

# **Heterodox perspectives in teaching the European Integration and Crisis: Critical political economy and post-Keynesianism<sup>i</sup>**

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## **1. Introduction**

For decades mainstream approaches to teaching European integration have been based on a neoclassical understanding of reality (e.g. Hitiris 2003). Reducing restrictions on the free movement of capital, labour, goods and services were considered to be welfare enhancing. This included the idea that some regulation and coordination at the level of the European Union such as common rules for competition were necessary and functional to promote market forces and economic development. Whilst mainstream economics was concerned with highlighting the merits of the free market, mainstream political sciences focused on institutional settings and the functionality of different policy fields within the EU assuming that a neo-liberal approach was the only possible way of organizing European integration (Bieling et al. 2016). In the ideal world of neo-liberalism a crisis in Europe should not have happened. Since the 1970s European integration has increasingly adopted a neoliberal form which was justified by neo-classical economic theory. However, it has suffered from constantly declining growth rates since the 1970s (Cafruny and Ryner 2007). Even in its own terms, namely with regards to economic growth, neoliberal European integration has been no success. In addition, the decades before the crisis were already characterized by a tendency towards a declining share of labour income and a rising share of profits, contributing to increasing inequality (OECD 2011). When the crisis broke out in Europe mainstream economists and mainstream political scientists struggled to explain this (Ryner 2015). The lacking success of neoliberal austerity policy as a response to the crisis in Europe remains an unresolved puzzle in mainstream economics. However, the flaws of mainstream literature on European integration are well documented (van Apeldoorn, Drahoukoupil and Horn 2009; Nousios, Overbeek and Tsolakis 2012). Also, the problems and shortcomings of economic mainstream theory to explain the European integration and crisis have been analysed in detail (see *Revue de la Régulation*, *Euromemo*, *Post-Keynesian Economic Study Group*, *Real World Economics*).

Alternative and more illustrating ways of understanding European integration and its crisis are therefore required. Traditionally, post-Keynesian and critical political economy perspectives have offered strong alternative views to mainstream approaches. Post-Keynesians have provided an opposing view to neo-liberal approaches to European integration by mainly critiquing restrictive fiscal and monetary policy frameworks at the level the EU, such as the Maastricht treaty or the monetary policy framework of the European Central Bank because of their negative impact on growth and employment. The European crisis and the restrictive policies applied showed dramatically the negative consequence of austerity-oriented policies leading to a drop in GDP in Greece by more than 25% and a stagnation in Europe as a whole which only in 2015 returned on the average to the pre-crisis level of GDP (*Euromemo* 2014, Eurostat 2016). Critical political economists have traditionally pointed to the class dimension of the European integration project. They argued that a neo-liberal form of integration in Europa took place against the background of the transformation of capitalism in Europe and the crisis of Fordist development models and the welfare state in the 1970s/1980s (Bieling et al. 2016). Critical political economy also showed that the neo-liberal transition of European integration was an expression of a weakening working class and promoted

actively by capital in general and by trans-national corporations in particular (Apeldoorn 2013). With regards to the crisis, critical political economists continued to focus on specific contradictions and problems of capitalist development in Europe and the role of different class-agents to deal with the crisis (Bieling 2015).

However, critical political economy and post-Keynesianism hitherto have presented usually separated strands and were often not related to each other. In Jäger/Springler (2015) we brought together critical political economists and post-Keynesian economists in an edited volume and argued that both approaches can and should be combined in order to have a more complete understanding of European integration and of the crisis. In our view, this is also crucial for teaching European integration and studying its crisis because it allows for students to get a systematic access to two highly relevant heterodox theoretical perspectives and their explanatory power. Given the fact that the European crisis is all but over and the struggle about the future of European integration is ongoing it is important to understand those developments based on an adequate and sound theoretical perspective. In the following we mainly follow the argument in the introductory chapter and the concluding chapter of Jäger/Springler (2015). Firstly, we argue how those two approaches speak to each other and how they can be combined. Secondly, we show how they explain and evaluate the European crisis and anti-crisis policies. Based on this we briefly discuss some scenarios for the future development in Europe. Finally, conclusions are drawn.

