Contribution to the Dahrendorf Symposium

The policy consensus ruling European political economy: its attractions, flaws and possible departures

Waltraud Schelkle (European Institute, LSE)
Anke Hassel (Hertie School of Governance)

Abstract: Since 2008, crises in financial markets have forced governments in OECD countries to unprecedented monetary and fiscal intervention. In previous such situations, namely the Great Depression and stagflation in the 1970s, the economic policy consensus of the time came under close scrutiny and eventually shifted. Today, criticism of academic economics is not in short supply but a straightforward alternative is not in sight either. This seems to be particularly troubling for governments in Europe, desperate for advice on how to stop contagion spreading from a small peripheral economy to the core of the European Union. But then, the lessons that especially European governments seem to draw from the crisis suggest that the economic policy consensus of the last two decades, with its heavy emphasis on structural reforms and inflation-targeting monetary policy, is less obsolete than the critics suggest.

Our contribution first assesses what the consensus until recently has been and how it could have been implicated in the crisis. We identify as the elements of the consensus that are potentially flaws responsible for the crisis the notion of a fundamental equilibrium that is determined independently of financial markets, the focus on micro foundations that neglects issues of systemic stability and an obsession with structural reforms of labour markets. The incremental shift of economic theorizing towards self-regulation of markets and macro-stabilisation assigned to central banks left governments the task of restoring the role of the price mechanism in labour and product markets. A stronger role of price adjustments increased the flexibility of nominal prices but not necessarily real adjustment.

Second, we argue that the policy consensus continues to persist because it is politically attractive. Following Hall (1989) who suggested that ‘the political power of economic ideas’ requires, at a minimum, their economic, administrative and political viability, we identify the attractions of the policy consensus as directly following from its theoretical flaws. In monetary policy, agencification of monetary policy – ie the creation of independent central banks -- freed fiscal authorities from dealing with issues of macro-stabilisation for which they typically get more blame than praise. The assurance that there is a full-employment equilibrium determined by real economic factors enabled governments to turn a blind eye on overheating credit markets that allowed households to finance rising consumption while real incomes stagnated for most. Finally, the focus on labour markets and structural reforms suited particularly centre-left parties and governments targeting changing electoral constituencies, due to a decline in industrial employment and the inequality of employment conditions in services.

We end the paper with observations of potential departures from the policy consensus that could indicate a significant shift for the political economy of Europe. The crucial

question is whether political support can be mobilized for the shift from structural reforms of labour markets to the containment of risks in financial markets. Welfare state building in the 20th century depended on the active support of firms for welfare state expansion in the employment relationship. Similarly, robust re-regulation of financial markets is likely to emerge as a response to political demand by 'capitalists against markets' (Swenson 2002). One cannot take this demand for granted. But we argue that there is a prospect for the formation of politically cross-cutting coalitions that aim at defending the real economy against financial havoc by protecting the financial system from itself.

The policy consensus ruling European political economy: its attractions, flaws and possible departures

Waltraud Schelkle (European Institute, LSE)
Anke Hassel (Hertie School of Governance)

Introduction: Whose crisis?

Since 2008, crises in financial markets have forced governments to unprecedented monetary and fiscal intervention, unprecedented both in scale and degree of coordination. At the time of writing, sovereign debtors are again under attack by financial markets for their poor growth and pitiful public finances which the crisis of 2008-09 generated. Governments are desperate for advice on how to stop contagion and a new recession. The situation is particularly difficult in Europe where the future of the European Union and especially the common currency is at stake. This seems a pertinent moment for taking stock of what the economic policy consensus of the recent past has been, whether it is to blame for the recent crises or whether it can help policymakers now in their attempts at effective crisis management.

In previous such situations, namely the Great Depression of the interwar years and the stagflation following the oil crises in the 1970s, the economic policy consensus of the time came under close scrutiny and eventually shifted, to Keynesianism and monetarism, respectively. Today, criticism of academic economics is not in short supply but a straightforward alternative is not in sight either. The critics and mainstream economists do not even agree on how to label the consensus of recent years. The less favourable characterisations span from privatised Keynesianism (Crouch 2009) and neo-liberal market fundamentalism (Hall and Lamont 2011) to macroeconomics based on models of a centrally planned economy (Buiter 2009). For evidence of a paradigm in crisis, the critics can point to overindebtedness of households and increasing inequality, but also to the unravelling of institutional fundamentals such as central bank independence.[1]

In defence, mainstream economics can point out that they explore market imperfections and outright failure in controlled variations of the perfect-competition-full-flexibility benchmark (eg Smets and Wouter 2003). The use of the consensus model by many central banks and supranational, applied research outfits proves that macroeconomists are not only scientists but also engineers engaged in fixing real world problems (Woodford 2009). The defenders are bolstered by the fact that the lessons, which governments seem to have drawn from the various crises, suggest that the economic policy consensus of the last two decades is less obsolete than the critics think. As before, supranational policy reports and summit conclusions end with calls for structural reform, budget consolidation and commitment to price stability. Global financial regulation is still orchestrated by men in grey suits meeting in Basel and relies heavily on the same old instrument of (modest if somewhat raised) capital requirements. Put less favourably, a distinct possibility is that mainstream economics is a ‘pathology’ (Hay 2011) that simply lingers on without killing the patient outright.

[1] See Hodson and Mabbett (2009) for an insightful analysis of the UK in 2008-09.

But what does the consensus consist of? Those who see the financial crisis also as an ideational or intellectual crisis tend to characterize mainstream economics as the embodiment of neo-liberalism that assumes that markets get it right. Those who acknowledge that there may have been some oversight but that there is no alternative to the new synthesis insist that there is a well-developed analysis of market failure in mainstream economics and it merely has to be updated in light of the new experience. An alternative to both is one that accepts that it was not neoliberalism that got into crisis but a synthesis of neoclassical and New Keynesian economics which takes market failures into account but has serious flaws that made it overlook all the factors leading up to this crisis, such as systemic risk.

New Keynesianism and neo-liberalism – the argument in brief

Our contribution addresses the policy consensus on the European political economy in one fundamental way. In much of the writings on the shift from the post-war golden years to a new economic paradigm after the late 1970s, the contrast is drawn between the Keynesian Welfare State on the one hand and neo-liberalism on the other hand.[2] Many political scientists and political economists therefore portray mainstream economics, its policy advice and the politics of market regulation as if it was under the spell of a decidedly neo-liberal thrust (eg Hay 2011, Stiglitz 2008, McNamara 2006).

