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Introduction: Is the European Union Capable of Integrating Diverse Models of Capitalism?

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ABSTRACT
The causes and consequences of the Euro crisis have led comparative political economy scholars to question whether European integration can accommodate diverse models of capitalism. This special issue addresses two important questions about the compatibility of diverse growth models within the European Union (EU): Are some growth regimes better suited to European integration than others? and does the EU favour a particular constellation of domestic institutions? Contributions within this special issue provide a qualified yes to these questions, concluding that the EU favours export-led growth models whilst it penalises and discourages domestic consumption-oriented growth paths, particularly those that are financed by debt accumulation. While recent comparative capitalism literature highlights that European *monetary integration* has favoured export-led growth regimes, contributions in this special issue outline that the EU's prioritisation of export-led growth over domestic demand-led growth is present in other facets of integration, including EU accession, financial integration, the free movement of people, fiscal governance and the Europe 2020 growth strategy. Findings here provide important insights for both the European integration and comparative capitalism literature, highlighting that the unique economic ties being forged within the European project may be problematic for those countries outside northwestern Europe and for workers in low-wage domestic sectors.

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The European Union (EU) faces a multifaceted crisis of significant proportions. Between the European debt and banking crisis, the European Commission's haphazard response to it, the migration crisis that has followed in the wake of the Syrian refugee crisis, and now Brexit, EU leaders have plenty to be concerned about. Europeanists have long argued that European integration has been forged from crisis and 'failing forward' (Lefkofridi and Schmitter 2015, Jones *et al.* 2016[1]). However, the recent management of the Euro crisis has produced prolonged economic and social costs for some of its member-states, which not only undermines its legitimacy, but also may threaten the future of the European project itself (Scharpf 2015, Falkner 2016). The imposition of austerity, in particular, has caused political and economic upheaval, leading to increased electoral volatility, fragmentation of parliaments, the weakening of mainstream parties, and in some countries, the rise of the populist far-right. Some have even gone as far as to conclude that the EU's policy response to crisis has reduced member-states' to democracies without choice (Streeck 2014, Armingeon *et al.* 2016, Hernández and Kriesi 2016) because European elites perceive the need to abandon democracy in the pursuit of a technocratic alternative – coordinated from Brussels and Frankfurt – to save the

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euro. Hence, while crisis may forge new steps towards more European integration, recent events suggest that scholars must theorise the possibility of disintegration as a response to crisis.

European integration scholars have long been conscientious about how divergences in member-states' preferences impact deepened integration, or the lack thereof (Bickerton *et al*. 2015, Pollack 2015). However, they have largely taken national *institutional* diversity among member-states' national models of capitalism[2] for granted, and have failed to incorporate how diverse political economies shape and interact with elite preference formation in the EU (although Fioretos 2001, provides a notable exception). In their defense, scholars of comparative capitalism have also largely neglected the impact of European integration on the trajectory of national economic regimes (Hall and Soskice 2001, Hancké *et al*. 2007). Previously, those that have placed comparative capitalism in the context of European integration have noted that the European project of pursuing 'ever closer Union' can accommodate national diversity. Scharpf and Schmidt (2000) note that heterogeneous models of capitalism, and the institutions and political coalitions that underpin them, can co-exist with intensified European integration by undertaking 'diverse responses to common challenges'. Similarly, Jones (2003) highlighted that the national diversity of the EU's member-states was a core determinant in shaping the pattern of economic integration in Europe. According to these authors, diverse national models of capitalism could co-exist because the EU provided the variegated flexibility for countries to pursue their own economic and employment growth path.

Recent research on comparative capitalism and European integration, however, has introduced a more pessimistic tone into the debate on national diversity within the EU. Current events suggest that the EU's different growth regimes are not similarly thriving under deepened European integration. Some member-states (Germany and the small open economies of Northern Europe) have adjusted well to the opportunities of the EU, and their power within the Council reflects this (Fabbrini 2013). Others (the EU's Southern periphery) remain trapped within a cycle of economic and political crises. In particular, Hall (2012, 2014), Johnston and Regan (2016), Johnston (2016), Regan (2015), Streeck and Elsässer (2016), Bohle and Greskovits (2012), and Streeck (2014) have posited that European *monetary* integration is incapable of accommodating diverse policy responses to the Euro crisis. This is particularly the case for southern European countries that have been traditionally reliant upon domestic consumption and debt accumulation to generate growth, which the new economic governance rules of the Eurozone rule out (Degryse 2012, Rittberger 2014, Erne 2015). Comparative capitalism scholars have recently argued that though European Monetary Union (EMU) was originally a neoliberal, monetarist project, ironically, the common currency allotted the EU's export-dependent Northwestern economies and their coordinated labour markets, a persistent 'comparative institutional advantage' over their demand-led counterparts within the South and East, destining the Eurozone's peripheral countries to an irreconcilable growth crisis.