## **2. Critical political economy and post-Keynesianism**

Both, critical political economy (CPE) and post-Keynesian (PK) perspectives represent important strands of alternative, heterodox, traditions in the social sciences, and provide a more adequate basis for systematically reflecting on European integration and its crisis. Mainstream or orthodox scholarship tends to reproduce power structures. As Robert Cox has argued, it is concerned with problem solving within a given societal structure rather than with overcoming or transforming this structure (Cox 1981: 128). This is different in the case of critical or heterodox scholarship. Critical approaches are at the margins of established academic disciplines and tend to be close to less powerful or subaltern groups in society such as social movements, trade unions, etc. CPE is considered to be an important strand of thought within a heterodox scholarship. PK economics – despite the fact that it often shows a problem solving tendency – is part of heterodox traditions too. Its conviction that capitalist economies do not tend towards full employment but to stagnation and that this hurts and weakens workers totally contradicts mainstream approaches in economics. Both, CPE and PK are unified in opposing the axiomatic view of mainstream approaches. With regards to its philosophical roots, CPE relies on critical realism or philosophies which are relatively close to it such as historical materialism (Jäger et al. 2016), and PK work is often based on critical realism, too (Lawson 1999). Hence, CPE and PK perspectives do stand on a similar philosophical ground. The concept of financialization (Epstein 2005; Erturk et al. 2008; Lapavistas 2013) and also the regulation approach (Clévenot 2011) turned out to provide important links which combined insights from PK and CPE. Financialized, finance-led, or finance-dominated capitalism were terms used to describe pre-crisis modes of development (Stockhammer 2008, Stockhammer/Köhler 2015). Also, both approaches point to the importance of the global economic and financial structures and the Euro in explaining dynamics of European integration (Cafruny and Ryner 2007; Flassbeck and Lapavistas 2015). However, there are important differences between both approaches. In the following we

briefly show the differences with regards to the general focus, the ultimate goal, the understanding of crisis and the source of policy change (for an overview see table 1)

Table 1. PK and CPE Approaches: General differences

	<b>Postkeynesianism</b>	<b>Critical Political Economy</b>
<b>General focus</b>	Focus on specific economic mechanisms and causal relations and macroeconomic aggregates	Integrative analysis of economy, society and politics
<b>Ultimate goal</b>	Establish full employment and welfare state	Radical reformism as a step to overcome capitalism in the long run
<b>Source of policy change</b>	Benevolent politicians establish adequate institutions and implement the correct PK economic policy	Configuration of social forces and class struggles determine who is able decide on economic structures and policies

Source: own compilation

CPE stands in the tradition of political economy, includes the insights of Marx, and analyses the society as a whole by providing an integrated framework for the analysis of economy, society and the state which overcomes today's prevailing disciplinary divisions. At the core of CPE is the abstract concept of social relations of production, and hence, a class-based framework of economy and society. In general, CPE tries to understand, explain, and critique given societal structures and developments. It aims at contributing to emancipatory struggles and to overcome exploitation and power relations. Related to the crisis it investigates its causes, dynamics and implications. This approach searches for conditions which allow for alternative developments which overcome specific historical modes of capitalism such as neoliberalism. However, against the background of the multiple contradictions of capitalism, ultimately CPE seeks to overcome a capitalist mode of production. Within CPE there are numerous more specific theories, approaches and methodologies which address different aspects (for a more detailed overview see Jäger in this volume). PK approaches stand in the tradition of Keynes but also combine elements of classical political economy, Marx, and institutionalist approaches and often explicitly criticize neo-classical approaches. The first post-Keynesians, though not named as such but joined in their economic beliefs, emerged with the publication of the General Theory in 1936 and framed the opposition to the equilibrium modelling of Hicks in his interpretation of the General Theory. Despite the fact that exactly this influential work of J.R. Hicks (1937) can be seen as the birth of Neoclassical Synthesis and led to the so called bastard Keynesianism – a term coined by Joan Robinson (1962: 690) – to sharpen the distinction between equilibrium or so called mainstream economists and alternative economic approaches (see e.g. Snowden and Vane 2005: Chapter 2), Hicks' work can also be interpreted as important for opening the discussion of Keynes' work to a broader audience. Early post-Keynesians were united in their opposition to the existing economic mainstream, which also manifested in the Cambridge Controversies (e.g. King 2002: Chapter 4), and it becomes evident that their economic thinking was also influenced by their own economic experiences and connectivity to classical economists as Marx. This approach usually criticizes economic mainstream approaches and neo-liberal economic policies. It provides an alternative perspective to explain economic growth and unemployment. Already

