantly above its natural rate) and structurally impeded (with natural unemployment about four times as high as in Germany). If it were true that Greece’s problem was primarily structural unemployment, the solution would be continued structural reforms. Yet, seeing how the EU project of structural labour market reforms has combined with austerity to depress economic output in the Eurozone periphery, it is highly uncertain if more structural reforms would succeed in bringing down unemployment and raising living standards in the Eurozone periphery.

Third, standards of living also continue to diverge in the Eurozone. Figure C.2 shows the unweighted average GDP per capita in five core member states (Austria, Germany, Belgium, Netherlands, and Finland), in four peripheral member states (Italy, Spain, Greece, and Portugal), as well as GDP per capita in France. The unweighted average GDP per capita in the Eurozone core is 37.475 EUR, while the similar figure for the Eurozone periphery is 21.864 EUR (in 2018). By this measure, there is a 71% gap in core-periphery income. Further, the gap has been growing. Over the course of the last two decades, the GDP per capita has improved much more in the core than in the periphery. In the Eurozone core, the unweighted average GDP per capita has grown by 24% in 20 years. In the Eurozone periphery, the same average grew at a much slower rate: 10% in 20 years.

Figure C.2



Periphery average is the non-weighted average of GDP per capita in Greece, Italy, Spain, and Portugal. Core average is the non-weighted average of GDP per capita in Austria, Germany, Belgium, Netherlands, and Finland. Source: AMECO, own calculations.

Real economic divergence in the Eurozone - as illustrated by the divergence in current account balances, unemployment rates, and GDP - preceded the financial crisis. Divergence, therefore, is not the product of the crisis and its policy response. The EU policy response of austerity and the contested project of labour governance, however, has likely reproduced

Eurozone divergence. Requiring fiscal discipline combined with structural labour market reforms, EU rules and recommendations have helped rebalance government budgets and external balances by depressing domestic demand in the periphery (Interviewee #14; Interviewee #19). It has also brought economic stagnation and social decline to affected countries. In addition to cross-country divergence, functional inequality remains historically high. Overall, in the Eurozone 12, the share of income enjoyed by labour (the wage share) was at 55.5% in 2017.[11] The EU's core-periphery and capital-labour inequalities point to the potentially destabilizing effects of an EMU institutional structure unable to bring about real convergence in living standards across the EMU. The EU, meanwhile, promotes a policy package of state-backed financial market expansion and permanent austerity.

Notwithstanding the requirements for balanced government budgets and pursuit of internal devaluation in crisis countries, there is persistent political contestation over labour reforms at the domestic and EU levels. As a result, many European countries have maintained extensive, if reconfigured welfare states as well as regulated, if reorganised labour markets. For instance, research by the European Trade Union Institute on collective bargaining shows how 'the level of bargaining has remained constant in 13' Western European countries in recent decades (Waddington, et al., 2019, p. 10).

Yet, some crisis-struck member states in the Eurozone periphery, including Greece, have quite fundamentally transformed their existing social model (Waddington, et al., 2019, p. 9). In Greece, EU labour governance in combination with fiscal austerity has caused significant domestic structural transformation. The primary structural effect of the Greek crisis, austerity measures, and internal devaluation, was the immediate decline in investment and consumption that led to the rapid rebalancing of Greece's current account after 2009.[12] Supporting this process of rebalancing the current account was also the pickup in exports between 2009 and 2014, facilitated by the reduction of unit labour costs after 2010.[13] The costs for the rebalancing of the current account has come in the form of social deterioration. The poverty rate rose from 13% to 15%,[14] and the disposable income dropped by between 7% and 11% per household four

[11] The Eurozone 12 refers the 12 countries that adopted the Euro currency between 1999 and 2001.
[12] Eurostat – Current account balance (percentage of GDP). https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tipsbp20&plugin=1
[13] Eurostat – Exports of goods and services. https://ec.europa.eu/eurostat/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00110. AMECO – Nominal unit labour costs: total economy. https://ec.europa.eu/economy_finance/ameco
[14] OECD Data – Poverty rate. https://data.oecd.org/inequality/poverty-rate.htm

years *in a row*.[15] The latter resulted in a drop in disposable income by 1/3 between 2009 and 2013.