We think that this contrast is flawed. Keynesianism has not given way to a neo-liberal agenda but to a New Keynesian-neoclassical synthesis that took price and wage rigidities into account, as a fact of economic life, with costs and benefits. The New Keynesian macro-economic policy that followed from it combined activist inflation targeting with structural supply-side policies, which means policies that aim at changing certain institutions like employment protection or wage-bargaining patterns.

Structural supply side labour market policies are frequently seen as a core element of neo-liberalism. Activation in the sense of privatising the responsibility for finding a job, in contrast to active labour market policy, was therefore seen as a cornerstone of a neo-liberal agenda that abandoned the Keynesian Welfare State. However, we argue that the turn to supply-side labour market policy was a response to political demands of core electoral constituencies rather than the biggest parcel in a neo-liberal package. In other words, both trends – the change in labour market policies and the demise of the Keynesian welfare state -- went in parallel and were even connected, but not because of a macro-economic paradigm that was dismissive of the welfare state as such. At first glance, this difference sounds overly subtle, but we maintain that it helps to understand the persistence of the policy consensus even after the financial crisis.

A challenge to our view is Crouch's interesting hypothesis that the distinction between New Keynesian macro-economic policy and a supply-side policy agenda can explain why neo-liberalism did not die (Crouch 2009). Crouch's answer is to claim

[2] See for instance Jessop (2010) for the contrast between the 'Keynesian Welfare State' and the 'Schumpeterian Workfare State' but also Hall (2010): "Active labor market policies were the supply-side alternative to Keynesianism. Although their complexion varies from one country to another, they involve government subsidies for training positions or jobs created for groups at greatest risk of falling out of the labor market, such as the young and long-term unemployed."

that private Keynesianism succeeded the Keynesian Welfare State which kept demand steady and helped neo-liberalism to continue even though it meant harsher economic environment for the working population. He maintains that the Keynesian system of public demand management was not followed by a neo-liberal turn to pure market rule, but rather market liberalism combined with extensive consumer debt incurred by low- and medium-income households (Crouch 2009, 382). Privatized Keynesian demand management thus helped to maintain rather unpopular and unwanted neo-liberalism and liberalization.

We argue that New Keynesianism and supply-side policies interact in a somewhat different way. First of all, privatized Keynesianism as portrayed by Crouch (2009) is not demand management at all but a reinforcement of pro-cyclical movements of market demand. The New Keynesian policy consensus meant, above all, a move from the macro-level to the micro-level of economic management. This micro-level economic management addresses the supply side of the economy that is price and wage rigidities. It also tackles the denial of market access for certain consumers that is supposedly caused by a lack of competition between financial providers. However, liberalization cannot be sustained on a purely ideological basis for long. Policymakers must be seen to solve labour market problems and thereby respond to political demands by the electorate. We suggest that this is what the synthesis model delivered and why even a flawed model of New Keynesian policy making became entrenched in our political system.

In the following, we will assess what the consensus until recently was and what its potential flaws were. Next we explore what made the consensus attractive. In this, we follow Hall (1989: 370-375) who proposed that 'the political power of economic ideas' requires, at a minimum, their economic, administrative and political viability. That is to say, they must resolve economic problems deemed pressing and relevant by policymakers; they must be in accord with bureaucratic practices and not overstretch implementation capacities; and they must appeal to broader constituencies and possibly allow policymakers forging new coalitions. We conclude that, paradoxically, the flaws could be the flip-side of what made the consensus attractive, in particular to European governments with their perception of pressing low employment problems. This is followed by an assessment how the economic policy consensus worked in practice and may have actually contributed to the crisis. The contribution ends with our observations of potential departures from the policy consensus that would indicate a significant shift from structural reforms of labour markets to the containment of risks in financial markets. The crucial question is whether political support can be mobilized for this shift. We argue that there is a prospect for the formation of politically cross-cutting coalitions that aim at defending the real economy against financial havoc by protecting the financial sector from itself.

What was the economic consensus of the last two decades?

This section presents the main elements of the workhorse model of mainstream macroeconomics, that is not its theoretically most advanced version but the analytical world view with which applied economists are brought up. This workhorse model is called the new neoclassical synthesis or New Keynesianism, labels that can be used interchangeably as we argue below.[3] It is necessary to recall the basics because we

[3] See Goodfriend and King (1997: sect.5) and Clarida et al (1999: 1662) for the first overview articles that noticed the consensus among academic economists and practitioners of central banking; for more

want to revisit the critique from within that accuses the economic mainstream of a naïve trust in markets and an obsession with general equilibrium in a complete market system (e.g. Buiter 2009, Krugman 2009). These informed critiques are often taken up in more popular versions as the 'neoliberal' policy consensus in ideology and practice. In our view, the new mainstream has been much more interested in market imperfections and their policy implications than the critics acknowledge. This raises the question whether the economic policy consensus is at all to blame for the crisis. If it is to blame, we are in deeper trouble than even the critics think. It will then not simply do for economics to take account of the real world if that is what they already did.

The workhorse model for economic policy-making

The consensus model has three building blocks (Carlin and Soskice 2006: 81-90). In the first, aggregate demand (household consumption and possibly firm investment) are determined as resulting from income and the real interest rate – it is the conventional IS curve of the old neoclassical synthesis. In the second, the supply-side of the economy is characterized as resulting from wage and price setting in imperfectly competitive labour and commodity markets – this is the resurrected Phillips curve in a form that has absorbed the monetarist critique. This supply-side determines a 'natural' rate of unemployment, given the structural and institutional features of the economy, such as transaction costs and corporatist arrangements which keep it from attaining full employment. In principle, this long-run equilibrium is compatible with any level of nominal prices. So we need, finally, a monetary rule that gives the economy a nominal anchor and gets it back into a low-inflation equilibrium after a shock. The central bank uses the interest rate, not money supply, which is the defining difference to monetarism. The rule describes the monetary authority's preferences over the inflation-unemployment trade-off that characterizes the supply-side of the economy.

How does a capitalist economy work in this stylized depiction? The standard situation is that the economy is in its long-run equilibrium and then hit by a shock, that is an exogenous disturbance in demand (change in investment or consumption) or in supply (change in input prices), which pushes the economy off track. Since the 'natural' (un-) employment rate is determined by wage and/or price-setters, this leaves only inflation as 'a choice variable for policymakers' (Akerlof et al 1996: 1), typically with zero as the optimal inflation rate.[4] The central bank perceives shocks as making the economy deviate from its inflation target. If then prices rise more, the central bank must raise the interest rate (or vice versa), which reduces the demand for credit that would sustain the existing level of investment and consumption. Higher unemployment will dampen wage and price increases, depending on the features of the labour and product market such as employment protection or costs of price adjustment which determine short-run trade-offs between inflation and employment. The central bank moves the economy along these short-run Phillips curves back to the long-run equilibrium. The more inertia there is in price- and wage setting, the longer this will take and the more unemployment will be necessary to force down inflation. From the point of view of the central bank, the supply side (Phillips curve) is thus the constraint on its

recent and accessible presentations, see Carlin and Soskice (2006: especially ch.15) and Woodford (2009). Mankiw and Romer (1991) have presented an early (New Keynesian) textbook version.