Keynes (1930) had expected, in his famous essay 'Economic Possibilities for our Grandchildren', that a liberal capitalism would end up in stagnation. The key addressee of PK work is 'the State', which is expected to implement adequate institutions and policies to ensure growth and full employment. Besides government spending, a more equal income distribution (including a strong welfare state), and an adequate monetary policy and regulation of the financial sector are considered crucial to ensure stable and high economic growth and full employment. Hence, it aims at better living conditions for workers within a reformed capitalism. In order to rescue capitalism as a social mode of production, a specific configuration of economic institutions and policies is considered indispensable. To avoid or to quickly overcome economic crisis is considered crucial. Hence, with regards to the ultimate goal there is an important difference between CPE and PK perspectives. While CPE aspires to radical reformism in the short run and the overcoming of capitalism and the implementation of solidary and rational society (Demirovic 2005) in the long run, the overall goal in PK approaches is a well-functioning capitalism characterized by full employment and a well-developed welfare state. From a CPE position, PK contributions can be seen as a more concrete approach to the analysis of economic processes at the surface or price level. The analysis of the role of money, the financial sector and central banking tend to be less developed in CPE, but there are important links and both perspectives are complementary in this regard (Evans 2004). CPE understands the economy as part of society, which means that economics and politics are intrinsically linked and the 'economic' is considered to be part of a broader social relation and hence the result of class struggle. In general, CPE approaches tend to be less optimistic than PK that the "correct" policies and institutions – and not the wrong neo-classical policies – can be implemented by benevolent politicians and economic policy makers. CPE approaches therefore tend to argue that it is not a question of the correct economic ideas and policies but of the configuration of social forces which have the power to implement desired structures, hence economic policy and economic development in the end it are political questions.

### 3. European integration and its crisis

At the surface the economic crisis appeared in Europe in 2008. It was not just a crisis of the Eurozone but a crisis which affected the European Union as a whole. Recovery has been very weak and unemployment in the Eurozone is still close to 10% (Eurostat 2016). The fact that interest rates are still at historically low record levels shows that this is a serious crisis. Low interest rates and measures by the ECB to buy bonds did not boost investment significantly. On the contrary, new structural weaknesses became evident (e.g. the side effects of low interest rates for the eligibility of treasury bonds to participate in the third pillar of the European quantitative easing structure). Europe is still lagging behind in a global perspective (IMF 2016). Moreover, the crisis has exacerbated the split between the core and the periphery in Europe. It is evident that the European crisis management in 2009/2010 was inspired by rescuing the financial sector and by Keynesian 'deficit spending' in the core countries of the EU. This helped to avoid a complete meltdown. In the following years the crisis has been used to implement austerity in the periphery and later on the level of the EU as a whole. This has led to a deepening authoritarian neoliberalism at the level of the EU (cf. Bruff 2014a, Oberndorfer 2015). Although several years of European crisis management have helped to prevent a total economic and political collapse, it has been far from successful – even in its own terms – namely in restoring solid economic growth. In addition centrifugal forces which hitherto became manifest in the Brexit underline the crisis of European integration.

With regards to crises in general and the crisis of EU integration in particular CPE and PK offer different and in part complementary perspectives. In the following we briefly demonstrate the key-aspects of both approaches. Thereby we focus (i) on crises in general, (ii) the spatial dimension, (iii) the EU crisis in particular, (iv) ways to overcome it (for an overview see table 2).

Table 2: Combining post-Keynesianism and Critical Political Economy on the European crisis

	<b>Postkeynesianism</b>	<b>Critical Political Economy</b>
<b>Explaining crisis</b>	Low economic growth due to economic policies which do not promote effective demand adequately	Structural crisis resulting from systemic contradictions and leading to a multiple crisis
<b>Spatial considerations</b>	Nation states and regional analysis with their specific institutional structure; view on unequal developments	Integrated multi-level-analysis; focus on asymmetric relations and structures of dependency
<b>Focus on EU crisis</b>	What are the problems in economic policy? How could the structure / setting be changed to improve the situation?	What are the economic structures and class strategies at different spatial levels which lead to neoliberal integration and crisis?
<b>Dealing with the crisis</b>	The institutional setting of the EU/Euro zone has to be improved: The implementation of proper structural setting is imperative.	Emancipatory (class) agents have to be sufficiently powerful to push for progressive changes in Europe