This reorganisation of Greece's socio-economic model has taken place within the institutional context of the Troika institutions and the bailout (financial assistance) programme. Critical integration theory stresses the importance of institutions, larger macrostructures, and hegemonic projects. Institutionally, the power relations inside the bailout programme made the demands of creditors much more prominent than in the general EU institutional framework. In terms of macrostructures, Greece's EMU membership has reshaped the country's relationship with global financial markets. In terms of hegemonic competition, the emergence of the new, left-social-democratic force of SYRIZA was unable to find a new route for Greece in the context of the Troika's institutional structure and the structure of global finance.

Critical integration theory points to the enduring nature of hegemonic competition in European integration to explain the fundamental transformation in the Greek political economy, as well as the resilience of capitalist diversity in other member states. Rather than the embedding deeper neoliberal hegemony, or alternative the end of the neoliberal project, recent evolution and the current state of EU labour governance suggests a case of contested neoliberal dominance. The current state of EU labour governance is a case of contested neoliberal dominance as social democratic ideas provide an external competition: that is, competition over the appropriate role and design of government intervention in the market economy. The dominance of the neoliberal hegemonic project also faces internal competition, as the nationalist-neoliberal project has grown stronger in recent years.

Outlining the key findings of the thesis and taking stock of the current state of EU labour governance, this conclusion has reiterated how the thesis has answered the research question on the evolution of EU labour governance. In particular, the thesis has stressed the importance of competing hegemonic projects that make EU labour governance a contentious project of European integration. In effect, it is a politically contested and mostly ineffective project for promoting economic convergence and stability. Under the condition of continuous hegemonic competition over labour governance, the EMU and Europe's single currency has been unable to address enduring tendencies towards economic inequalities and political and economic instability. In the post-crisis period of contested neoliberal dominance, the EU has been able to inflict much greater social cost on crisis countries than previously. However, rather

[15] OECD Data – Household disposable income. https://data.oecd.org/hha/household-disposable-income.htm

than assisting the EMU in delivering on the promise of real economic convergence, the current state of EU labour governance has worsened the destabilising effects of European integration.

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List of interviews

Interviewee #	Position	Organisation	Interview location	Date
Interviewee #1	Adviser	Employers' association	Brussels	16.11.2017
Interviewee #2	Adviser	Trade union movement	Brussels	27.11.2017
Interviewee #3	MEP	European Parliament group (S&D)	Brussels	30.11.2017
Interviewee #4	Adviser	European Parliament group (S&D), formerly in European Commission	Brussels	1.12.2017
Interviewee #5	Adviser	Trade union movement	Brussels	5.12.2017
Interviewee #6	Adviser	Employers' association	Brussels	11.12.2017
Interviewee #7	Adviser	European Parliament group (EPP)	Brussels	14.12.2017
Interviewee #8	Coordinator	NGO	Brussels	17.1.2018
Interviewee #9	Official	European Commission (DG ECFIN)	Brussels	22.1.2018
Interviewee #10	Adviser	European Parliament group (Greens/EFA)	Brussels	25.1.2018
Interviewee #11 + 20	Official	European Commission (DG EMPL)	Brussels	29.1.2018 + 26.10.2018
Interviewee #12	Official	European Commission (DG EMPL)	Brussels	29.1.2018
Interviewee #13	Fellow	Think tank	Brussels	28.8.2018
Interviewee #14	Adviser	European Commission (DG ECFIN)	Brussels	22.10.2018
Interviewee #15	Official	European Commission (DG EMPL)	Brussels	24.10.2018
Interviewee #16	Official	European Commission (Spokesperson's Service)	Brussels	24.10.2018
Interviewee #17	Official	European Commission (DG EMPL)	Brussels	25.10.2018
Interviewee #18	Official	European Commission (DG EMPL)	Brussels	26.10.2018
Interviewee #19	Official	European Commission (DG EMPL)	Brussels	26.10.2018