[4] In his comments on Goodfriend and King (1997: 249), Blanchard (1997: 293) notes that the presence of wage rigidities makes the consensus that central banks should target inflation close to zero doubtful.

stabilization policy while the demand side (IS curve) is the transmission channel through which monetary policy works.

The first observation that will strike most readers is the central role of monetary policy for the working and stabilisation of the economy. The first surveys of Goodfriend and King (1997) and Clarida et al (1999) codified the macroeconomic consensus by pointing out the role of monetary policy in it. The consensus could be formulated without any reference to fiscal policy.[5] The new synthesis considers fiscal policy to be distorting, determined by a political process and thus ruled by other than efficiency considerations (Goodfriend and King 1997: 237, 245, 280). In their extensive survey of the New Keynesian consensus on the conduct of monetary policy, Clarida et al (1999: 1702) mention fiscal policy only once, namely when they note that in a low inflation environment, nominal interest rates may hit the zero bound and so the 'important open' question arises 'whether cooperation from fiscal policy is necessary'. It would probably have perplexed Keynes to find that this is considered an open question by economists who align themselves with his name.

Monetary policy here is 'activist' (Goodfriend and King 1997: 256), in the sense that the central bank does not simply wait and see after a disturbance. But the monetary authority is also not pro-actively seeking to shift the long-run equilibrium – this is the role left for government and their structural reforms of labour and product markets. The monetary rule is therefore a 'response function', summarizing (averse) preferences over inflation and unemployment. A central bank with high preferences for price stability chooses a radical disinflation strategy even if costs in terms of employment are high, and chooses a more gradualist one if it is less inflation-averse.

An activist central bank's own preferences over the short-run Phillips tradeoff that capitalist economies face imply a credibility problem. It arises when the central bank is more unemployment-averse than wage and price-setters and can manipulate the very constraint it faces, here: inflation expectations. This difference in preferences seems to be a far-fetched assumption, given that central bankers are not normally recruited from the rank-and-file of trade unions. The rationale offered is that even independent central banks may come under pressure from governments with an inflation bias (Carlin and Soskice 2006: 167). This has allowed intense study of how a central bank with an 'inflation bias' can be committed to price stability and was extremely influential in the design of the European monetary union (Blinder 1997, Schelkle 2006).

The consensus as synthesis

In what sense does this amount to a policy consensus and a new synthesis of once opposed schools of macroeconomic thought, Keynesianism and monetarism? In methodological terms, mainstream economists have come to accept most of the critique that neoclassical macroeconomists, from Milton Friedman to Robert Lucas, launched against the old neoclassical synthesis, meaning the pump-priming of the IS-LM model. Expectations must not be treated ad hoc but given careful thought, which has been turned into the stipulation that expectations must be 'rational' in the sense of

[5] The reverse also holds: Carlin and Soskice (2006: ch.6) devote an entire interesting chapter to fiscal policy but do not use their workhorse model at all, in other words the model is not useful for the analysis of fiscal policy.

model-consistent.[6] This has been generalized to a call for microfoundations, that is all macroeconomic relationships and responses must be grounded in individually rational behaviour that translates into aggregate behaviour. The synthesis makes extensive use of the eternally living representative agent that optimizes over an infinite time horizon. It is the basis for Dynamic Stochastic General Equilibrium (DSGE) models that many central banks and the European Commission now use (Buiter 2009).

In substantive theoretical terms, adherents of the synthesis accept the crucial role of monetary policy for stabilizing the economy and that even in the presence of underemployment, inflationary pressures may arise. It is a moot point which school of thought compromised more here. Monetarism and its offspring, real business cycle theory, claimed that the central bank should simply follow a strict money supply rule that endows the economy with enough additional transactions media to grow at price stability. This has been replaced by an inflation-targeting central bank that uses the interest rate actively to stabilize an economy prone to shocks. At the same time, (macro-)economists have adopted the monetarist lens of the central bank that grasps the entire macroeconomy by adding the reinterpreted Phillips curve as a constraint on its policymaking. The Phillips curve is now an aggregate supply curve fixing output and equilibrium employment in the long run and the adjustment path in the short run. It makes labour and product markets ultimately determine equilibrium while financial markets play only a residual role.[7] One can thus argue that strictly in terms of economic theory, the notion of a neoclassical synthesis is more pertinent while the policy activism of the central bank can be characterized as Keynesian. The terms can thus be used interchangeably, depending on whether the authors want to stress the supply-side determined, 'natural' equilibrium or the 'realistic' imperfections that can give the demand side and monetary policy a lasting influence.

The reconceptualisation of the price mechanism is the most relevant example to illustrate what a rich research programme opened up thanks to this synthesis: the evidence from mature economies suggests that firms are not price takers but price setters in markets for less than fully substitutable goods or 'brands', ie in monopolistically competitive markets (Akerlof et al 1996: 21; Goodfriend and King 1997: 249). The price setting that corresponds to this form of competition, namely mark-up pricing, can grasp a rich set of economic phenomena, such as pricing-to-market in volatile markets and smoothing over the business cycle. In contrast to marginal cost-pricing in atomistically competitive markets, it provides a surplus that can be the subject of negotiations with organised labour. Inflation can thus arise from 'distributional conflict [among] different social groups' held only in check by a credibly inflation-averse central bank (Carlin and Soskice 2006: 133-134, 160-168).

Its flaws in general

---

[6] That is, economic agents modelled exploit all the information available (which does not have to be complete or perfect) and this information includes the model itself. This methodological principle was first stated by a mainstream Keynesian economist, John Muth (1961).

[7] Keynes' economics arguably had the employment level determined in the interaction between product markets ('effective demand' in the sense of demand expected by firms contemplating investment) and financial markets (taxing the real economy with its demand for an interest rate that is determined not by the readiness to defer consumption but by the readiness to give up liquidity). See Akerlof et al (1996) and Galbraith (1997) for a critique of the old and new synthesis in this regard.