In line with these arguments, this special issue adds a new comparative capitalism perspective to EU scholarship. Articles in this issue address two important questions about the compatibility of diverse political economies within an ever closer union: Are some growth regimes better suited to adapt to European integration than others? and does the EU itself favour a particular constellation of domestic capitalist institutions that advantages member-states who possess them over those that do not? Contributions within this special issue provide a qualified yes to these questions, concluding that the EU's promotion of 'convergence' favours export-led growth models, be they driven by medium-tech manufacturing or high-tech goods and services, whilst it penalises and discourages demand-led growth paths, particularly those that are financed by debt accumulation. While the recent comparative capitalism literature highlights that European *monetary integration* has favoured export-led growth models, this special issue outlines that the EU's narrow focus on export-led growth is present in other facets of integration, including EU accession, financial integration, the free movement of people, fiscal governance and the Europe 2020 growth strategy. These findings are not only relevant for European integration scholars who seek to understand the determinants of elite preference formation, but also for scholarship on comparative political economy. Comparative and international political economy has long grappled with the question

as to whether different varieties of capitalism can thrive amongst globalisation (Hay and Marsh 2016), or whether increased trade and financial interdependencies favour free-market, neoliberal regimes. Our contribution is to demonstrate that the *type and degree* of economic integration matters, and that the unique economic ties being forged within the European project are deeply problematic for the continued co-existence of member-states with qualitatively distinct political economies.

In the next section, we discuss the evolution of comparative capitalism research and detail how scholars of its most recent generation are increasingly incorporating European integration into their theoretical debates. We also discuss how current work in comparative capitalism – particularly that which explains how electoral coalitions underpin national growth models – has much to contribute to European scholars' understanding of elite preference formation for deepened integration. We then link this with a discussion on national growth models typologies that exist within the EU, which motivates the theoretical design of papers within this special issue. We follow this typology discussion with the general argument of the special issue, and the papers within it – that European integration favours Northwestern export-centred models of capitalism, and that this creates clear winners and losers, thereby undermining the continued co-existence of capitalist diversity within the Union. We conclude by highlighting how our contributors' insights can inform wider debates about the politics of European integration.

Comparative capitalism and the relevance of European integration

The study of comparative capitalism can be characterised by three distinct waves (see Nölke 2015, for an excellent review). The first wave,[3] centred around Hall and Soskice's (2001) seminal volume, identifies 'ideal types' of capitalism, and the institutional complementarities that produce them. Central to this framework is the (manufacturing) firm. Cross-national variation, or national varieties of capitalism, is the outcome of the different strategies manufacturing firms pursue within their domestic economies. As is now well documented, the production strategies of firms in coordinated market economies (CMEs, best embodied by Germany and Northwestern Europe's small states) relies upon cooperative labour market institutions and coordinated wage setting, patient capital (embodied by Germany's 'Hausbank model'), vocational training systems, and collaborative inter-firm relationships (necessary to prevent firms from poaching skilled workers from rivals, who make significant investments in their workers' skills accumulation). From this perspective, what distinguishes the CME is not the power resources of organised labour, reflected in trade union density and collective bargaining coverage (Korpi 2006), but rather the capacity of *employers* to collaborate and coordinate within encompassing producer group associations. Hence, even with weakened unions, CME's can continue to thrive.

Production strategies of firms in liberal market economies (LMEs) on the other hand (best embodied by the UK and United States) rest upon competitive market-based institutions, namely decentralised and uncoordinated wage-setting, short-term venture capital (made available via easy access to stock markets), a broad based university education system that promotes general and transferable skills, and competitive inter-firm relationships. What distinguishes LMEs is an unorganised business-capital class, focused on short-term profit, and the absence of collaboration among employers within encompassing producer group associations. VoC's primary argument was that these two systems of capitalism are qualitatively distinct and *cannot converge*. Rather, when confronted with crisis, they will adhere to the adjustment path that strengthens, and reproduces, their approach to economic growth. Further, the types of skills that these 'systems' nurtured (industry specific skills versus general skills) shaped the type of comparative advantage that their particular country or sectors possessed, with CMEs specialising in medium and high value added manufacturing goods, and LMEs specialising in goods such as pharmaceuticals and high-tech services that required radical innovation and intensive research and development.

VoC established an important foundation for the study of comparative capitalism. But it possessed a number of limitations that a second wave of VoC scholarship attempted to address (see Hancké *et al*. 2007). These limitations include: the neglect of capitalist systems within transitional Eastern

and Central European economies (Bohle and Greskovits 2012); the rather awkward labelling of 'mixed market economies' (MMEs) in Southern Europe (Molina and Rhodes 2007); the near total absence of a role for electoral politics (Iversen and Soskice 2006, Häusermann 2010); the over-concentration on the (declining) manufacturing sector and the neglect of service-based employment (Stockhammer 2008, Wren 2013); an emphasis on supply-side institutions rather than aggregate demand (Baccaro and Pontusson 2016, Johnston and Regan 2017), and a limited ability to explain institutional change within countries, and the general ideational impact of neoliberalism more broadly (Hay 2004, Streeck and Thelen 2005, Thelen 2014).