Appendix

Table 4.2 European Commission Communications on pay and wage issues 2008-2009

Communication	Title	Theme (economic or social & employment)	Labour costs	Income, inequality
COM(2008) 238	EMU@10: successes and challenges after 10 years of Economic and Monetary Union	Economic	Yes - highlights wage moderation 'improvements', but 'lasting differences' between member states (p. 5). 'Greater wage differentiation… instrumental in boosting competitiveness and allowing the smooth reallocation of resources in the event of shocks' (p. 9).	Yes, linked to disappointing (productivity) growth, report acknowledges 'concerns about the fairness of income and wealth distribution have grown' (p.2).
COM(2008) 639	Commission Recommendation on the active inclusion of people excluded from the labour market	Social & Employment	No, only work/welfare incentives.	Yes, income - but policy implications concern welfare restructuring: 'work needs to be more attractive than welfare' (p. 4).
COM(2008) 706	From financial crisis to recovery: A European framework for action	Economic	No	Yes - proposes efforts to support incomes, especially 'at the lower end of the labour market' (p. 7)
COM(2008) 800	A European Economic Recovery Plan	Economic	Yes - urgent need to 'reinforce the link between the wage setting mechanism and productivity developments' in countries with competitiveness problems (p. 10).	Yes - recommendation to temporarily increase 'transfers to the unemployed or low income households' (p. 8).

COM(2008) 868	New Skills for New Jobs: Anticipating and matching labour market and skills needs	Social & Employment	No.	Yes, job polarization raises 'concerns about wage differentiations between jobs' which may cause higher inequality in income shares between high, middle, and low skilled workers (p. 8).
COM(2009) 79	Five years of an enlarged EU – Economic achievements and challenges	Economic	Yes - "wages have grown in excess of productivity in several countries, thereby leading to competitiveness losses" (p. 6). National reforms related to the completion of the single market 'pay a double dividend: they boost growth and job creation and promote macroeconomic stability by facilitating the better adjustment of wages and prices to shocks' (p 8).	Yes, in terms of EU income convergence: 'Sound fiscal policy is essential to maintaining macro-financial stability and promoting integration and income convergence' (p.
COM(2009) 257	A Shared Commitment for Employment	Social & Employment	Yes, but only non-wage labour costs	Yes - tax/benefit system must reform 'to make work pay' and 'reducing disincentives to work' (p. 8).
COM(2009) 527	Annual statement on the Euro area.	Economic	Yes - reversal of 'accumulated wage and cost divergences' protracted by 'lower potential growth, which limits the room available' (p. 7).	Yes, income - 'relative resilience of consumption has proved to be a stabilising factor during the recession, as disinflation and relief measures included in fiscal stimulus packages have supported household incomes' (2).

COM(2009) 649	The Employment Crisis. Trends, policy responses and key actions (background paper to the EPSCO Council)	Social & Employment	Yes: 'An enhanced and constructive dialogue with social partners is crucial also to ensure that wage developments are in line with productivity and sectoral and local labour market conditions' (p. 11).	Yes - "many Member States have taken action to support the income of their most vulnerable citizens e.g. by increasing the level of minimum income or minimum wage, extending the coverage or duration of unemployment benefits…" (p.7). "Benefits are in some cases too low, or their duration very limited in time. On the other hand, the design and generosity of benefits need to be properly defined in order to limit disincentive effects to take up work for beneficiaries" (p. 9).

Table 4.3 European Commission Communications on pay and wage issues 2010-2011

Communication	**Title**	**Theme (economic or social & employment)**	**Labour costs**	**Income, inequality**
COM(2010) 250 final	Reinforcing economic policy coordination	ECO	Yes - 'The economic and financial crisis has triggered a partial rebalancing of current accounts. But this rebalancing is only partly structural. Major policy reorientation is needed to bring about the necessary adjustment in terms of costs and wages, structural reform and reallocation employment and capital (p. 4)'. + proposes surveillance of ,	No

			among other indicators, unit labour costs, to address 'macroeconomic imbalances, including competitiveness developments and underlying structural challenges' (p. 6).	
COM(2010) 2020	Europe 2020 A strategy for smart, sustainable and inclusive growth	ECO + Social&Empl	No.	Yes, member states need to 'fully deploy their social security and pension systems to ensure adequate income support' (p. 19). Also: 'The number of Europeans living below the national poverty lines should be reduced by 25%' (p. 11).
COM(2010) 367 final	Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance	ECO	Yes - Depending on the nature of the imbalances identified in the Member State(s), the recommendations could address a broad range of policy issues covering macroeconomic policies, wages and labour markets (p. 4)	(Only in relation to fishermen and farmers' income, p. 10).