Our overview of the economic policy consensus before the crisis contained three possible candidates that may be relevant for the question “Whose crisis – that of neoliberalism or of something called new neoclassical synthesis/ New Keynesianism?” It may be helpful to summarize them briefly at this point, mainly to show that what could be dismissed as rather esoteric squabbles among academics before the crisis might be serious flaws from hindsight.

At the most obvious level, we agree with the critics of mainstream economics that the underlying benchmark of a dynamic general equilibrium is a problem.[8] This reference point gives the impression that the enlightened Visible Hand can shift the economy gradually and continuously towards this benchmark, by getting rid of rigidities, by aligning incentives through more transparent information and by allowing for the emergence of missing markets through permissive regulation. Financial markets cannot alter this underlying equilibrium, if anything they should facilitate its attainment. This is the source of the label ‘market fundamentalism’ for the trend in economic policy over recent decades (Hall and Lamont 2011). It also paints a much more optimistic image of capitalist economies than we can find in Keynes (1936, ch.24). In this mainstream economics perspective, capitalist economies may be full of microeconomic imperfections but they have no systemic flaws. Market adjustment may work imperfectly, but it does not work perversely as Keynes (1936: 291) maintained for a situation of deflation and Shiller (2003) for a situation of asset market bubbles.

Secondly, the micro foundations agenda, while seemingly esoteric for non-economists, served to restore the superior role of price adjustment. Only non-economic explanations, such as political forces (insider power) or psychology (the representative worker resents inequality), can make sense of ‘real rigidity’, for instance wage earners resisting wage cuts when faced with rising unemployment. This goes directly against the Keynesian proposition that quantity adjustment may trump price adjustment in capitalist economies and that this may be functional. For the latter, take the case of why market forces cannot lead an economy out of deflation: even if unemployment has risen, there may be no tendency for real wages to fall. Rising unemployment makes desperate workers to offer their services at ever lower wage rates while desperate firms lower prices to sell the goods they already produced. But if both wages and prices fall, then real wages stay roughly constant and in any case do not necessarily fall as much as needed to make firms keep their work force, let alone hire more workers at lower nominal wages. Thus, the synthesis does not consider the case that nominal flexibility can generate real rigidity, and arguably suffers from a fallacy of composition. It takes the whole for its parts, here: by assuming that both wages and prices are rigid while they can be both flexible, making the whole rigid.[9] In macroeconomics, (nominal) flexibility can be the problem rather than the solution. But the micro foundations agenda is based on the premise that macroeconomics is not a field of study in its own right because the whole is equal to the sum of its parts, neither more nor less. This is too strong an assumption as Keynes (1936: 358-361)

[8] See Prosser (2006) for a particularly insightful critique.

[9] Economists hooked on micro-foundations typically take a short-cut and pretend that workers and firms directly contract a real wage because the actual price level is equal to the rationally expected level. See Carlin and Soskice (2006: 46-47) who at least problematise this short-cut.

illustrated with his ‘paradox of thrift’[10] and social choice theorists like Thomas Schelling (1978) confirmed since then.

Finally, the consensus model has a sensible take on the Phillips curve, namely that it ‘may exist but it cannot be exploited’ (Carlin and Soskice 2006: 75). Yet, by making it the prime constraint on monetary policy and macroeconomic stabilisation generally, it focuses all attention on labour and commodity markets. Financial markets come in only as an afterthought regarding the ‘transmission’ of monetary policy. Policymakers were busy looking under the lamp post of the new synthesis for yet another necessary structural reform while financial bubbles were allowed to grow. This was despite the fact that there have been plenty of warnings about asset market bubbles; even Alan Greenspan admitted that there may be ‘irrational exuberance’ in financial markets, yet the moment passed after markets rebounded after the 2001 crash. By concentrating on markets for (the flow of) services and goods, there was an in-built analytical bias against considering the catastrophic stock-flow dynamics resulting from asset and debt accumulation. These dynamics would come to trump any ‘rigidities’ in labour and commodity markets on which inflation targeters and structural reformers so obsessively concentrated.

What were the attractions of this economic policy consensus?

The flaws of the new synthesis did certainly not diminish its political attractions. They may even have contributed to its attraction, which we can understand following Hall (1989) by assessing its economic, administrative and political viability. He synthesizes three approaches. There is, first, an economist-centred account that claims it is expert advice in government that gives economic ideas powerful influence; it is typically proposed by academics who served for some time in government or in a central bank.[11] Second, a state-centred account claims that the extent to which economic ideas catch on with the bureaucracy and in particular senior officials is crucial for their success, an approach initiated by Theda Skocpol in historical-institutionalist studies (Weir and Skocpol 1985). Finally, a coalition-centred account of policymaking, in the version that Peter Gourevitch (1986) championed, stresses that the brightest economic ideas do not have much effect if there are no coalitions of interests organizing around them. Hall (1989: 8-13, 370-388) suggests that each of these accounts notes an important requirement for the viability of an economic idea in practice: it must be translated from a scholarly discourse into something that policymakers find useful; the state machinery must be able to work with this idea; and a set of political constituencies must find policies based on the idea in their interest. Obviously, each of these determinants and their combination leaves a lot of space for country variation that would require a research project of its own to fully explore here.

Economic viability

The consensus model must have offered answers to what a representative politician or expert audiences outside central banks perceive as the most urgent economic policy problems. For this to be the case, they should not be required to understand the

[10] The paradox is that households’ attempt to save more can lead to less saving in the economy. It is based not on some ‘rigidity’ but on the perfect functioning of the price mechanism that responds to lower demand when goods are actually bought and sold for money payments.
[11] Recent examples can be found in Bussière and Stracca (2010).

workhorse model in any detail. During the 1980s, inflation had been brought under control by central banks mandated to focus on price stability but the rising levels of unemployment with which economies entered every new business cycle remained a pressing concern. So, first of all, a model that moved from monetarist inflation-fighting to responsive inflation-targeting was welcome, thereby conceding that heavy-handed inflation fighting has had high costs in terms of unemployment. Moreover, the model took into account all those factors that could explain the ratchet effect in unemployment levels. Market failure, institutional rigidities and hysteresis effects like the rapid devaluation of human capital were all enlisted to explain rising levels of equilibrium unemployment.