Another major gap in the first and second wave of the varieties of capitalism literature is the neglect of European integration, and the extent to which the EU itself impacts the evolution and trajectory of capitalist regimes *within* its member-states. As a theory of national comparative advantage, the VoC approach to the study of comparative capitalism had always been preoccupied with trade and economic interdependency. However, European integration extends well beyond trade in manufacturing and has much broader distributional implications for national growth models and the organisation of capitalism within its member-states. In particular, the EU has significantly impacted the structure of its member-states' growth models by

(1) Introducing greater monetary integration via the European Monetary System and the creation of the single currency (see Höpner and Spielau 2017).
(2) Facilitating the proliferation of cross-border financial and capital flows (which has been largely neglected within comparative capitalism research but is central to the study of international political economy, see Fuller 2017).
(3) Placing downward pressures on wages in low-skilled sectors through the free movement of people, particularly from the new accession countries (see Coulter 2017, and Regan and Brazys 2017).
(4) Establishing strict and austere fiscal policy guidelines that include, but are not limited to: the Stability and Growth Pact, the European semester, the fiscal 'two pack' and 'six pack', and the macroeconomic imbalance procedure (MiP), in addition to bailout conditionality in the European Stability Mechanism (see Perez and Matsaganis 2017).
(5) Promoting a particular concept of export growth and high-tech skills development among its member-states in the Europe 2020 goals (see Coulter 2017).
(6) Mandating major supply-side structural reforms in Central and Eastern European countries through the Copenhagen accession criteria (see Bohle 2017).
(7) Introducing directives and regulations (enforced by the European Court of Justice) that shape (and in some cases undermine) national policies on co-determination, taxation and competition law (Höpner and Schäfer 2012).

Most of these measures were explicitly designed to promote economic 'convergence' among member-states, an assumption which, according to comparative political economy is problematic. Furthermore, not only does European integration involve much broader scope for cross-national interdependencies that affect the domestic organisation of capitalism, but it also introduces a much wider array of international actors into the study of comparative capitalism (the European Commission, the European Central Bank, the European Court of Justice, European regulators, political elites and policy-makers within European committees, not to mention various European lobby groups). The political and regulatory actors that now influence and shape national capitalist regimes extend well beyond firms, unions, and national central banks (see Iversen 1999, Franzese 2001), which had been the traditional remit of the first wave of VoC scholarship. But even within second wave comparative scholarship, the empirical focus was largely aimed at dissecting how domestic politics and institutions shape the structure of capitalist development within the nation-state. Hence, it tended to ignore the influence of complex multi-level polities including, most importantly, the EU, in shaping these trajectories.

The electoral and growth model turn in comparative capitalism

EU scholarship is also guilty of ignoring how national varieties of capitalism within Europe shape the politics of EU integration.[4] Theories of European integration (see Pollack 2015 for a general overview) crucially rely upon the strategic interests of elites within nation-states and whether or not they are willing to transfer sovereignty to a supranational polity. The electoral and growth model 'turn' within third generation comparative capitalism research, which focuses on how electoral politics shape national growth regimes, goes some way to explaining *how* these strategic preferences among elites are formed (see Beramendi *et al*. 2015 for a summary). The core argument of the electoral perspective in comparative capitalism scholarship is that the economic policies governments pursue, and therefore capitalist diversity between countries, is shaped by the changing nature of electoral cleavages, and the path dependent effect of previous policy choices. This implies that member-state governments, responding to electoral preferences for certain growth strategies, will generally advocate for European integration that is best suited to their growth model (we see this quite emphatically in the current direction of German influence in the Council over the establishment of the EU's new macroeconomic governance regime). Along these lines, Höpner and Spielau (2017) demonstrate how elites' preferences to replace the European Monetary System with EMU partially stemmed from their desire to avoid the electoral consequences of heavily politicised negotiations over the exchange rate mechanism parity adjustments.

Hence, the 'growth model' turn within third generation comparative capitalism scholarship has begun to incorporate the study of European integration into the politics of comparative capitalism, although the bulk of this research remains exclusively focused on European monetary integration and the creation of EMU (Stockhammer 2008, Hall 2014, 2017, Johnston *et al.* 2014, Regan 2015, Johnston and Regan 2016, Höpner and Lutter 2017, Kriesi 2017, Hooghe *et al*. 2017). The main takeaway from this scholarship is that prior to monetary union, consumption-oriented growth models in the South could co-exist with export-oriented models in the North without producing current and capital account imbalances between each other because member-states' had access to two crucial adjustment mechanisms that limited external imbalances: exchange rates and national central banks. Under monetary union, both of these adjustment mechanisms were removed, allowing countries with strong producer coalitions in the manufacturing sector to hold down inflation rates via aggressive wage dumping (Germany) causing them to realise persistently more competitive real exchange rates (Baccaro and Benassi 2017). Consequently, the EMU's CMEs ran persistent current account surpluses, and in turn capital account deficits, with their Southern Eurozone trading partners. EMU allowed these divergences grow unchecked, enabling manufacturing growth models (CMEs) to reap economic benefits from deepened European (monetary) integration at the expense of domestic-growth models (in southern Europe) who were burdened with the worst consequences of the crisis.