Source: Own compilation

Post-Keynesians usually refer to an economic crisis in terms of the lack of economic growth. In general, growth is considered to be endogenous, path- dependent and mainly driven by investment as a substantial factor of aggregate demand (Setterfield 2001). When explaining crisis, PK scholars point to falling investment, a development which may have different origins. One important cause is the inherent instability of financial structures (Minsky 1992). The outbreak of the global economic crisis in the financial sector underlines the importance of this aspect and drew again more attention towards Minsky, who focused on increasing financial fragility in boom phases and pointed out that the financial structures of developed economies were unstable even in these times, for example in the 1960s (Minsky 1982). However, a lack of aggregate demand may also be caused by defective institutional configurations which lead to economic imbalances such as those from which Europe is suffering. Hence, PK analysis provides a very specific account of the concrete ‘mechanisms’ of economic crisis. In addition, it provides instruments for analysing the medium-term implications of overall economic policy measures such as increasing wages, government expenditure, taxes or interest rates. Parts of these economic policy recommendations are directly influenced by Minsky (2008: Chapter 13), such as the discussion of the importance of the state as employer or the argument for strong and stable institutional settings in the financial markets that offset overly strong economic upswings and downturns (e.g. Palley 2003; Auerback, McCulley and Parenteau 2010). Other PK proposals reflect on the underlying theoretical incapacibilities of mainstream economics and provide more general propositions as a Keynesian New Deal, which in turn should lead to a shift in overall economic policy adjustment from neoliberal proposals to Keynesian policies (e.g. Hein and

Truger 2012/2013). Strong institutional settings are manifested in the demand for international macroeconomic coordination, combined with a reregulation of financial markets and stronger Keynesian macroeconomic policies. More concretely, the latter part cumulates into a third strand of proposals focusing on the inadequacy of austerity measures in times of economic crisis (e.g. Kitromilides 2011). At the centre of their attention are the effects of austerity measures in times of economic distress. In CPE, the term crisis is used more broadly. Firstly, it refers to an economic crisis in the sense of the absence of dynamic economic accumulation. The lack of accumulation of capital and economic growth is addressed in particular by the regulation school (Boyer and Saillard 2002; Jessop and Sum 2006), which represents an important strand in CPE. The regulation school traditionally focuses on the national level while also seeking to address accumulation and regulation at different interrelated spatial scales. The starting point for the regulation approach was the question why in capitalism, despite its multiple contradictions, stable periods of economic growth can be observed. This is explained by the coherence of a regime of accumulation with a specific mode of regulation based on structurally stable institutional forms. Small and big crises are distinguished. While small crises are solved within a given mode of regulation, in order to overcome a big crisis a new regime of accumulation and a substantial change in the mode of regulation is required. The European crisis is considered a big or structural crisis in this perspective (Bieling et al. 2016). Secondly, the term crisis is used to refer to other related types of crisis such as political crisis, ideological crisis, social crisis, ecological crisis, etc. CPE scholars point to multiple crises in the current conjuncture and to the interconnectedness of different types of crises. Hence, in a CPE tradition a broad variety of explanations for the crisis which focus on different and interconnected causalities exists, and complexity is reduced in different ways. At a very abstract level, overaccumulation is considered to be the ultimate cause of crisis (Overbeek 2012).

The spatial dimension within the question of European integration is considered crucial for CPE and PK scholars. In PK approaches the analysis of national states and regions with their specific institutional setting is at the core of analysis. The distinctive historically embedded structural features and potentially institutional weaknesses ask for detailed nation-state and regionally clustered comparative analysis (see e.g. Chick and Dow 1988; Chick 1992). Following from this in a PK tradition, uneven development has been discussed by mainly Myrdal, Hirschmann and Thirlwall. The spatial dimension of the crisis is mainly discussed when referring to economic imbalances within Europe, and this analysis mainly applies to Thirlwall's (e.g. 2003: 41) work stating that growth might be restrained by the balance of payments (e.g. Soukiazis, Cerqueira and Antunes 2013/2014). Permanent current account deficits serve as the crucial factor for growth repression, and surpluses in the European North have mirrored the current account deficits in the European South. The flow of funds from the European North to the European South had led to substantial imbalances, and diverging unit labour costs are emphasized when searching for the reason for persisting imbalances (see Niechoj 2015; Flassbeck and Lapavistas 2015). The importance of reshaping labour costs, increasing wage levels in the European North and strengthening wage bargaining coordination across Europe becomes even more important when taking the results from empirical studies on a European level into account (Ederer and Reschenhofer 2013). CPE has a long-standing tradition of dealing with uneven development. It often focuses on the globally uneven dimensions of capitalist development and the perspectives for less developed or dependent countries and regions (see Jäger in this volume). However, uneven development in Europe has also been addressed (Becker and Jäger 2012; Drahokoupil and Myant 2012). The concepts of core and periphery are crucial for the understanding of uneven development. Generally speaking, core and periphery interact in an

asymmetric way. This leads to the emergence of different economic and political structures in the core and periphery. According to critical political economy, developments in the core should not be understood without including the analysis of the periphery and vice versa. Core and periphery are not just concepts to be applied to the global scale but are also useful for discussing inner-European developments, because of the huge disparities, structural differences and very asymmetrical links between different European political economies. Previously to the crisis the asymmetries were expressed by asymmetrically linked growth regimes. Dominant neo-mercantilist export regimes in the core of the EU and dependent financialized or debt led growth models in the periphery (Becker et al. 2015, Stockhammer/Köhler 2015).

