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## **Social Mechanisms in the Establishment of the European Economic and Monetary Union**

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**Abstract:**

This paper investigates the reasons, the transformative processes and the social mechanisms involved in the establishment of the European economic and monetary union (EMU). Contrary to commonly accepted theories and approaches used to explain institutional change, it argues that the establishment of the EMU has not simply been the product of historical paths, the rational choices of actors, or social construction of new economic ideas and preferences, as new-institutionalists or social constructivists would emphasize, but also and, perhaps, even more importantly, it has been the product of self-fulfilling prophecies that have facilitated and accelerated the process of institutional change. By adopting a Sociology of European Integration perspective, this paper also discusses the role of four crucial forces that initiating a causal chain of social mechanisms have helped in the establishment of the EMU: context-bounded rationality, embodied institutions, reflexivity and double-contingency.

**Résumé :**

*Cet article s'intéresse aux causes,, aux processus de transformation et aux mécanismes sociaux qui ont menés à l'établissement de l'Union économique et monétaire européenne. Contrairement aux théories et approches plus généralement utilisées pour expliquer le changement institutionnel, il démontre que cet établissement n'a pas simplement été le produit des trajectoires historiques, du comportement rationnel des acteurs ou encore de la construction sociale des préférences économiques, mais plutôt, et probablement de façon plus centrale, a été le produit de prophéties auto-réalisatrices qui ont facilitées et accélérées le processus de changement institutionnel. En adoptant une perspective basé sur la sociologie de l'intégration européenne cet article analyse également le rôle de quatre forces cruciales qui, à l'origine d'une chaîne causale de mécanismes sociaux, ont facilité l'établissement de l'Union économique et monétaire européenne : la rationalité située, les institutions incarnées, la réflexivité et la double contingence.*

**Keywords:** European Economic and Monetary Union (EMU), Sociology of European Integration, Mechanisms of Institutional Change, Social Mechanisms, Self-Fulfilling Prophecies.

## **Social Mechanisms in the Establishment of the European Economic and Monetary Union<sup>1</sup>**

The establishment of the European economic and monetary union (EMU) has represented one of the most important steps in the process of European integration. On the one hand, it has 'deepened and widened' the economic, political and social relations that existed among the member states of the European Union (EU). On the other, it has also played an important stabilizing function against an excessive fluctuations of currencies and markets. In times of global financial crisis, these have become far from irrelevant political and economic achievements, as the multi-billion rescue packages that several Central and Eastern European countries have negotiated (and are currently negotiating) powerfully demonstrates<sup>2</sup>. In addition, while the EMU has been an important instrument for EU institutions to promote further and deeper integration, it also represents an important institutional apparatus for all those non EU members or candidate countries that have engaged in economic and political transactions with the richest European nations. Stable exchange rates, low inflation and sound macro-economic policies became not only key parameters for the members of the Eurozone, but they have also influenced the actions, expectations and export possibilities of other external trading partners.

Despite the increasing scholarly attention that has recently been given to the reasons and transformative processes involved in the establishment of the EMU, several important questions still remain unexplored. What are the key causes, factors and actors responsible for its establishment? Are existing theoretical frameworks sufficient to provide an exhaustive explanation for its introduction? This paper aims at addressing these issues, investigating the reasons, the transformative processes and the social mechanisms involved in the establishment of the EMU. Contrary to commonly accepted theories and approaches used to explain institutional change, it is argued that the establishment of the EMU has not simply been the product of historical paths, the rational choices of actors, or social construction of new economic ideas and preferences, as new-institutionalists or social constructivists would emphasize, but also and, perhaps, even more importantly, it has been the product of self-fulfilling prophecies that have facilitated and accelerated the process of institutional change.

By adopting a sociology of European integration perspective, this paper also discusses four crucial forces that, by initiating a causal chain of social mechanisms, have influenced the establishment of the EMU: context-bounded rationality, embodied institutions, reflexivity and double-contingency. Context-bounded rationality is concerned with the formation of specific 'market-making' preferences developed on the basis of existing institutional structures; embodied institutions implies the internalization of EU market principles; reflexivity involves the self-legitimizing visual representation of 'the market' as an autonomous self-enforcing entity; and, finally, double-contingency regards the attitudes of EU actors to pre-empt other actors' moves with the most appropriate economic and political behavior. In the course of this paper, it will be argued that these

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<sup>1</sup> I would like to thank Sophie Jacquot and three anonymous referees for valuable comments and critiques on an early draft of this paper. It goes without saying that whatever faults remain are entirely my own responsibility.

<sup>2</sup> At the moment of writing (August 2009), Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia have experienced serious currency crises, which have forced governments to start negotiations on multi-billion rescue packages with the IMF and EU.

main driving forces have helped to alter the existing dominant EU economic and monetary paradigm, shifting from 'embedded liberalism' (Ruggie 1983) of the 1960s and 1970s, and from 'monetarism' of the 1980s and early 1990s (see McNamara 1998, 2006) to 'embedded Keynesianism' of the late 1990s and early 2000s.