The downward rigidity of nominal wages was not a problem in an era of moderate and variable inflation. In fact, downward rigid money wages were helpful for real adjustment because changes in the price level or the exchange rate could then engineer changes in real wages across the board, leaving the wage structure of different types of workers relatively untouched. But after the breakdown of the Bretton Woods exchange rate system, inflation (expectations) became much less controllable as the nominal anchor of a dollar standard had been removed. It took the volatile 1970s to build up the resolve among policymakers to fight inflation head on, starting with the 'Volcker shock' in 1979. For the Europeans, this also meant stabilising exchange rates and this started monetary policy coordination that led to monetary union in 1999. These ultimately successful attempts at lowering and stabilising inflation had the effect that downward rigid nominal wages became rigid real wages; when the economy went through a phase of disinflation, real wages could even rise as a result. Coordinated wage bargains, which had not only introduced wage floors but also wage ceilings and used to standardize wages across industries to pre-empt poaching of skilled workers, became dysfunctional even though they had on the whole a levelling effect on wage growth.

Organised labour defending wage coordination was then accused of serving 'insiders' only, to the detriment of the unemployed, female and young entrants into the labour market. This was an accusation that especially the OECD Jobs Study of 1994 popularized and at the same time managed to give it the air of rigorous economic analysis. Some relief came from work that showed that not all wage coordination was bad. Collective wage setting can keep wage increases at a competitive rate if they internalize the possible damages of overly generous settlements for the economy as a whole. Such beneficial coordination can come from monopoly unions or from strong unions in the exposed traded goods sectors that set the ceiling for all others (Calmfors and Driffill 1988; Soskice 1990). But where these institutions or such an export-orientation of a national political economy are absent, labour market flexibilisation was the only game in town.

A late manifestation of the new consensual approach was the European Council's endorsement of 'flexicurity' in December 2007. In the words of the Commission, it 'involves the deliberate combination of flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, effective active labour market policies, and modern, adequate and sustainable social protection systems.' (European Council 2008) The flexicurity concept had the beauty of being considerate as regards the diversity and the complexity of social policy and labour market interactions. As the recent report on Employment in Europe points out: "Everything considered, there is no single combination of policies and institutions to achieve and maintain good socio-economic results, but rather there are different pathways to good performance that are, to a large extent, the result of distinct historical trajectories. Respecting the principles of subsidiarity (and the Open Method of Coordination), this allows scope for tailor-made policy packages to suit national preferences with respect to distributional aspects, risk-taking and other national objectives." (European Commission 2008: 177). This is perfectly in line with the consensus: supply-side reforms can shift economies towards a more beneficial fundamental equilibrium and increase employment; this holds notwithstanding institutional diversity.

Administrative viability
The record on administrative viability is arguably more mixed. On the one hand, the demands on administrative capabilities in macroeconomic policy diminished to the extent that responsibilities for stabilising demand management moved to central banks. This has enormous practical advantages. It requires only a meeting of the central bank's governing council or monetary policy committee to change the interest rate and possibly other conditions under which banks may refinance their credits to the private sector. By contrast, discretionary spending programmes are full of practical pitfalls for the executive. They give the opposition in parliament an opportunity to accuse the government of too little too late or any other easy criticism that ad hoc programmes deserve. They require bureaucrats to find temporary jobs in sufficient quantity but without too much crowding out of existing private sector capacities. They ask for putting income at the disposal of those who spend it (instead of saving it) without too much leakage or fraud. The 'lags in fiscal policy' literature, initiated by Friedman (1953), summarizes these difficulties in a number of timing problems. The synthesis model that elevates the central bank to the prime stabiliser of the macro-economy and leaves fiscal policy to rely on automatic stabilisers thus came as a great relief.[12]

However, administrative capacities became stretched in other respects, namely by the microeconomic ('structural') supply-side reforms that governments were instead meant to engage in. They could all be justified as moving the long-run Phillips curve towards lower equilibrium unemployment. But it is a complex task to operate 'activating' labour market policies, such as putting recipients on training programmes or engage in individual case work for job placement; using the tax system for 'employment-friendly' subsidies and rate structures; or writing contracts for private providers of welfare services which are closer to markets but also have market incentives. This called for a profound reorganisation of bureaucracies, for instance amalgamating public employment services and welfare offices to 'one-stop-shops' where unemployed beneficiaries can get the full range of offers but benefits can also be used as a sanction to monitor the effort in job search (Schelkle et al 2011). These complexities were tackled by new public management techniques and by engaging private providers for frontline work.

The EU played a facilitating role in this. As governments were picking up the trend and went for 'activating' labour market policies, which included outsourcing to private providers, the EU helped to build networks of 'enlightened' civil servants who

[12] Chapter 6 on fiscal policy in Carlin and Soskice (2006) starts not with discretionary spending policies but automatic stabilisers, ie built-in revenue and expenditure items of a budget that vary with the business cycle such that the balance moves counter-cyclically.

understood that they could not simply oppose this trend. An example of how successful this can be is the formation of HoPES, an active European network of Heads of Public Employment Services. Until this very day, HoPES embraces and shapes the activation and outsourcing reforms that governments want so as to keep pivotal role for the public sector rather than succumb to retrenchment (Weishaupt 2010).

Still, the reorientation from macro to micro management has proven to be an arduous, often costly process and is by no means resolved. But we can see that the micro-foundations turn had attractions for fiscal authorities at the time, since structural reforms promised to let the state off the hook with respect to difficult-to-implement stabilization programmes that can quite visibly fail.[13] At the same time, this turn gave the state a role in modern social engineering, supporting an active bureaucracy rather than complete self-denial of the state.

Political viability

Regardless of its administrative viability, the supply-side agenda contributed to the political viability of the consensus. The new synthesis appealed in particular to centrist social democrats who struggled with the weakening of their electoral base of organised labour in manufacturing for some time (Pontusson 1995, Kitschelt 2000). Centre-left policy makers not only faced the problem of a steady decrease of industrial employment rates but also increasing political pressures from the trend in inequality. Their core constituencies became divided over the amount of social spending that went into transfer payments for labour market outsiders. Social Democratic governments were criticized for collusion with insiders, supported by (spurious) evidence that they were less likely to increase spending on active labour market policies benefitting outsiders (Rueda 2006). Supply-side reforms were thus a welcome opportunity, first, to shed the image of Social Democrats being hooked on pump-priming and redistribution, and, second, to conspicuously do what's economically sensible even if it hurt their own constituencies of labour market insiders in terms of job security (while promising them a larger take-home pay in the long run). Structural reforms aimed at securing the centre ground of electoral competition by orienting centre-left parties towards the median voter.

We can thus see how labour market reforms became attractive for parties in the part of the ideological spectrum where one would least expect it. The divisions over preferences of social policy reforms enabled governments to engage in structural reform which changed the distributional effects of employment-related social policies (Häusermann 2010). Moreover, the comparative policy evaluations that supranational agencies like the OECD and the EU produced relentlessly spread the message that activation is best practice, successfully operated in impeccably social democratic countries such as the Netherlands.[14] Finally, structural reforms also opened the room

[13] The composition of stimulus packages in OECD countries during the crisis of 2008-09 provides evidence for the fact that governments have not gone back to large-scale public employment programmes (IMF 2009: table 5).