Whilst in general PK work shows 'what is wrong' with Europe's economy and what should be done in order to return to stable economic growth (Springler 2013), CPE explains why this does not happen but under which conditions it could happen (Bieling et al. 2016). Within the PK perspective especially the strand with a strong focus on Kalecki (1943) is very useful for understanding why the crisis was managed after 2010 in an anti-Keynesian way. The policies led to further increasing unemployment and thereby favoured capital over labour. Complementary to this, CPE insists that an abstract class interest does not transform itself automatically into class agency but is always mediated. Moreover, CPE points to some additional economic aspects, such as the material dimension of economic growth or the role of industry and productivity growth in development. A European development model also has to deal with the question of how productivity can be increased in the periphery, as for large parts of the periphery neoliberal strategies have failed (Becker et al. 2015). Contrary to PK approaches, CPE argues that growth is not an ultimate goal but at the best a means for emancipatory strategies which aim at the reduction of power asymmetries. However, from a PK perspective income policies in favour of workers and lower income groups are considered to be beneficial for economic growth and for counteracting measures such as strong austerity programmes which might account for even deeper recessions (see e.g. Ederer and Reschenhofer 2013; Stockhammer and Köhler 2015).

There is another important difference between the way how CPE and PK perspectives understand the crisis. Whilst PK approaches mainly focus on the economic dimension of the crisis, that is, economic recession or stagnation, CPE points to the multiple dimensions of the European crisis including a political crisis and a crisis of integration (Bieling 2015). While neoliberalism has been the guiding principle for European integration since 1980s, and the existence of finance-dominated regimes of accumulation alongside neo-mercantilist export-orientation were the outcome of the crisis of Fordism, those neoliberal accumulation strategies are in crisis now. This has triggered a political crisis at the level of the EU. However, after 2010 neoliberal regulation has deepened further, and a partial transfer of regulations from the national to the EU level has taken place (Becker et al. 2015, Stockhammer/Köhler 2015). In this understanding, PK and CPE perspectives formulate similar points of view. CPE, however, pins the argumentation down and understands this process as a politics of scale (Gough 2004) and of changing class relations, i.e. it sees the shift of regulations to the EU level as a consequence of capitalist class strategies. The new economic arrangements at the level of the EU particularly affects the relation between capital and labour and tends to have negative implications for national welfare regimes (Oberndorfer 2015, Bieling et al. 2016). Both CPE and PK scholars claim that economic coordination and adequate wage policies are necessary, but the latter refrain from a class analysis and from an acknowledgement of the power relations within the wage bargaining process. However, whilst a totally chaotic crisis has been avoided, stagnation and uneven development of the crisis multiplied contradictions and centrifugal processes within the European

Union. So-called anti-crisis policies aimed at restoring the pre-crisis status quo, and traditional power blocs and ruling classes have not changed significantly (Apeldoorn 2013, Heinrich/Jessop 2013). Moreover, increasing dominance by these dominant groups and countries (Cafruny 2015) was used to compensate for a drastically diminishing hegemony. The central contradictions of European integration, which led to a crisis of over-accumulation from a CPE perspective or which cause a lack of effective demand and huge imbalances within the Eurozone from a PK perspective, have not been tackled yet. On the contrary, the development of wages in the context of record levels of unemployment and the overall European strategy to 'increase competitiveness' (Wigger 2015) point to the opposite direction. The uneven nature of European development and thus the crisis, and the fragmented and asymmetrically linked national/regional modes of production, make a coherent and forceful response by organized labour very difficult (Clua-Losada/Horn 2015). The weakness of labour, despite numerous but uneven (nationally) fragmented protests, the surge of new social movements, and the absence of a set of coherent national and/or regional regimes of accumulation for large parts of Europe, still represent important obstacles to progressive/emancipatory solutions to the crisis. However, the unfolding contradictions, and a strengthening power of subaltern classes, gives hope that, despite the authoritarian constitutionalism in the European Union and authoritarian and right-wing tendencies in large parts of Europe, emancipatory forces at the national and the European scale may become more influential in the medium and long-term.