COM(2010) 488	Broad economic policy guidelines	ECO	Yes - all 'Member States should encourage the right framework conditions for wage bargaining systems and labour cost developments consistent with price stability, productivity trends and the need to reduce external imbalances. Wage developments should take into account differences in skills and local labour market conditions' (p. 8). Euro area Member States with large and persistent current account deficits that are rooted in a persistent lack of competitiveness should achieve a significant yearly reduction in structural terms (8-9). Those Euro area Member States should also aim to reduce real unit labour costs (p 9). Surplus countries should act on excessive inflation differentials.	No, but stresses the need to tackle 'structural unemployment and inactivity while ensuring adequate and sustainable social protection and active inclusion to reduce poverty' (p. 6).
COM(2010) 525 final	Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on enforcement measures to correct excessive macroeconomic imbalances in the euro area	ECO	Yes 'Depending on the nature of the imbalance, the policy prescriptions could potentially address fiscal, wage, macrostructural and macroprudential policy aspects under the control of government authorities' (p. 5). 'Correction of	

			competitiveness and external imbalances requires significant changes in relative prices and costs and reallocation of demand and supply between the non-tradable sector and the exports sector (p. 5-6).	
COM(2010) 526 final	Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies	ECO	No.	No.
COM(2010) 527 final	Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the prevention and correction of macroeconomic imbalances	ECO	Yes, wages potentially part of macroeconomic imbalance governance	No.
COM(2010) 682 final	An Agenda for new skills and jobs: A European contribution towards full employment	Social&Empl	Yes - highlighting problem of low wage growth: "Wages have tended to grow below productivity in most Member States, and in-work poverty is persistent" (p. 14).	Yes, in-work poverty a consequenceof low wage growth

COM(2010) 758	The European Platform against Poverty and Social Exclusion: A European framework for social and territorial cohesion	Social&Empl	Yes - "Since 2000, the number of individuals affected by in-work poverty has increased as a consequence of the rise in temporary and part-time work (including involuntary part-time work), coupled at times with stagnating wages" (p. 4)	
(2010/707/EU)	COUNCIL DECISION of 21 October 2010 on guidelines for the employment policies of the Member States	Social&Empl	Yes - "In order to increase competitiveness and raise participation levels, particularly for the low-skilled... Member States should encourage the right framework conditions for wage bargaining and labour cost development consistent with price stability and productivity trends" (p. 4).	Yes, Member States' reforms should therefore ensure access and opportunities for all throughout their lifecycle, thus reducing poverty and social exclusion through removing barriers to labour market participation... (F)ighting segmentation, structural unemployment, youth unemployment, and inactivity while ensuring adequate, sustainable social protection and active inclusion to prevent and reduce poverty, with particular attention to combating in-work poverty (p. 2). "Empowering people and promoting labour market participation for those furthest away from the labour market while preventing in-work poverty

				will help fight social exclusion..." (p. 5).
COM(2011) 11 final/2	Annual Growth Survey: advancing the EU's comprehensive response to the crisis		"Member States with large current account deficits and high levels of indebtedness should present concrete corrective measures (these could include strict and sustained wage moderation, including the revision of indexation clauses in bargaining systems)" (p. 5).	
COM(2011) 400	Concluding the first European semester of economic policy coordination: Guidance for national policies in 2011-2012		Yes - "In some instances, this may involve reviewing wage-setting systems, in consultation with social partners, to ensure that wages support competitiveness and develop in line with productivity growth." (p.6)	