[14] In the words of Hemerjick and Eichhorst (2008): 'In the changed endogenous policy environment of the 1990s it became clear that the active service-oriented welfare states were in a stronger position than the passive, transfer-oriented systems to make adaptations to the challenge of the feminization of the labour market. In labour market policy, the new objective became maximizing employment rather than inducing labour market exit, and this implied new links between employment policy and social security, triggering a change from passive policy priorities aimed at income maintenance towards

for projects of local job placement, which were popular with politicians due to their experimental character, controllable effort and the opportunity to claim responsibility for them.

The Social Democrats' embrace of structural reforms was quite compatible with the manifesto of Liberals and even the 'compassionate' wing of Conservative parties. Thus, new party-political coalitions became possible and a broad party-political spectrum could be rallied around the structural reform agenda that the new synthesis supported. Treasuries but also senior officials in spending ministries endorsed such public sector modernisation. The hallmark of this economic policy consensus was the Lisbon Strategy decided in 2000, when a majority of centrist social democratic governments had just come to power in the EU. The officially ordered critical reviews of this Lisbon Agenda, most notably gathered in the Sapir and the Kok reports, criticized less the substance of the consensus than the lack of resolve with which governments pursued it.[15]

At the same time, governments were quite ready to exploit the steering capacity that centralized wage bargaining offered particularly after they had embarked on the process of forming an Economic and Monetary Union (EMU). By negotiating wage ceilings and wage restraint, governments could pre-empt hikes in interest rates which would have been set otherwise by central banks in order to keep wage inflation in check (Hassel 2007). The high frequency of central negotiations in countries such as Belgium and Ireland established a pattern of sharing the rents which derived from other aspects of European (Monetary) Union, such as low interest rates that made the financing of debt less costly or combining structural funds with tax competition, respectively. In Southern Europe, social pacts only partially delivered the necessary nominal wage adjustment in the context of a common currency area and were moreover paid for by rising public debt. Policy-makers therefore became increasingly weary of social pacts and have abandoned tripartite negotiations whenever possible. Governments' support for wage setting institutions and trade union organizations has waned throughout the OECD. With more market mechanisms in labour market and less involvement in wage setting institutions, the policy consensus has moved European political economies closer to the policy agenda of the neoclassical synthesis, dismantling trade union organization and engaging in more radical structural reforms than they envisioned two decades earlier.

Conclusions: Signs of a new departure?

We have shown that there was clearly a consensus on macroeconomic policy that was not monetarist or of the real business cycle variety – or what political scientists would call neoliberalism. Hence, we do not share the critique that part of the problem that got the rich world into the worst recession in the post-war era was that economists were hooked on models irrelevant for an imperfect world and supported a neo-liberal market fundamentalism that wanted to get government out of the way. The consensus research programme consisted of an intense analysis of market imperfections and it endorsed active policy interventions, especially on the supply side. This consensus was not purely academic but reached into research departments of central banks, the

---

active policy priorities aimed at activation and reintegration of vulnerable groups together with a strengthening of minimum income provisions.'

[15] Cf the Sapir report (Sapir et al 2004) and the Kok report (Kok 2004).

IMF, the OECD and the European Commission, which ultimately informed the building of econometric models in policy analysis and evaluation.

However, we agree with the critics that the reference to a benchmark of a general dynamic equilibrium was a source for misleading policy advice. However, in our view it is not so much the assumptions of 'perfection' that were problematic since they were systematically scrutinized in subsequent analyses. With hindsight, we can see that the assumption of it being 'fundamental' was the problem since this is the economist's jargon for 'determined in the real economy'. This analytical anchor led to a blind spot for the role of financial markets and monetary policy in determining the activity level of any economy.

Two other flaws are not recognized as fully as we think is necessary. There is, first, the preoccupation with micro-foundations, ie the idea that all macroeconomic phenomena must be derived from individual optimization, which made macroeconomists neglect systemic risks and rendered them susceptible to fallacies of composition. Second, the focus on (imperfect) labour and commodity markets left no specific and fundamental role for the financial system and therefore missed how the malfunctioning of asset markets may feed back into commodity markets.

Unfortunately, we also found reasons to believe that it was exactly these flaws that contributed to the attractions of the economic policy consensus. Policy-makers and administrations were attracted to micro-optimisation in the context of a fundamental equilibrium model because it deflected from governments' perceived weakness in macro-steering and offered plenty of policy choices at the micro-level. This came in handy as the composition of the electorate changed rapidly leading to a search for the new middle but also to cross-party coalitions. The consensus also seemed to address the most urgent economic policy problem of our times, namely how to raise activity rates without pump-priming the economy into inflationary growth. It was respectful of diversity and functional equivalence of, say, individual wage contracting and coordinated wage-setting in achieving good economic results. Hence, it did not require the elimination of all institutional diversity which made it particularly popular with governments and the Commission in the EU.

The political demand for the policy consensus was therefore strong and continues to be so even after the financial crisis, if the reforms of economic governance in EMU since 2010 tell us anything about revealed preferences of governments (Intereconomics 2010). The policy debate about 'what next?' on both sides of the Atlantic is hooked on the need for fiscal austerity, on the one hand, and stimulating private consumption and investment by ending the credit squeeze, on the other. This is still perfectly in line with the pre-crisis consensus in its emphasis on a secondary role for fiscal policy (that should be restored) and on creating demand through private credit expansion.[16]

This 'back to the future' is quite worrying, however, if the economic policy consensus of the last two decades is partly to blame for the financial crisis. In their first reactions, governments in the G20 and leading member states of the EU seemed to be

[16] In this vein, Carlin and Soskice (2006: 571) discuss consumption smoothing of households as resulting purely from the counter-cyclical credit demand of rational households to anticipated interest rate policy.

determined to end the regime of self-regulation in financial markets (Sarkozy 2008), make the regulatory regime less dependent on private credit ratings (Yassin 2010), and generally rein in excesses like scandalous banker bonuses that are paid out regardless of the performance of the businesses they manage. While some robust re-regulation of financial markets is in the making, there has also been some back-tracking, for instance by making the new emergency facility of the European monetary union dependent on private bond finance and hence credit rating. There has certainly been no end to scandalous bonuses paid by the very same banks that were bailed out by taxpayers who still suffer form the consequences of the crisis.