This current (third wave) of research on comparative capitalism and European integration has advanced the rather controversial hypothesis that the co-existence of diverse models of capitalism is becoming increasingly difficult to manage amidst deepened EU integration. It suggests that 'more integration' and 'ever closer Union' is only likely to exacerbate current economic problems. Many economists, including Stiglitz (2016), make similar conclusions, and much like Streeck (2014), openly call for a breakup of the Eurozone, in order to ensure the survival of the EU.[5] However, comparative capitalism literature also remains somewhat narrow in addressing the broader question of whether the EU is capable of further integrating diverse models of capitalism for three reasons. First, it almost exclusively focuses on EMU and the Euro crisis, ignoring other facets of European integration, such as the seven listed above, that may also disproportionately favour some national growth models above others. Second, it assumes that the type of growth model that a country possesses is not shaped by the process and liberalising trajectory of European integration itself. Third, it also partially treats the process of European integration as exogenous to domestic electoral politics, rather than one shaped by elites who seek to mold the direction of Europe in the interests of their national

growth regimes. The articles in this special issue address these shortcomings, and highlight the new challenges that European integration *more generally* introduces to the comparative politics of advanced capitalism.

Capitalist diversity within the EU: a growth model theoretical framework

The theoretical framework used by the contributions in this special issue build upon the national *growth regime* typologies outlined in the current (third) generation of comparative capitalism research (Beramendi *et al*. 2015, Baccaro and Pontusson 2016, Iversen *et al*. 2016, Johnston and Regan 2016, Hall 2017). We conceptualise the EU as a union of two different growth models: those that prioritise export growth (be it manufacturing, high-tech firms, tradable services, or foreign and direct investment), and those that prioritise domestic-consumption (be it the public sector, small family firms, construction, real estate and other non-tradable services). The traditional (German) export growth model (which revolves exclusively around manufacturing) depends upon the tacit support of employers and unions to hold down unit labour costs in order for firms to be price/cost competitive in international markets (Iversen *et al*. 2016). Wage restraint advantages the manufacturing sector, but comes at the expense of depressed demand in the domestic sector. While Northwestern European export-led growth models conform to traditional notions of a CME (possessing coordinated labour markets that deliver wage restraint and austere fiscal policies aimed at generating budgetary surpluses) they also can include properties that accommodate non-manufacturing based exposed sectors.

Highlighted in Regan and Brazys, and Bohle (2017), Ireland and the Visegrad countries in Eastern Europe also possess export-led growth regimes, whose primary specialisation lies outside domestic manufacturing, and that have been crucially shaped by European integration. Ireland's FDI-led growth model centres around internationally traded services, in particular the computer and information services sector. Features that uphold Ireland's growth model are not only crafted in the domestic realm – corporate taxation and a state-led enterprise policy aimed at attracting (American) foreign direct investment from Silicon Valley (see Brazys and Regan 2017) – but also within the European realm, as one characteristic that makes Ireland such an attractive location for US FDI is direct access to the 500 million strong labour force of the wider EU, in addition to the single market. Like Ireland, the Visegrad countries' growth models are highly dependent upon foreign investment rather than indigenous firms. FDI into the Visegrad states' largely stems from German manufacturing firms. The ease of relocation for German firms into the Visegrad states was directly assisted by their accession into the single market (Simonazzi *et al*. 2013). Hence, Eastern and Central Europe countries have integrated their export-led model into the supply chains of German firms, and have long adapted to the market liberalising preferences of the EU.

Domestic demand-led growth models do not conform to classic varieties of capitalism typologies because their economic vitality is dependent not upon trade but upon domestic wage-led and/or credit-led growth, and the electoral coalitions these sectors tend to promote. Because consumption-oriented growth models rely on buoyant domestic demand in the non-tradable sectors (the public sector, construction, restaurants/hotels, real estate and banking) that underpin them, coordinated wage and credit restraint in these capitalist systems is self-defeating. As a result, wage coordination (and restraint) is less prominent in these countries, whose fragmented collective bargaining institutions further hinder attempts to deliver the type of incomes policies observed in the export growth models of Northwestern Europe (Johnston 2016). Within the Euro's early years, rising household debt, wage and credit growth, and the robust domestic demand that accompanied it, was further enhanced by a surge in access to foreign borrowing (see Fuller 2017).