The paper is structured as follows. Section one provides a brief overview of the main approaches of institutional change, drawing attention to the importance of sociological explanations and of social mechanisms in the process of EMU formation. Section two offers, by contrast, a brief description of the EMU, its main features, as well as emphasizing the importance of context-bounded rationality, embodied institutions, reflexivity and double-contingency in the process of institutional transformation. Here, the important role of self-fulfilling prophecies is also discussed. Finally, the conclusions reflect on the current global financial crisis and ask whether we are in front of a new wave of European monetary and economic integration.

## **1. Beyond Classical Approaches of Institutional Change**

Since the beginning of the 1980s, the role that ideas, interests and institutions play in the process of institutional transformation has been the object of a lively academic debate. This debate has entailed several characterizations by different schools of thought, with substantially distinct centers of attention. These have included historical institutionalism (Hall and Taylor 1996; North 1990; Pierson 1996, 2000) with its emphasis on historical paths and self-reinforcing mechanisms, rational choice institutionalism (Fiorina 1995; Bates et al. 1998; Weingast 1998) with its primary focus on the rational motivations and actions of actors, sociological institutionalism (March and Olsen 1989; DiMaggio and Powell 1991; Brinton and Nee 1998) with its accent on norms, formal and informal institutions, actor-centred institutionalism (Scharpf 1997) with its emphasis on the crucial importance of strategic interactions; and discursive institutionalism (Schmidt 2006, 2008; see also Campbell and Pedersen 2001; Hay 2006) with its inclusion of ideas and discourses as important elements of institutional transformation. Divergences have also involved those scholars who have looked at the EU institutional change primarily as a 'meaning-making' process resulting from a specific, individual-mediated social construction of reality (social constructivism) (see McNamara 1998, 2006) and those who have included intentionality and the strategic interactions of actors in this social constructivist account (strategic social constructivism) (Jabko 2006).

For researchers of European integration, these have become far from irrelevant theoretical distinctions. They have highlighted, on the one hand, the distinct features that characterize a specific type of institutional change (e.g. self-reinforcing mechanisms, rational actions, internalization of social norms, strategic interactions, ideational and discursive practices, processes of social construction of reality or intentional meaning-making procedures), while, on the other, they have shed light on the shortcomings of excessively deterministic theories of European integration. In particular, those theories based on neo-functionalism (Haas 1968) with its primary attention to the actions of actors situated in supranational bureaucracies and polities, on liberal inter-governmentalism (Moravcsik 1998) with its emphasis on nationally-driven negotiations and procedures of institutionalization, and on multi-level governance (Hooghe and Marks

2001) with its focus on the complex bargaining activities placed at the most disparate levels of the decision-making process (local, regional, national and supranational)<sup>3</sup>.

Only recently, the sociology of European integration account has proposed itself as a possible complementary conceptual framework capable of highlighting often neglected factors that affect the process of European integration (see Saurugger 2008). Even though the sociology of European integration does not have the theoretical and methodological aspirations to resolve the long-lasting diatribes that exist among new-institutionalists, social constructivists or exponents of one of the above mentioned theories of European integration (Saurugger 2008), it has rightly emphasized three important sociological and psychological forces implicit in any process of institutional transformation: context-bounded rationality, embodied institutions and reflexivity (Kauppi and Madsen 2008). In addition to these three useful conceptual instruments, a fourth one, *double contingency*, should also be mentioned as crucial in the analysis of the EU institutional transformation.

With regard to the first concept of context-bounded rationality, as Kauppi and Madsen (2008) have emphasized, agents act strategically often pursuing rational objectives, but they do so while being embedded in a defined community environment, which is characterized by a particular ethos and by institutional-driven specific interactions<sup>4</sup>. The logic and patterns of interactions within are defined but not stable over time, with institutional structures becoming, here, a crucial element in the process of institutional change. Frank Schimmelfennig (2003) has applied this concept to the process of Eastern enlargement, and has demonstrated, for example, how the strategic interactions of the EU and, at the time, future member states have not occurred in an aseptic institutional environment, but were situated in a specific institutional context that responded to exogenously dictated specific social norms. All of which contributed to constrain the choices and self-interests of agents.