There is some alternative thinking in economic theory available, for instance at the Institute for New Economic Thinking sponsored by George Soros.[17] But the alternatives were pushed into heterodoxy and had little chance to put forward robust models for policy analysis, in exchange with professional users in central banks and Treasuries. The herding behaviour concerned not only financial markets but economics in academia as well.[18] Thus, we are not optimistic that change will result merely from changing our economic models.

If the success and power of economic ideas depends on the political demand for them (Hall 1989), then the crucial question is whether political support can be mobilized for the shift from structural reforms of labour markets to the containment of risks in financial markets. Given the enormous political clout that the financial industry attained over the last two decades, politicians are likely to need strong political support to confront this industry. One countervailing power to business in capitalist democracies, namely trade unions, has been weakened by governments themselves; and the shift to service-based economies does not bode well for a resurrection of their former strength. Consumer organisations and social movements like 'Occupy Wall Street' (or LSX in London) will be become more important. This is in line with Crouch's prediction that big corporations will be lobbied and closely watched by social activists, and their social compact will eventually replace corporatism as we knew it. But it is unlikely that such activists will join the alarm raised by financial regulators when households and young people can get easy credit. They tend to come in after the fact, ie they are likely to raise their voice only after a bubble burst.

Welfare state building in the 20th century depended on the active support of firms for welfare state expansion in the employment relationship. Swenson (2002) shows for such different welfare states as Sweden and the US that businesses sought state protection in labour markets, depending on what kind of product market competition they faced. For instance, a minimum wage was favourable for decent employers who faced cut-throat competition in goods markets so that they would not be driven out by bad employers. State subsidies for private benefits were desirable when bigger firms wanted to retain skilled workers for the production of more sophisticated products (welfare capitalism in the US) while universal benefits that lowered the individual employers' costs in the context of centralized wage bargains (welfare capitalism in Sweden). Thus, it is conceivable that producer groups in industrial and services sectors other than banking might call now for more robust re-regulation of financial

[17] See URL: http://ineteconomics.org/
[18] Buiter (2009); see also John Davis in a video on the INET website.

markets or take recourse to alternative sources of finance as the performance of financial markets affects their own performance in commodity markets.

It is not clear at this stage whether political demand by ‘capitalists against (financial) markets’ (Swenson 2002) will be forthcoming. But reporting in specialised media like the *Financial Times* or the *Economist* also suggests that there is a prospect for the formation of politically cross-cutting coalitions between non-financial and financial businesses, the latter being concerned that the shambolic performance of banks and the reckless behaviour of their top managers will lead to a backlash against liberalised financial markets. Initiatives like those of Warren Buffet and others that encourage governments to tax the super-rich more heavily can also be seen in this light. It seems to dawn on some in the financial sector that it has too much liberty for its own good. Cross-cutting coalitions could form around the aim of defending the real economy against financial havoc by protecting the financial system from itself.

References

Akerlof, George, Dickens William, Perry George, Gordon Robert, Mankiw Gregory (1996) 'The Macroeconomics of Low Inflation', *Brookings Papers on Economic Activity*, 1: 1-76.

Annual Report (several issues), Frankfurt a.M.: ECB.

Blanchard, Olivier Jean (1997) 'Comment', *NBER Macroeconomics Annual*, 12 : 289-293.

Blinder, Alan (1997) 'What Central Bankers Could Learn from Academics -- And Vice Versa', *Journal of Economic Perspectives*, vol. 11(2), 3-19.

Buiter, Willem (2009) 'The unfortunate uselessness of most "state of the art" academic monetary economics', *Maverecon blog.*March 3. http://blogs.ft.com/maverecon/2009/03/the-unfortunate-uselessness-of-most-state-of-the-art-academic-monetary-economics/#more-667

Bussière, Mathieu and Stracca, Livio (2010) 'A Decade (And A Global Financial Crisis) After Blinder. The Interaction Between Researchers And Policy-Makers In Central Banks', *ECB Working Paper* No 1260, Frankfurt a.M.: ECB.

Calmfors, Lars and Driffill, John (1988) 'Centralization of Wage Bargaining', *Economic Policy*, 6 : 13-61.

Carlin, Wendy and Soskice, David (2006) *Macroeconomics: imperfections, institutions, and policies*, Oxford: Oxford University Press.

Christoffel Kai, Coenen Günter and Warne Anders (2008) 'The New Area-Wide Model of the euro area: a micro-founded open-economy model for forecasting and policy analysis', *ECB Working Paper* No 944, Frankfurt a.M.: ECB.

Clarida Richard, Galí Jordi, Gertler Mark (1999) 'The Science of Monetary Policy: A New Keynesian Perspective' *Journal of Economic Literature* 37(4) 1661-1707.

Corsetti, Giancarlo, Luca Dedola, and Sylvian Leduc (2011) 'Optimal Monetary Policy in Open Economies', Benjamin M. Friedman and Michael Woodford (eds) *Handbook of Monetary Economics,* vol.3, Amsterdam: Elsevier : 861-933.

Crouch, Colin (2009) 'Privatised Keynesianism: An Unacknowledged Policy Regime', *British Journal of Politics and International Relations,* 11: 382-399.

European Commission (2008) Joint Report on Social Protection and Social Inclusion, Luxemburg.

European Council (2008) Council Decision of 15 July 2008 on guidelines for the employment policies of the Member States. 2008/618/EC.

Eichhorst, Werner; Hemerijck, Anton (2008) *Welfare and Employment: A European Dilemma?* IZA DP No. 3870.

Friedman, Milton (1953) "The Effects of a Full-Employment Policy on Economic Stability: A Formal Analysis," in M. Friedman *Essays in Positive Economics*. Chicago: Chicago University Press.

FSR (several issues), Financial Stability Report, Frankfurt a.M.: ECB.

Galbraith, James K. (1997) 'Time to Ditch the NAIRU' *The Journal of Economic Perspectives,* vol. 11 (1): 93-108

Goodfriend, Marvin and King, Robert (1997) 'The New Neoclassical Synthesis and the Role of Monetary Policy', NBER Macroeconomics Annual 12, 231-296.

Gourevitch, Peter A. (1986) *Politics in hard times: comparative responses to international economic crises*, Ithaca: Cornell University Press.

Hall, Peter A. (1989) *The Political power of economic ideas: Keynesianism across nations,* Princeton, N.J. Guildford: Princeton University Press.

Hall, Peter A and Lamont, Michèle (2011) '*Introduction for Social Resilience in the Neo-liberal Era*', unpublished typescript.