Credit fuelled growth served these (domestic) consumption-oriented economies well, as their economic growth rates rose ahead of their export-oriented Northern neighbours (with the exception of Italy). Bohle (2017) highlights that European financial integration (and membership accession

criteria) also enabled the Baltic states to develop debt-led consumption models of capitalism, which centred around attracting investment from foreign (notably Swedish) banks and financial firms. However, once the plethora cheap foreign credit dried up after the 2008 global financial crisis, and once the European Commission imposed severe fiscal austerity on peripheral bail-out recipients, these consumption-oriented growth models collapsed. Hence, absent strong wage-led growth, credit-led growth, state-led growth and export-led growth, these countries have been more adversely affected by European austerity policies (including at the ballot box).

Though the UK has served as the ideal case of an LME, according to Baccaro and Pontusson (2016), it is also a consumption-led growth regime. Because the UK lacks a vocational training system centred on industry specific skills, British manufacturing has historically specialised in low-cost production.[6] This would prove fatal amidst deepened trade integration with low-wage economies, first with Southern Europe, and then with Eastern Europe (Margaret Thatcher's deliberate deindustrialisation policies in the 1980s also reinforced British manufacturing's decline). Under Thatcher and New Labour, the UK's growth model evolved into a dualised skill economy, where its export champions shifted from traditional manufacturing to high-technology and high-skilled services sectors (notably finance), while low-skilled, low-wage services dominated its domestic sectors (Hay 2013). New Labour's attempt to upgrade the UK's growth strategy towards a 'knowledge economy' involved measures aimed at increasing the proportion of the labour force that served in high-skilled (and high-wage) industries via higher education expansion. In fact, the UK's state-based initiatives towards mass higher education was incorporated into the EU's Europe 2020 growth strategy for its member-states. However, as Coulter outlines (2017), free movement of people from the East squeezed wages and employment opportunities in low-skilled sectors, leading to occupational cleavages that ultimately underpinned Brexit.

Taking stock of consumption-led and export-led growth models within the EU, the next section summarises the contributions of this special issue. Our proposition is that the EU has advantaged and promoted institutional features characteristically seen within manufacturing and FDI-based export growth models (i.e. the 'ordoliberal' German growth model), while it has destabilised and discouraged institutional features which dominate consumption-led (and debt accumulation) models. Further, a narrow focus on austerity and cost competitiveness rules out a balanced growth path that allows for both export growth and wage-led growth (hence, balancing consumption and exports). In turn, and as demonstrated in the comparative politics literature, this is undermining the established electoral and producer group coalitions that underpinned centrist parties in these crisis-afflicted countries (Afonso *et al*. 2015, Katsanidou and Otjes 2016).

European integration: a one-size-fits *some* export growth model?

From its origins the EU has been built around the construction of the single market, which allows for the free movement of capital, peoples, goods and services. It should therefore be no surprise that the EU has privileged export-oriented growth models. The construction of the single market offered countries with strong manufacturing sectors the capacity to expand their reach to foreign markets, which was a boon to production and further reinforced the power of the export sector in their domestic politics (Moravcsik 1993). European integration has facilitated an exponential growth in trade, and whilst this has created winners and losers, it has also improved *aggregate* welfare in Europe at least before the years of the Euro crisis (Baldwin 1994). Of course, the single market also provided gains to demand-led growth by reducing the price and increasing the availability of imported goods and services. Nevertheless, export models, by their very nature, are dependent upon unfettered access to foreign markets, and European integration provided them with these opportunities on a more magnified scale than simple free trade agreements.

Moving beyond the free movement of goods, the EU's other 'freedoms' (free movement of services, people and capital) also re-enforced the characteristics of export-driven growth models. Current literature (and Höpner and Spielau 2017) document how the free movement of capital

(formally institutionalised in monetary union), has re-enforced positive trade outcomes within the *current account* for export-led economies. Early corporatist debates (Olson 1982, Calmfors and Driffill 1988) identified that comprehensive wage coordination produces low inflation and unemployment, because the labour movement internalises the costs of wage inflation. However, these theorists did not consider that comprehensive wage restraint could be construed into a *beggar-thy-neighbour* trade policy under certain international arrangements.[7] EMU constituted one such arrangement, because it removed adjustment mechanisms that could mitigate inflation's direct impact on real exchange rate competitiveness. Höpner and Spielau add to this insight, however, by noting that German and French political elites' desire to create monetary union was in part a response to the *political* difficulty of managing exchange rate adjustments between 'hard' and 'soft' currency blocs (the former which largely consisted of countries with export growth regimes, the latter which largely consisted of countries with domestic consumption growth models) within the European Monetary System (EMS).