Embodied institutions become, in this way, a second crucial and strictly related conceptual instrument employed by Kauppi and Madsen (2008) to describe the deep and mutual relationship that exists between institutions and individuals. Institutions cannot be seen as external entities to the individuals, as most of rational choice or historical institutionalists would emphasize, but rather they represent quasi-material, internal elements to the individual actors that structure their preferences, ways and patterns of behavior. This expansion of the concept of context-bounded rationality, which includes the process of norms and value internalization, has been emphasized by various sociologists of knowledge and social-psychologists during the decades (see, for instance, Mead 1934; Goffman 1959; Berger and Luckman 1966; Elias 1983), but it has only rarely been applied to the study of European integration. A notable exception is Peterson and Bomberg's (1999) analysis of *Decision-Making in the European Union*. Here, the authors have succeeded in highlighting, perhaps for the first time, the processes of internalization of EU rules that influenced the actions of civil servants. EU civil servants, it has been demonstrated, enter EU institutions as nationals of member countries, but become very quickly 'EUized' by the existing institutional practices and environment of EU institutions. The development of a double, non-contrasting, national and EU identity, seen for many years with suspect as the sign of a possible schizophrenic personality, has also been documented by several subsequent qualitative and quantitative studies on EU citizenship (see, for instance, Medrano 2003; Duchesne

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<sup>3</sup> For a comprehensive review on alternative cognitive and normative approaches to European integration, see Sarel (2000), Lequesne and Sarel (2004) and Palier, Sarel et al. (2007).

<sup>4</sup> For the notion of 'embeddedness', see Weber ([1904-1905] 1958; [1922] 1968); Karl Polanyi et al. (1957) and Granovetter (1985).

and Frogner 2007; Favell 2008), which have demonstrated, once again, the importance of norm internalization in the process of European integration.

The third key conceptual instrument, identified by Kauppi and Madsen (2008), reflexivity, has also been the object of much theoretical and methodological discussions among political scientists and sociologists (see, for instance, Habermas 1982; Luhmann 1984; Bourdieu 1992; Beck et al. 1994), but, astonishingly, far too often neglected by researchers of EU integration. Kauppi and Madsen's (2008) and Georgakakis' (2008) contributions on this topic describe reflexivity in terms of the procedural self-observation and self-reference of agents and institutions, which, through the establishment of self-reinforcing and self-legitimizing mechanisms, succeed in ensuring further stages of institutional transformation. This primarily occurs thanks to the institutional rules, practices, behaviors and norms that these institutions have themselves created and helped to reinforce. As highlighted by Vachudova (2008) in the case of further waves of EU Enlargement, EU institutions and practices have become, year after year, not only more desirable and commonly accepted elements of the candidate countries' internal institutional transformation, but have also fostered, through several leverage effects, further actions aimed at EU Integration that have reinforced previously established pathways of institutional change.

Finally, a fourth crucial and neglected conceptual instrument, concerns the issue of double contingency as recently discussed by the German economic sociologist Heiner Gansmann (2007) in his investigation of individuals' economic actions. In the tradition of the American and German economic and political sociology (see, for instance, Parsons and Shils 1951; Luhmann 1984), Gansmann has drawn the attention to the fact that economic, political and social agents do not look only at themselves when choosing their specific course of actions, but also observe and consider the strategic behavior of other actors, attempting to pre-empt, whenever possible, the other side's possible moves. To put it very bluntly, institutional actors are not the blind, deaf, dumb and self-centric agents as seen in the eyes of many historical and rational choice institutionalists, but environment- and social-aware agents conscious of their relative position of authority. Individual actions are therefore characterized not simply by 'single' but rather by 'double' interactions, while 'social reflexivity' and not 'individual reflexivity' becomes the key to understanding any process of institutional change. In brief, if EU institutional socialization occurs, this can only take the form of a double socialization that takes into account double and not single environments and interactions.

As a result of what has previously been shown, it can be concluded that ideas, interests and institutions are not externally created elements of institutional change, but form part of a complex system of institutional, social and organizational relationships, which greatly influence the 'usages of Europe'<sup>5</sup> (Jacquot and Woll 2008) one has. Hence, the focus of the investigations of institutional change related processes necessarily shifts from individual interactions to social interactions, which result in being embedded in a dynamic and continuously changing social, psychological and institutional environment.

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<sup>5</sup> According to Jacquot and Woll (2004, p. 9), *usages of Europe* are 'practices and political interactions which adjust and redefine themselves by seizing the European Union as a set of opportunities, be they institutional, ideological, political or organizational'. In this account, the *usages of Europe* can be described as cognitive, strategic and legitimizing depending on the aims and tools one actor decides to spouse.

## 2. Social Mechanisms in the Process of European Integration

As a sub-class of social mechanisms, mechanisms of institutional change become, in this context, crucial elements for improving the understanding of the EU integration process. They are institutions-, interests- and ideas- permeated, but they are also deeply embedded in continuously changing institutional, individual and social relations (Mayntz 2003; Ettrich 2008; Cerami 2009). Mechanisms of institutional change transform the institutional and organizational relations of the bureaucracy altering the 'ways of doing things' of the institution, but they are also influenced by the social and interpersonal relations present in the same institution and that characterize its every day functioning.