#### 4. Possible and likely futures

Based on combining PK and CPE approaches, the contributions in Jäger/Springler (2015) in general and by Niechoj (2015) in particular and the brief outline above, different possible futures and the likelihood of their materializing are presented in the following. We analyse the conditions in which they may materialize, and which structural changes and the strategies of which agents will be required for this. Thereby we distinguish three possible (scenario 1-3) and one very likely (scenario 4) future outcome.

##### ***Scenario 1: Total meltdown into the unknown***

A scenario such as the total 'meltdown into the unknown' (Duménil and Lévy 2004) does not seem to be very likely. It can be argued, that a very deep crisis such as in Greece might happen in other countries, but is not very likely for the European Union as a whole. In 2008/2009 a general and extremely deep recession in the EU was avoided by rescuing the financial sector with public money and by adopting Keynesian policies to stabilize the economy. Although public debts due to those measures are higher now, there is still the possibility of encountering another drastic collapse of economic activity. An even stronger focus on competition (Wigger 2015), and the new European economic governance show a very strong anti-Keynesian bias (Stockhammer and Köhler 2015). This tends to promote stagnation. However, in a critical political economy perspective, despite this new authoritarian and neoliberal governance which has been institutionalized (Oberndorfer 2015), one may expect those rules to be violated and pragmatic heterodox Keynesian measures in fiscal and monetary policy to be implemented when necessary in order to prevent a total collapse of the system. Obviously, the ruling classes are interested in avoiding chaotic episodes which might not just drastically reduce their legitimacy but also end up in unforeseeable social upheavals and their own defeat. And it is the safeguarding of class power which is the ultimate goal of capitalist ruling classes.

At least in the financial crisis of 2008/2009 but also during the eruption of the Eurozone crisis in 2011/2012 they have proven to be capable of this. However, due to the uneven nature of development, and the resultant complexity and divergence of European capitalist fractions and interests (Heinrich and Jessop 2013: 30), it is not certain that the ruling classes will be successful again. Hence, a total economic meltdown is not a very likely but still a possible European future.

### ***Scenario 2: Social democratic (green) Europe***

In a post-Keynesian perspective, at least at a very high level of abstraction, the scenario of a social democratic (green) Europe is shared as a common vision of a desired European solution to the crisis. Most clearly this is summarized by Niechoj (2015). The desired scenario he describes is based on the implementation of Keynesian institutions and policies at the EU level. At its core is a coordinated fiscal policy with strong European fiscal statehood. Complementary to this, Flassbeck and Lapavitsas (2015) argue that wage co-ordination based on productivity increases is necessary to stabilize demand and therefore wage-led growth. In addition, in order to combat imbalances within the Eurozone, nominal wages should temporarily increase much stronger in surplus countries such as Germany until imbalances disappear. Moreover, unsustainable public debts in the periphery should be reduced in order to open up possibilities for fiscal policy, and also an exit from the Eurozone might be a necessary step for peripheral countries (Lapavitsas 2011). As Grahl (2015) argues, the implementation of a progressive European social welfare system would be desirable and could be part of this scenario.

In addition, adequate regulation of the financial sector is a necessary element of the PK agenda to stabilize the economy, but it cannot be the only one (see Toporowski 2015).

Besides such demand-oriented post-Keynesian perspectives, a strategy which allows for a reconstruction of productive sectors, in particular of industry, is also essential for economic development in the periphery (Becker et al. 2015). Already before the crisis, large parts of the European periphery had been characterized by dramatic de-industrialization (Becker and Jäger 2010). These aspects are barely touched in a PK scenario. Hence, from a CPE perspective a European framework which allows for development of the periphery would be another essential element of this scenario.

This vision of a social democratic Europe and a further step of progressive integration have the Fordist national welfare states and the corresponding incomes policies as a reference. However, CPE perspectives point to the fact that Fordist (or at least peripheral) welfare states and respective incomes policies were implemented in most parts of Western Europe within a very specific historical and geo-political context. The basis for this was a social democratic class compromise between capital and labour after the Second World War and within the context of US hegemony and the Soviet challenge. The situation has completely changed. The power of capital vis-à-vis labour has increased and the national class compromises have eroded. Against this background it seems very unlikely that something similar to a Fordist class compromise can be institutionalized at the level of the European Union within a near future. Although in the 1980s and 1990s there was an attempt to implement a social democratic project at the level of the EU, this by and large failed and neoliberal and neo-mercantilist interests succeeded. This has been manifested in the Maastricht Criteria and the Lisbon Agenda, and also during the recent crisis (van Apeldoorn, Drahokoupil and Horn 2009). Today, labour is even weaker and more fragmented. Although it is argued that there is a transnational European capitalist class (Van Apeldoorn 2013), we should not under-estimate the importance of national capitalist classes (see Cafruny, Chapter 4 (2015)) within Europe and the existence of nationally fragmented working classes. Hence, from a CPE perspective it seems very

unlikely that such a pro-European social democratic project (including some 'green' elements), which has a small and very weak social basis (see Buckel et al. 2012: 38), can be implemented within the foreseeable future.