European elites may not have anticipated that the absence of exchange rate adjustment would cause such distortionary effects under monetary union because their desire to establish the common currency was largely political (Hall 2012). As Höpner and Spielau (2017) highlight, whilst the EMS enabled economic adjustments between member-states, it came at the expense of political expediency; discretionary exchange realignments involved highly politicised bargaining within the Economic and Financial Affairs Council, given that any alterations to exchange rate parities required unanimous approval by all countries involved. EMU allowed European elites to avoid these highly politicised confrontations and hence realise a more politically expedient monetary regime, at least when EMU ran smoothly. This political compromise, as we now know, has come at a serious cost for countries with domestic consumption-oriented (and debt accumulation based) growth models. EMU removed tools that member-states (particularly Southern Europe) could use to rectify growing external imbalances. This is not to suggest that currency devaluations and revaluations are a panacea to economic adjustment problems, but from a political perspective, the *electoral costs* of an external devaluation are a lot lower than pursuing an *internal devaluation*, which implies significant cuts to public spending, and tax increases on citizens.

Fuller (2017) notes that the free movement of capital (not only the creation of the common currency, but also European financial integration more broadly) had notable destabilising effects for consumption-oriented growth models within the *capital account*. Fuller deviates from the literature on the compatibility of diverse models of capitalism within the Eurozone, which focuses almost exclusively on the current account, and examines the systemic institutional features of capital flow imbalances. He argues that the common currency provided EMU's southern European countries with the capability to develop their debt and consumption-driven models through deep financialisation. The demand for high yields from (Northern European) banks provided cheap and plentiful credit to households and sovereigns within peripheral countries, reinforcing their consumption-driven growth models, while EMU's elimination of exchange rate risk (and perceived default risk) further aided debt accumulation from foreign borrowing. However, Fuller outlines that this strategy of debt-financed growth is also deeply problematic, as it is purely reliant upon willing borrowers, rather than typical factors of production (capital and labour). With the sudden stop in capital flows that precipitated the European debt crisis, EMU's peripheral economies witnessed the evaporation of foreign capital that served as the bedrock for credit expansion, which their domestic consumption-led growth models relied upon so heavily upon during the Euro's boom years. Crucially, Fuller argues that *financialisation*, which in the end proved self-defeating in the absence of a European wide banking union, was a direct outcome of the single currency.

The most obvious case where the EU promotes what many consider a German-style 'ordoliberal' export growth model is the new fiscal and macroeconomic surveillance initiatives that followed the Euro crisis: the 'two pack' and 'six pack', and the Fiscal Compact, among other reforms (See Fabbrini 2013, Bulmer and Paterson 2013, Schimmelfennig 2014, Laffan 2014, Matthijs and Blyth 2015, Nedergaard and Snaith 2015, Verdun 2015, Schmidt 2016). This bias was perhaps most explicit in the six

pack's MiP, and its external imbalances 'scorecard'. Under the MiP, the Commission recommends that nominal unit labour cost growth within Euro-area and non-Euro-area countries not exceed 9 and 12 per cent, respectively, over a three-year period, making moderated wage growth a primary component of the EU's macroeconomic governance regime. The guidelines also discourage countries from producing current account deficits higher than 4 per cent of GDP, but allow for current account surpluses up to 6 per cent of GDP (EU Commission 2016). Given Germany's considerable sway within the Council, it is perhaps not entirely surprising that these monitoring rules were constructed to grant greater flexibility to surplus-generating, export-led growth models. Nevertheless, despite the dire fiscal straits that deficit countries were in, which meant that they had little bargaining power to demand that the permissible range of current account surpluses be equalised at 4 per cent of GDP, it is puzzling why these countries, particularly France and Italy, signed up to such an economic governance regime.

Fiscal rules stipulated in the Fiscal Compact, and the austerity loan conditions of the European Stability Mechanism, have disproportionately hit Southern Europe's domestic-consumption growth models. Perez and Matsaganis document the distributional consequences of austerity within Southern Europe, and note that while Spain, Portugal, Italy and Greece were all hard hit by austerity, its impact on incomes and inequality was quite heterogeneous. The authors attribute this heterogeneity to *government choices* over how to distribute the pain of fiscal adjustment, with Portugal taking the most 'progressive' approach, while Greece, Spain and to some extent Italy, took a more regressive line (suggesting the importance of different *electoral coalitions* in shaping policy choices). Perez and Matsaganis note that one of the political causes of Portugal's progressive approach to austerity was the high levels of cooperation among political parties and social partners, itself a result of Portugal's economic and political transition, which produced more progressive attitudes towards poverty alleviation amongst the general public. This was in strong contrast to Greece, where the antagonistic style of politics, and parties' attempts to preserve their patronage links in the public sector, weakened the government's negotiating hand with the Troika.