The recent emphasis of social mechanisms as important elements of institutional change has inevitably resulted in an exponential growth in the number of the classifications available (see, Elster 1998; Hedström and Swedberg 1998; MacAdam et al 2001; Tilly 2001; Mayntz 2003; Vesély and Smith 2008; Cerami 2009; Zeitlin 2009). Just to quote few, but notable, examples, MacAdam et al. (2001) and Tilly (2001) have identified 'environmental', 'cognitive' and 'relational' mechanisms depending on the influence they have, respectively, on the environmental conditions affecting the life of individuals, on the psychological processes that cause specific behavioral patterns, or on the connections among people, groups and interpersonal networks. In a similar vein, Hedström and Swedberg (1998) have differentiated between 'situational', 'individual action' and 'transformational' mechanisms on the basis of the ways in which the environment affect individual's actions, how the individual assimilates the impact of exogenous events and how individuals through their actions influence social outcomes.

In addition, when social mechanisms have primarily be seen from a strict historical-institutionalist perspective, the focus has shifted from abrupt to incremental transformative change, as well as from relations among individuals to relations among institutions. Streeck and Thelen (2005) have offered, in this perspective, a five-fold typology of institutional change (displacement, layering, drift, conversion, and exhaustion) each one associated to a particular mechanism (defection, differential growth, deliberate neglect, redirection or reinterpretation and depletion respectively). In an attempt to address the shortcomings of an excessive deterministic approach based on strict path-dependent behaviour, Zeitlin's (2009) analysis of processes of institutional change, associated to the introduction of the open method of coordination, in employment and social inclusion policies has led to the identification of five substantially different mechanisms, which more specifically link social action to institutional outcomes. These include external pressure, financial support, socialization and discursive diffusion, mutual learning, and creative appropriation by domestic actors.

Despite the presence of significant differences on the role played by exogenous forces in the process of institutional change, the importance of social mechanisms in institutional transformation has now been re-affirmed. Mechanisms of institutional change help, in fact, to alter not only the main institutional settings, incrementally or abruptly changing the main procedures, as many historical institutionalists would emphasize, but also involve a modification of the organizational and social relations with their associated macro-micro linkages (see Coleman 1986; Hedström and Swedberg 1998; Hedström 2008; see also Figure 1 below). As pointed out by Hedström and Swedberg (1998) and Hedström (2008), external conditions structure the individual behavior and personality, which are then translated in individual action that determine specific social outcomes. As it will be shown in the following sections, identifying the entire causal chains (causal reconstruction) (see Mayntz 2002, 2003) associated to the mechanisms from which a phenomenon has originated becomes not only important for



understanding the real patterns and pathways of any institutional transformation, but also for identifying the real patterns and pathways of European integration.

### **3. Context-Bounded Rationality, Embodied Institutions, Reflexivity and Double-Contingency in the Establishment of the EMU**

As highlighted by Kathleen McNamara (1998, 2006), the creation of the European Monetary System in March 1979 based on fixed, but adjustable, exchange rates, and the Single European Market in 1986 based on the free circulation of products, services, capital and labour was not simply the successful completion of a complex process of political bargaining, lasting several decades, but it was also the result of the new ideational consensus based on the new neo-liberal economic paradigm, which found in monetarism its highest expression. As Jabko (2006) has emphasized, the establishment of the EMU represented, however, a 'quiet revolution' for EU institutions and its Member States in which 'strange bedfellows' were all actively involved. These 'strange bedfellows' included the supporters, but also critics, of the free market, politicians of the left and the right, bureaucrats and business leaders of the most disparate political affiliations, as well as high level government officials in all member states (Jabko 2006, p. 2). According to the author, despite significant ideological differences being present, all of these actors succeeded, in one way or another, in finding a common terrain on the 'free market', in which their rational choice, path-dependent decisions and strategic interactions could have finally been mediated. How was this possible? Can the strategic interests and actions of actors along a new economic paradigm be the simple cause of such a drastic institutional transformation? Or have other factors, transformative processes and mechanisms also played an important role? Without the need of categorically denying any of the above mentioned aspects, since all have played a significant role in the process of EMU formation, in what follows, four other complementary driving forces - context-bounded rationality, embodied institutions, reflexivity and double-contingency -, which, by initiating a causal chain of social mechanisms, have facilitated and fastened the process of institutional change will be briefly sketched.