Hall, Peter A. (2010) *The Political Origins of Our Economic Discontents: Contemporary Adjustment Problems in Historical Perspective*. Minda de Gunzburg Center for European Studies. For presentation at a Conference on Politics in the New Hard Times in honor of Peter Gourevitch, University of California, San Diego, April 24, 2010.

Hassel, Anke (2007) Wage *Setting, Social Pacts and the Euro. A New Role for the State*. Amsterdam University Press: Amsterdam

Häusermann, Silja (2010) *The politics of welfare state reform in continental Europe: modernization in hard times*, Cambridge: Cambridge University Press.

Hay, Colin (2011) 'Pathology Without Crisis? The Strange Demise of the Anglo-Liberal Growth Model', *Government and Opposition* 46(1), 1–31.

Hemerjick, Anton and Eichhorst, Werner (2008)' *Whatever Happened to the Bismarckian Welfare State? From Labor Shedding to Employment-Friendly Reforms'* IZA Discussion Paper No. 4085.

Hodson, Dermot and Mabbett, Deborah (2009) 'UK Economic Policy and the Global Financial Crisis: Paradigm Lost?' *Journal of Common Market Studies* 47(5):1041-1061.

IMF (2009) '*The State of Public Finances: Outlook and Medium-Term Policies after the 2008 Crisis*', Working paper, Fiscal Affairs Department, Washington D.C.: International Monetary Fund.

Intereconomics (2010) ‘*Eight Months Later – Has the Eurozone Been Stabilised or Will EMU Fall Apart*?’ special issue. 6: 340-356.

Jessop, Bob (2010) ‘Globalization and the State’ in: Susan McGrath-Champ , Andrew Herod , Al Rainnie (eds.) Handbook of Employment and Society, Edward Elgar.

Keynes, J.M. (1936) *The General Theory of Employment, Interest and Money*, Collected Writings vol.VII, London and Basingstoke: Macmillan.

Kitschelt, Herbert (2000) ‘Partisan Competition and Welfare State Retrenchment: When Do Politicians Choose Unpopular Policies?’ In: Paul Pierson (ed) *The New Politics of the Welfare State*, Oxford: OUP, 265-302.

Kok, Wim (2004) *Facing the Challenge. The Lisbon strategy for growth and employment*, Report of the High Level Group chaired by Wim Kok, Brussels: European Commission.

Krugman, Paul (2009) ‘Equilibirum Decadence (wonkish)’, *New York Times* blog. 1 March.
http://krugman.blogs.nytimes.com/2009/03/01/equilibrium-decadence-wonkish/

Mankiw, N. Gregory and Romer, David (1991) *New Keynesian economics*, Cambridge, Mass.: London: MIT Press.

McNamara, Kathleen R. (2006) ‘Economic Governance, Ideas and EMU: What Currency Does Policy Consensus Have Today?’ *Journal of Common Market Studies* 44(4): 803-823.

Muth, John (1961) ‘Rational Expectations and the Theory of Price Movements’, *Econometrica* 29(3): 315-335.

Pontusson, Jonas (1995) ‘Explaining the Decline of European Social Democracy: The Role of Structural Economic Change’ *World Politics* 47(4): 495-533.

Prosser, Tony (2006) 'Regulation and Social Solidarity', *Journal of Law and Society* 33(3): 364-387.

Rueda, David (2006) ‘Social Democracy and Active Labor Market Policies: Insiders, Outsiders, and the Politics of Employment Promotion’,*British Journal of Political Science* 36: 385-406.

Sapir André, Philippe Aghion, Giuseppe Bertola, Martin Hellwig, Jean Pisani-Ferry, Dariusz Rosati, José Viñals, and Helen Wallace (2004) *An Agenda for a Growing Europe*, Oxford: Oxford University Press.

Sarkozy, Nicolas (2008) ‘Discours de M. le président de la République à Toulon’, [Toulon address of the President of the French Republic] 25 September.
http://www.elysee.fr/president/les-actualites/discours/discours.18.html

Schelling, Thomas C. (1978) *Micromotives and Macrobehavior*, W. W. Norton and Company, 1978.

Schelkle, Waltraud (2006) 'The theory and practice of economic governance in EMU revisited: What have we learnt about commitment and credibility?' *Journal of Common Market Studies* 44(4): 669-685.

Schelkle, Waltraud (2010) 'Good governance in crisis or a good crisis for governance? A comparison of the EU and the US', *LEQS paper* No.16, London: European Institute, LSE; shorter version forthcoming in *Review of International Political Economy*, February 2012.

Schelkle, Waltraud, Deborah Mabbett and Max Freier (2011) 'The transformation of public employment services during the Lisbon decade', forthcoming in: Mitchell Smith (ed) *Europe and National Economic Transformation: The EU After the Lisbon Decade,* Palgrave.

Shiller, Robert J. (2003) *The New Financial Order: Risk in the 21st Century*, Princeton NJ: Princeton UP.

Smets, Frank, and Raf Wouters (2003) 'An Estimated Dynamic Stochastic General Equilibrium Model of the Euro Area', *Journal of the European Economic Association*, 1(5): 1123–75.

Soskice, David (1990) 'Wage Determination: The Changing Role of Institutions in Advanced Industrialized Countries', *Oxford Review of Economic Policy* 6(4): 36-61.

Stiglitz, J.E. (2008) 'The End of Neo-liberalism?', *Project Syndicate* blog, 7 July, http://www.project-syndicate.org/commentary/stiglitz101/English.

Swenson, Peter (2002) *Capitalists against markets: the making of labor markets and welfare states in the United States and Sweden*, New York, Oxford: Oxford University Press.

Weir, Margaret and Theda Skocpol (1985) 'State Structures and the Possibilities of "Keynesian Responses" to the Great Depression in Sweden, Britain, and the Great Depression', in: Evans, Peter B., Rueschmeyer, Dietrich, and Skocpol, Theda (eds), *Bringing the state back in*, Cambridge: Cambridge University Press, 107-167.

Weishaupt, Thomas (2010) 'A silent revolution? New management ideas and the reinvention of European public employment services', *Socio-Economic Review*, 8(3), 1–26.

Woodford, Michael (2009) 'Convergence in Macroeconomics: Elements of the New Synthesis', *American Economic Journal: Macroeconomics* 1(1), 267-279.

Yassin, Yussuf (2010) 'ECB breaks equal-treatment pledge and accepts Greek junk bonds', *CentralBanking.com*, 4 May, http://www.centralbanking.com/central-banking/news/1604222/ecb-breaks-equal-treatment-pledge-accepts-greek-junk-bonds