European integration's export-model bias is not solely restricted to the free movement of capital, and rules-based fiscal and macroeconomic policies. Bohle's contribution in this special issue demonstrates how the EU actively shaped export-led growth strategies in accession countries during EU enlargement. Bohle demonstrates how EU accession criteria for the Eastern bloc was heavily responsible for the development of credit fuelled debt-accumulation regimes in the Baltic states and FDI-focused growth regimes in the Visegrad countries. The EU's influence over growth strategies within the Eastern bloc presents a stark contrast to the politics of capitalist development in the West, which were largely the result of domestic class compromise, and the electoral politics tied to it (Rueschemeyer *et al*. 1992). Neoliberalism and financial liberalisation were heavily embedded in the Copenhagen criteria, and the EU actively promoted the privatisation of strategic sectors (and their shift to foreign ownership) within accession countries. Bohle's contribution demonstrates how the EU established national investment promotion agencies within the Eastern bloc during the accession process. This not only laid the groundwork for an FDI-focused growth strategy within these countries but ultimately transformed their growth models. This extensive reform process actively marginalised the domestic sector (and in particular, the public sector) within Eastern and Central Europe. It also allowed the EU's old (export-oriented) member-states to capitalise on the East as a new export market (as was the case for financial services in the Baltic states, where Swedish banks played a heavy role in the development of their financial and mortgage markets), and as low-wage production sites for their multinational firms (seen within the Visegrad countries).

While accession effectively created new (outward looking) growth models in the East, EU integration also re-enforced politically destabilising aspects of capitalist regimes in the West. Coulter outlines that in its Europe 2020 Agenda, the EU actively promoted successive UK governments' initiatives to place high-tech sectors at the centre of a national growth strategy (as well as to expand higher education access), which 'rebalanced' the UK towards a 'knowledge economy'. Yet at the same time, successive British governments, and the EU, failed to address income disparities in low-skilled (domestic)

sectors. Economic discrepancies and depressed wage rates within the UK's domestic sectors were further exacerbated by the EU's free movement of people, and the substantial influx of workers from Eastern Europe after the 2004 EU enlargement. Coulter's contribution highlights that these rebalancing initiatives largely benefited a small tranche of high-tech firms, but failed to mitigate skills and occupational cleavages within other industries. Brexit (and anti-EU populism more broadly) epitomises the serious political consequences that result from unbalanced growth models that favour high-skilled mobile workers but do little to enhance the low-skilled domestic sectors (Goodwin and Heath 2016). Admittedly, the EU lacks the capacity to improve employment outcomes or offer welfare provisions for workers in low-wage sectors that have been left behind by deepened economic integration, because member-states have closely guarded their sovereignty over employment and welfare policy. Nevertheless, Coulter suggests that the EU's disproportionate emphasis on high-skilled sectors has eroded its legitimacy among (disadvantaged) segments of society with little connection to these sectors, producing destabilising electoral consequences for the European project as a whole.

Regan & Brazys offer similar words of caution for Ireland, whose FDI-based growth model has been heavily centred around the high-tech competitive export sector, which is almost entirely occupied by US multinational firms. Ireland's FDI-growth model shares parallels with those described by Bohle in Eastern Europe. Yet Regan and Brazys note that Irish elites have not so much been coerced by the EU to adopt FDI-centred growth strategies like those in the Eastern bloc during accession, but rather have consciously used Ireland's strategic location within the EU and the common currency to attract (American) MNCs to their shores. Similar to the UK, Ireland's dynamic (MNC-based) export sector is relatively detached from the domestic economy, as is its labour force, which disproportionately consists of (EU) foreign workers (further enabled by the EU's free movement of people). The authors note that this detachment has led to unequal economic recovery from the Eurozone crisis, with economic and employment growth being restored to the competitive FDI sector, while workers in domestic sectors are still reeling from the consequences of EU austerity. Further, recent interventions by the Commission into Apple's corporate tax affairs in Ireland, using competition law, have generated political conflict with domestic elites, who vehemently oppose the use of EU competition law to intervene in fiscal policies.

In sum, the winners of European integration are those nation-states with the domestic political and institutional capacity to carve out a manufacturing and/or high-tech export growth model. This is the 'ideal' model that the EU promotes, and it is primarily built in the image of the German economy. The losers of European integration are those nation-states that lack the domestic institutional capacity for manufacturing and/or high-tech export growth, and those that were traditionally reliant on wage or credit growth to generate aggregate demand. Even within EU member-states that have embraced export-led growth strategies, sectoral losers have emerged: either those disproportionately hit by the free movement of people, or those who have not been adequately compensated for the social costs of integration (Dancygier and Laitin 2014).

All of this suggests that countries that do not produce comprehensive export growth, to offset the worst effects of austerity, are effectively stuck in a bad equilibrium (De Grauwe and Ji 2014), with little prospect of economic and employment growth. The EU has recommended the implementation of 'structural supply-side market reforms', with the explicit aim to achieve convergence with the German growth model, as a strategy to overcome this bad equilibrium. Yet these recommendations (and interventions) are highly problematic from a comparative political economy perspective for three reasons. First, it is highly questionable that all countries *can* converge with Germany's growth regime, at least without incurring significant adjustment costs and deep social consequences. Second, it is questionable whether this outcome is desirable, as components of Germany's export growth regime, notably systemic wage repression, involve beggar-thy-neighbour strategies, which cannot be realised if all states initiate them simultaneously. Third, the political choice to pursue a particular growth model should be a decision for domestic electoral politics and not the EU's technocratic elites, as these political choices involve distributional conflict and require significant levels of social investment, which the EU was neither intended nor able to initiate.