#### ***Context-Bounded Rationality***

As shown by the long and tortuous history of the EMU<sup>6</sup>, context-bounded rationality has played a crucial role in the process of economic and monetary integration. The establishment of the EMU has, in fact, not taken place in an institutional vacuum of unclear ideas, processes and procedures, but it has been fully embedded in the institutional structures, organizational and social relations that have permeated further stages of EU integration. This has included, in the most crucial years before the establishment of the EMU, the dominant institutional and ideological consensus found on the new monetarist paradigm which, even though representing the new driving force for further integration, still had to deal with past ideas, interests and institutions. As McNamara (1998, p. 55) has correctly remembered, 'the compromise of embedded liberalism' (see Ruggie 1983) that had made it possible to expand and contract the national money supply in order to reach full employment and economic growth could no longer form a basis for multilateral monetary cooperation within a fixed exchange rate regime. Capital flows had become too high to continue to coexist with fixed rates and policy autonomy, making reforms in economic and monetary policy-making particularly

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<sup>6</sup> For more information on the history of the EMU, see SCADPlus (2008).

urgent. This transformation, however, did not take place from scratch in a *tabula rasa* of procedures and ideals, but necessarily had to materialize within previous ideological, institutional and interests-based boundaries, in which the 'compromise of embedded liberalism', as described by John Ruggie (1983), and the new monetarist logic, as identified by Kathleen McNamara (1998, 2006; see also Blyth 2002), were recombined into a new more up-to-date economic and monetary framework.

While it is possible to affirm that market fundamentalism soon became the leading economic orientation of the Brussels and Washington Consensus during the 1980s, it should also be remembered that the differences in economic approach existent among the various European member states clearly made an abrupt institutional change an unfeasible political option. In particular, while several national political governments spoused the cause of monetarism at EU level, they still had to deal with the social-democratic electorate in their home country. The 'cautious monetarists' included important governments and political factions not only in the Scandinavian countries (as in Denmark and Sweden), but also in Continental and Southern Europe (as in Germany, France and Italy) where the myth of a 'market economy with a human face' was never fully abandoned in national political discourses. To portray a more comprehensive history of the EU and the EMU it should, therefore, be affirmed that the consensus found on monetarism was not an easy convergence towards universally accepted neo-liberal ideas, but one often subjected to contrasting forces. On the one hand, it followed the assumption that neo-liberal and anti-inflationary policies had to become a priority rather than simply employment and growth, while, on the other, due to the multi-level system of governance of the EU and the differences existent among the Member States, made a complete departure from Keynesian social goals (such as full employment and social redistribution) a non desirable political and economic objective. The introduction of the EMU entailed, as a result, both a path-dependent as well as path-departing character. Path-dependent elements of the EMU institutional change consisted in Keynesian ideals for full employment and social redistribution, while path-departing features were represented by the new monetarist ideological and institutional shifts due to the supposed inefficiency of the old system.

A difficult and, to some extent, ambiguous consensus between these two contrasting logics was found, however, in the Lisbon European Strategy<sup>7</sup> which soon became the most significant European response to the ambitious, and, perhaps, overconfident political, economic and social objectives in developing a common European Social Model (ESM). This, as stated in the *Presidency Conclusions of the Nice European Council* of 2000 (European Council 2000b), should be capable of providing a high level of social protection and social cohesion for all European citizens thanks to an improvement in social dialogue and sound economic policies. From 2000 onwards, in numerous official speeches and publications, the ESM started to be presented as a different, and more inclusive, model in comparison to the one present in the United States, even though a systematic analysis has rarely been conducted (for an exception, see Alber 2006). In this way, the promotion of a unique 'European Social Model' helped to achieve two functional objectives for the EU integration process. On the one hand, as a useful conceptual instrument, it helped to resolve the ambiguity of competing logics, interests and needs through a new set of policies, programs and philosophies more centered on the citizens (positive integration) instead of on the single market (negative integration). On the other hand, as a new buzzword, it helped the formation of a common

<sup>7</sup> During the *Lisbon European Council* of 2000, EU Member States expressed a clear objective in becoming "the most dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010 (European Council 2000a).

'European way' to economic and social development, which should have helped to resolve Europe's identity problem (see Favell 2005) giving a unified form to highly differentiated political, economic and social systems.

### ***Embodied Institutions***

Embodied institutions, expressed in terms of the internalization of market principles, represent, in this way, a second crucial element in the establishment of the EMU. Since politics, polities and policies do not only occur in previously established institutional settings but are also made by individuals who structure their personality and individual orientation on the basis of the environment in which they live, the institutional consensus, found in neo-liberal economics during the 1980s, was later translated in norm and value internalization which provided the EU individual actors with an image of the appropriate pathway of institutional change to follow. In order to avoid what Festinger's (1957) would define as a situation of 'cognitive dissonance', the EU institutional and individual consensus found on market freedom was then translated by several EU and national actors (especially by the European Commission under Jacques Delors in the 1980s with the support, however, from several subsequent European Councils) into appropriate actions. In this way, EU and national institutions succeeded to translate, in a relatively short period of time, the preferences for neo-liberal policy-making that were already present in the air into consonant policy actions and instruments. Immediately after the 1970s oil-crisis, and empowered by the advent of Thatcher's and Reagan's new economic vision, the number of international and national documents with a clear emphasis on the successes of markets exponentially increased<sup>8</sup>.