### ***Scenario 3: Radical reformism to overcome capitalism***

CPE scholars usually are in favour of overcoming capitalism or, as a first step, of much-undesired forms of capitalism such as neoliberalism. Conversely to this, PK approaches stick to the latter aspect. This scenario discusses the crisis in such a more fundamental way and promotes respective alternatives; therefore this is an important potential scenario which has to be dealt with. The crisis has opened up the space for more radical critique and visionary proposals which question the capitalist organization of the economy in general and its neoliberal type in particular. Hence, within the context of an erosion of neoliberal hegemony and a surge of public discontent a fundamental critique and the discussion of alternative ideas are back on the agenda. Among them there is the questioning of economic growth as such, and the re-emergence of a broad development discourse. In the tradition of critical political economy, the discussion should not be limited to the question of overcoming the crisis in terms of returning to economic growth based on the emergence of an ensemble of stable growth regimes in Europe. Whilst post-Keynesianism gives hints of how capitalism can be re-organized to overcome stagnation and turn back to economic growth (Davidson 2009), critical political economy provides a variety of more far-reaching alternatives to reduce exploitation, to eliminate power relations and to socialize production. Besides the questioning of economic growth, this does not just include the control of the financial sector and speculation but also a radically more equal income distribution, a shortening of working hours, the creation of decent jobs, investment in 'meaningful' areas, and strict public control in order to implement a new society and make the world a better place for all (Herrmann and Frangakis 2014: 192) In addition, the necessity of environmental sustainability means that new modes of production and of consumption are considered to be indispensable for providing a good life for all (Lipietz 2013; Novy 2013). Green capitalism is not progressive but may be a concrete solution to the current multiple crisis (Brand 2012). Radical debates and visionary proposals are important for discursively expanding the room for possible alternatives. Hence, they may play their role for progressive long-term transformations towards post-capitalist societies. However, the agents promoting such a radical reformist approach are still very weak and fragmented, not least because of the uneven development of the crisis (Becker et al. 2015; Buckel et al. 2012). Today, the coming of a radical reformist future within the medium-term is even less unlikely than a social democratic European Union. At the best, the latter could be a step towards more radical reforms because of shifting power relations implied by a social democratic Europe.

### ***Scenario 4: Authoritarian neoliberalism and muddling through***

The preliminary outcome of the crisis at the level of the European Union has been the implementation of an authoritarian neoliberalism which shows a strong anti-Keynesian bias. Whilst with the exception of a Kaleckian tradition this is difficult to explain from a PK perspective, CPE points to the fact that neoliberalism is less a strategy for growth but rather a mode to combat labour, and hence an expression of class struggle from above (Duménil and Lévy 2011; Stockhammer and Köhler 2015). During the crisis, powerful export-oriented German capitalists (Heinrich and Jessop 2013; Cafruny 2015) and well-organized transnational fractions of capital at the European level (van Apeldoorn 2013) have pushed for a deepening of neoliberalism at the European level. This has not just caused problems for the European periphery but even for the German economic model