Conclusion: European integration and the politics of comparative capitalism

Recent research demonstrates that growing opposition to the EU is an outcome of a perception among electorates that the EU promotes 'policy without choice' (Sacchi 2015, Kriesi and Pappas 2015, Kriesi 2017). This can be directly observed in the growing number of disenchanted voters across the EU, who tend to predominate in Southern Europe's consumption-oriented economies, which have been hardest hit by the crisis (Armingeon *et al*. 2016). We contend that this perception of 'policy without choice' or 'policy without politics' is not unfounded; it is a direct function of the EU's technocratic attempt to promote a single (export-driven) and rules-based economic growth model among its diverse member-states, to be achieved through austerity induced cost competitiveness. The EU's export growth model strategy, built around ordoliberal ideas of rules-based fiscal governance and cost-based competitiveness, has forced its member-states into direct competition with each other, producing clear winners and losers (nationally and sectorally), and creating long-term distributional consequences (Monastiriotis *et al*. 2013), with obvious electoral implications.

If we accept the conclusion that European integration favours export-oriented models of capitalism, and narrowly promotes a single path to economic and employment performance, then VoC scholars must surely reconsider whether deepened integration can truly be a positive sum gain for all EU member-states. The integration of unequals in the EU not only has the potential to undermine electoral support for the EU in countries whose growth models are reliant on domestic demand, but it also has the potential to intensify political conflict within the EU's institutions. The EU's policy response to the European debt crisis, which has pitted northern Europe's export-led economies (creditors) against the domestic demand-led economies in the south (debtors), provides a clear example of increased politicised (and moralising) conflict within the Council (Matthijs 2016). Germany and the EU's small Northwestern countries have pushed the austerity agenda, which revolves around generating external and fiscal surpluses. The economic gains that Germany has reaped from European integration – itself a result of the compatibility of its manufacturing growth model with deepened integration – has granted it a strong negotiating hand against fledgling countries in the South and East. This asymmetric power dynamic will likely further reinforce the EU's export-led growth model bias, as Germany has taken a leading role in shaping the EU's post-crisis governance regime in a manner that prioritises trade surpluses.

Findings within this special issue can also inform current debates on the politics of advanced capitalism, which have tended to marginalise the impact of European integration on the development and sustainability of national growth regimes. To date, comparative capitalism scholars have largely argued that the politics of capitalist diversity is shaped by a constrained politics of diverging electoral preferences towards reform, determined within the *domestic* political sphere. Contributions within this issue suggest that domestic politics is not as insulated as comparative political economy scholars presume it to be. Not only can European integration guide elites' hand in laying the foundation for a specific model of capitalist development (as we see in Eastern Europe), but it may also nudge growth models towards certain economic outcomes (be it growth or stagnation) that will ultimately shape domestic electoral and producer group support for these strategies and their long-run sustainability. In turn, political elites internalise the preferences and interests of their growth model (which is shaped by the intertwining of electoral and producer group coalitions) and use this to influence the shape, type, scale and trajectory of EU integration. At present, the normative preference accorded to the German growth model prevails, and EU policymakers assume that it is economically and politically feasible for all member-states to *converge* with this growth regime. The findings from this special issue suggest that this assumption is deeply problematic, and is likely to lead to electoral backlash in countries that cannot replicate a (German) export growth model ideal.

Notes

1. Although see Parsons and Matthijs (2015) for an opposing view.

2. In this paper, we use the terms 'growth models', 'capitalist regimes', 'capitalist systems' and 'economic systems' interchangeably.
3. Though this wave was preceded by comparative political economy works that examined the structure of corporatism and 'national models' (see Shonfield 1965, Olson 1982, Calmfors and Driffill 1988), VoC scholarship provides a more comprehensive foundation for how other types of capitalist institutions (educational systems, corporate finance, firm coordination, etc.), not merely those tied to wage setting, interact with each other to produce distinct national economic models.
4. Fioretos (2001) is an exception here, and uses VoC to explain the domestic sources of member-states' EU integration preferences. Moreover, Bickerton *et al*. (2015) have introduced a theoretical space for capitalist diversity in their new intergovernmentalism framework.
5. Other scholars fundamentally disagree, and make the argument that clear supranational technical solutions exist (Jones 2015, Sandbu 2015, Schelkle 2017), and that the problem is a clash of politics in the EU Council (Fabbrini 2013).
6. As Coulter (2017) highlights, British employers have been reluctant to make the scale of investment required for a comprehensive vocational training seen in Germany.
7. It should be noted that the early discussions of corporatism within the economic literature were predicated on the assumption of a closed economy (Danthine and Hunt 1994).

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