Subsequent to the first signs of Reagan's and Thatcher's economic inefficiency, monetarism as the leading doctrine started slowly to be reconsidered. This reflection on the new underlying principles of the European Union took place also thanks to a change in several European governments (such as in Great Britain under Tony Blair, in Germany under Gerard Schröder, and in Italy under the then President of Commission Romano Prodi) which, by supporting a more centre-left oriented policy-making also encountered the favors of the European Parliament traditionally more prone to spouse redistributive policies due to its strong social-democratic factions. Here, market-correcting measures implemented to promote greater social equality were no longer seen as detrimental to economic development, as in the golden age of neo-liberalism, but rather as a necessary pre-condition for long-term economic growth (see Carmel 2005). This should have, however, continued to take place under the umbrella of fiscal and anti-inflationary priorities, as previously set in the Brussels and Washington Consensus, so as not to drastically change the structure and institutional responsibilities of the European Central Bank, which, since its first establishment, has been one of the most important stabilizers and facilitators of the European project.

### ***Reflexivity***

The third key element in the establishment of the EMU, reflexivity, has concerned the capability of EU institutions and individuals to see themselves visually represented and legitimated by the consensus they themselves had created on 'the market'. The European Single Market with its associated institutions played, in this way, a self-reproductive and self-legitimizing function for EU institutions. By continuous reference to 'the European Single Market', 'the European Monetary Union', 'the Euro', 'an ever closer

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<sup>8</sup> See, for instance, the Single European Act of 1986, the Treaty of Maastricht of 1992, the Amsterdam Treaty of 1997 up to the Treaty of Nice of 2001, but also key priorities in The Charter of Fundamental Rights of the European Union.

Union' (Dehousse 1994), 'a European citizenship' (see Jabko 2006), individual actors (both EU and national civil servants) did not only provide their audience with a clear image of what the EU really consisted of, but, through a 'mirror effect', also provided a double justification and legitimization necessary for citizens and institutions to believe in the European project.

Reflexivity was, in this context, simultaneously the source and the scope for further European integration. Step after step EU institutions not only expanded their areas of influence over an always larger number of policy domains, but also provided further legitimacy for the pre-existing rationalities and bureaucracies and, thus, reinforcing the establishment of a common European policy space. It comes as no surprise that since the dominant rationality was based on market orthodoxy, this economic vision spilt-over into subsequent areas. These included the sectors of energy, enterprise, competition, development, customs, external trade, and taxation where the various DGs always more actively promoted a market-centred vision of EU integration, but also permeated regional and social policy with social cohesion measures that had to serve the reasons of the markets. Whether these represented a substantial path-departure from Keynesian objectives is, however, still difficult to affirm, especially if the more recent consensus for the goals of the Lisbon European Strategy is considered. In fact, despite the existence of some ambiguities, the 'social dimension' of the EU has, since the beginning of 2000s, continuously been reaffirmed in official documents and high-ranking meetings, and, in order to reach further economic and monetary integration, 'economic' and 'social' objectives have often been seen as the two sides of the same coin. Needless to say, this represents an important ideological and institutional turn, corresponding neither to 'embedded liberalism' nor to pure monetarist ideals as promoted in the past decades. Here, it could, perhaps, be argued that a form of 'embedded Keynesianism' (in the sense of Keynesian goals embedded in neo-liberal policy-making) has been the key characteristic of the EU in the past decade (see Table 1).

But how was this new hybrid economic and social paradigm really translated in practice? In other words, what character did the key policies, programs, and philosophies that resulted from this new cognitive and normative discourse (see Schmidt 2008) really take? Since the advent of the Lisbon European Strategy, a new economic and social policy conception based on the notion of 'social investment state' took, in fact, the lead not only in official meetings and EU sponsored publications (see, for instance, Begg et al. 2007; Liddle and Lerais 2007), but also among the academic community with an increasing attention given not only to those policies aimed at increasing the social integration capacity of citizens in the newly established single market, but also to their development and adaptive capabilities in always more deregulated but yet interconnected and Europeanized labour markets (see Cerami 2008; Dehousse 2008; Esping-Andersen and Palier 2008; Hemerijck 2010). New policies, programs and philosophies that emphasized the importance of education, investment in children and in life-long learning are, always more often than not, sponsored in the official meetings and expert consultations of the DG Employment, Social Affairs and Equal Opportunities and other interested Directed Generals (such as Economic and Financial Affairs DG, Enlargement DG, Internal Market and Services DG) and consulting bodies (such as the European Bureau of Policy Advisers), as the key elements of a new developmental strategy which had to make the 'empowerment' of the individuals the key for deeper and wider European integration. Understanding the paradigm shift in social policy logics, or in welfare governance logic (Newman 2005), becomes, in this context, important for understanding not only the correct functioning of the Single European Market, but also important for understanding the main conception of European citizenship as promoted

by EU institutions in the first decade of the twenty-first century. The new conception of EU citizenship is, in fact, now slowly moving from the old conception of 'market citizenship' – that is citizenship linked to the priorities associated to the development of the Single Market – to the promotion of 'social citizenship' – that is citizenship based on full social rights and priorities (Wiesner 2007).

**Table 1. Leading Economic and Monetary Paradigms in the Establishment and Consolidation of the EMU**

<b>Economic Paradigm</b>	<b>Years</b>	<b>Key Characteristics</b>	<b>Outcomes</b>
Embedded liberalism	1960s and 1970s	Expansion and contraction of the national money supply in order to reach full employment and economic growth	Several years of poor economic performance associated with 'Eurosclerosis' led to disillusionment with the state intervention
Monetarism	1980s and early 1990s	Excessive expansion of the money supply is assumed to be inherently inflationary. Monetary authorities should therefore focus on price and fiscal stability	Unconditional faith in the superiority of markets led to raising levels of poverty and income inequality and disillusionment with markets' sole achievements
Embedded Keynesianism	Late 1990s and early 2000s	Neo-liberal and anti-inflationary policies associated to Keynesian ideals for full employment and social redistribution. Focus on 'empowerment' of individuals.	Recombination of embedded liberalism and monetarism in order to avoid Eurosclerosis and raising poverty. Promotion of 'social investment state' to consolidate EMU while fostering 'social citizenship'.

### ***Double-Contingency***

A fourth crucial element in the process of economic and monetary integration, double-contingency, is concerned, in this case, with the possibility of EU institutional actors looking at other agents' moves present in the global arena, while trying to pre-empt or follow their actions with the most appropriate economic behavior. Introducing the Euro has not been a simple one-side transformation, but a process where multiple complex interactions have been necessary. EU institutions looked internally to find the necessary self-justification and self-legitimization they needed to move forward in a difficult and, to some extent, revolutionary process of market creation. They, however, have also observed, and paid close attention, to what was going on beyond the European borders. Economic and monetary paradigms were not simply blindly adopted in Brussels or in Frankfurt, where the EU or the European Central Bank have their seat, but have also been implemented with an eye of what was going on in the major European capitals, as well as in Washington D.C. where the IMF and the World Bank have their head offices.

Far too often, in fact, the role of transnational actors in developing national policies has been underestimated by contemporary political science and sociological

studies, which have continued to look at 'global policy-making' primarily in terms of 'national policy-making' (Orenstein and Schmitz 2006). The international policy diffusion of ideas have, by contrast, been far from irrelevant in the process of global and national policy change, as the most recent studies on cross-national policy convergence (Knill 2005), post-communist transformation (Orenstein et al. 2008), and global social and public policy (Deacon 2007) demonstrate. Here, the most emblematic example can probably be given by the transnational actors' involvement in pension privatizations, where they have succeeded in shaping new pension reform agendas in a variety of different ways, becoming vessels of ideational influence on politics world-wide through the creation and diffusion of new policy ideas, norms, metrics, values, and technical expertise (Orenstein 2008). By actively promoting the importance of privately funded welfare provisions, transnational actors have not simply succeeded in legitimizing the reforms they were proposing, but have also simultaneously provided a self-legitimation for their actions that has subsequently spilt-over into further actions in this direction. In the case of the EU integration process, transnational policy learning dynamics have clearly played a crucial role suggesting the policy course to be taken, but also self-legitimizing the policy actions already implemented.

#### 4. The Development of the European Monetary Union and Self-Fulfilling Prophecies

The combination of actions associated to context-bounded rationality, embodied institutions, reflexivity and double-contingency resulted in a causal chain of social mechanisms which made the initial behavior of national and EU actors not only self-legitimizing but also led to subsequent actions that reinforced, on the one hand, the previously established pathways of institutional transformation (in this sense, the process of establishing the EMU can be seen as a path-dependent process of incremental transformative change), but also, on the other hand, accelerated the speed and pattern of institutional change, thus, entailing an important path-breaking character.

Robert K. Merton's (1968) self-fulfilling prophecy can, in this context, be taken as a good example of the key causal chains that have influenced the establishment of the EMU. As a sequential chain of several rational imitation mechanisms<sup>9</sup> (see Hedström 2008), the self-fulfilling prophecy occurs when an initial belief (whether false or true) results in a behavior that sooner or later makes the initial belief become a reality. Robert K. Merton's famous example was based on the insolvency of a bank caused by false rumors about its bankruptcy. These rumors led the depositors to withdraw their money and to close their bank accounts, ultimately leading to a run on the bank and letting the bank really go bankrupt<sup>10</sup>.

As it happened in the case of the financial crisis of 1929, the source of Merton's inspiration for the notion of self-fulfilling prophecy, the initial beliefs of the necessity of a single European economic and monetary union, associated with the beliefs concerned with the superiority of self-regulating free markets, has resulted in not only letting the EMU become the real favorite policy options of several EU and national institutional actors, but also its introduction was also subjected to a run. Timing and sequencing of reforms, two crucial concepts for new-institutionalists (see Pierson 2004), have here

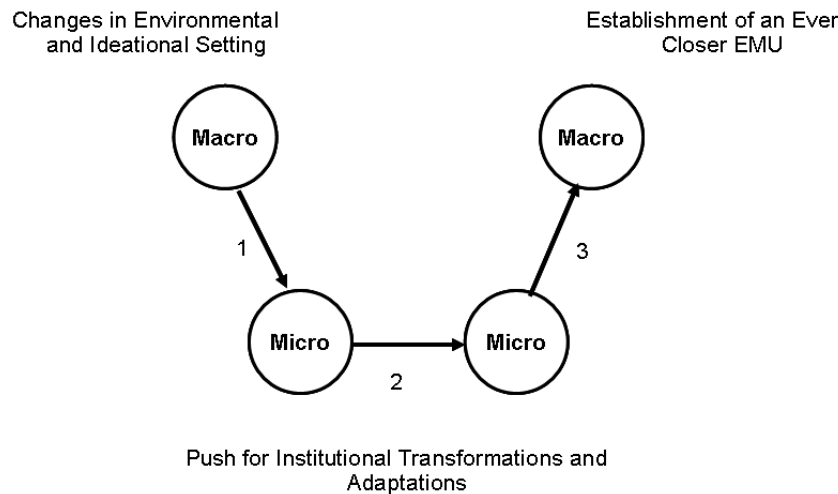
<sup>9</sup> As illustrated by Hedström (2008), *rational imitation* occurs when the actions of one actor influence the beliefs and subsequent actions of others.

<sup>10</sup> For similar considerations but focused on the reforms of Central and Eastern European welfare regimes, see Cerami (2009).

been drastically altered in their normal flow by this causal chain of social mechanisms that have affected the source and scope of the institutional transformation towards an ever closer union.

To summarize, which were the causes that helped to speed up the establishment of the EMU? Can they simply be found in exogenous factors stemming at the macro-level (e.g. oil crisis or the consensus towards a new economic paradigm)? As emphasized by Hedström (2008), the importance of the macro-micro linkages must, in any investigation of institutional change, not be underestimated. Macro-level events have, in fact, produced a clear impact on individual reasons and properties, which have then subsequently resulted in individual actions and in specific social outcomes. In the case of the EMU, the change in the environmental conditions, that had made the existent economic and monetary policies outdated (such as Keynesianism and neo-liberalism) (macro-micro) have produced a substantial impact on the necessity of conducting institutional transformations and adaptations so as to ensure the survival of the European project (embedded Keynesianism) (micro-micro). These institutional transformations and adaptations have subsequently resulted in the establishment of an ever closer and deeper economic and monetary union (micro-macro), which is, however, still subjected to environment changes.

**Fig. 1 Macro-Micro Linkages**



(Source: Coleman 1986; Hedström 2008, Fig. 13.2, p. 331; Author's modifications)

## Conclusions

This paper has emphasized the importance of social mechanisms in the establishment of the EMU. It has been argued that context-bounded rationality-, embodied institutions-, reflexivity- and double-contingency-led actions have all influenced the process of economic and monetary integration, exponentially speeding its introduction and consolidation. The considerations proposed here do not aim to dismiss the validity of new-institutionalist or social-constructivist accounts. Rather, they aim at complementing existing theories and approaches of European integration by highlighting the influence of so far unexplored mechanisms of institutional change. The establishment of the EMU has, in fact, not only been the product of institutions-, ideas- and interests-centered actions, but also the product of self-fulfilling prophecies understood in terms of causal chains of social mechanisms, whose impact was less visible since hidden in the social and psychological background of institutional agents. The question that arises at this point is: What comes next? Will the global financial crisis move the EMU beyond the current leading economic paradigm?

As the recent national and international responses to the global financial crisis seems to show, the infatuation for unregulated market competition has now come to an end, since particularly a failure in regulatory systems can be addressed as one of the main responsible factors for the global financial crisis (Hall 2008). What this will represent for the EMU remains, however, still an open question. As highlighted by Peter Hall (2008), the response both in the US and Europe will be to increase regulation in financial markets, but while for the US the principle obstacle will be represented by the lobbying power that financial institutions have in the US Congress, for the EU the main problem will be to provide formal means for a coordinated regulatory response among all different Member States. European Member States and EU institutions are, as a consequence, called to reconsider their economic, monetary, political and social priorities and prerogatives if the aim of greater and long-lasting prosperity for all European citizens wants to be maintained.

Despite a first institutional impasse, the first signs of a change in economic and monetary paradigm are already visible. Whether we are in front of a new phase of drastic institutional change is still early to say, what is certain, however, is that a new different wave of European economic and monetary integration, substantially different from the one present in the past decades, is knocking on the door, representing a possible path-departure from the leading economic paradigm we have known so far.



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