itself, which has become more export-dependent (Bruff 2014b). Hence, as Bieling (2015) argues, these European developments can be called a passive revolution which is not yet completed but in trouble. However, capitalist fractions in the periphery have also supported neoliberal policies and a subordinate position because this at least secured their class position (Navarro 2011). CPE points out not only the complexity of agents and process in particular but also the structural contradictions inherent to capitalism in general. Whilst it was possible to stabilize dynamic capitalist accumulation during the post-Second World War Fordist era on a national scale and within a very specific framework (US hegemony, Bretton Woods system, an EU supportive of national Fordist regimes of accumulation), and on the basis of a class compromise relatively favourable to labour, this is different today. There is a strategic selectivity in favour of capital at the level of the European Union (Bieling 2016), and the crisis has led to a further shift of economic governance to this macro-regional level. Neoliberal European economic governance tends to reproduce and consolidate a very heterogeneous European economic space. Transnational European firms (usually their headquarters are located in the centre) may take advantage of persistently different productivities and wage levels within Europe in organizing their production chains. In line with this, the Transatlantic Trade and Investment Partnership might be understood as another way forward for the promotion of exports from the Germany-centred productive system (Cafruny 2015) beyond Europe to the rest of the world. However, given Europe's economic size it is very unlikely if not impossible that such an outward-oriented strategy can provide the basis for European-wide growth. Hence, the deepening of neoliberalism does not contribute to overcome capitalist contradictions, and the problem of realizing profits will be a constant feature in the future European trajectory. Contradictions are likely to continue to be most visible in the European periphery, because the given economic governance structure in Europe tends to support the powerful interests of the European core countries and to shift the problems onto the periphery. However, as Drahoš and Myant (2012) and Becker, Jäger and Weissenbacher (2015) insist, peripheral European countries are integrated into the core in different ways. A single classical indicator such as penetration by foreign capital is not sufficient to grasp the dynamics. Those who are part of the Germany-centred productive core are in a better position than those countries in which the dominant patterns of accumulation were based on financialization. Particularly for countries which have a very weak industrial basis and which are not integrated into the productive core, the outlook is rather gloomy. This may promote the search for national development strategies and even imply a (partial) dissolution of the EU, because in many cases national development seems to be impossible within the EU's neoliberal competitive framework. Though, as (Bohle 2013: 118) insists, despite common external structures it is necessary to assess the specific internal processes and struggles. Moreover, persistently high unemployment may also cause centrifugal tendencies in less peripheral countries. Overall, a long-run persistence of instability, no early end of the crisis and increasing rift between the core and the periphery seem to be a very likely future. Despite the discourses which proclaim the end of the crisis, so-called anti-crisis policies continue to deepen polarization in Europe.

## **5. Conclusions**

In general, there are apparent links between CPE and PK perspectives with regards to the understanding European integration and its crisis, even if the focus and the specific explanations are

different. Combining post-Keynesian and critical political economy perspectives helps to highlight aspects which are completely neglected by mainstream approaches in economics. Presenting those perspectives and applying them sheds a different light on the crisis and turns out to be a highly illuminating not just for students and scholars but also for emancipatory political agents and their strategies. Whilst the understanding of the tendency in capitalism towards crisis and stagnation is similar in CPE and PK, both approaches provide important but different concepts which help to address the uneven nature of capitalist development and its crisis. On the one hand PK work shows 'what is wrong' with Europe's economy and what should be done in order to return to stable economic growth, on the other hand CPE explains why this does not happen but under which conditions it could happen.

Dominant capitalist classes were the driving forces of pushing for neoliberal European integration since the 1980s. This had led to the emergence of asymmetrically linked regimes of accumulation in Europe. Neo-mercantilist export-orientated regimes in the core were linked to dependent debt-led regimes in the periphery. The responses to the crisis at the level of the EU after 2010 led to a further deepening of the crisis in particular in peripheral countries and increasing unemployment and thereby favoured capital over labour in general. A further partial transfer of regulations from the national to the EU level has taken place, and neoliberal economic governance at the level of the EU has deepened since then. Whilst PK approaches mainly focus on the economic dimension of the crisis, that is, economic recession or stagnation, CPE points to the multiple dimensions of the crisis including a political crisis and a crisis of integration and the role of class interests in dealing with the crisis. With regards to the European future, there is a broad variety across the aspired aims and the applied strategies (Demirovic and Sablowski 2012: 101; EuroMemoGroup 2014) and there is no consensus on the adequate strategy by progressive forces. Some progressive groups are in favour of a social democratic solution at the European level and others demand a more radical change. Moreover, on the one hand, there are many groups who argue that it is possible to reform the EU and demand a refoundation of Europe (Husson 2011). Whilst CPE views on the preferred scale for progressive change are diverse, the EU is the preferred scale for implementing progressive economic governance structures in most post-Keynesian perspectives. Some political economists argue that progressive reforms at the level of the EU are currently not possible given the power structures and expect that breaking with EU policies in one country, may trigger substantial changes at the level of the EU. However, this is to be seen. Hitherto the Brexit has not turned out to have a major impact on the structure of European integration. The labour movement is still fragmented by national borders. However, in a critical political economy perspective social struggles at the local, the national and the European level seem necessary and should not be seen as opposing each other but as complementary and dialectically related. In addition, potentially progressive developments are a question of the time period considered. Whilst in the short-term some social democratic elements might be implemented, this could provide the basis for more radical change in the future. However, it does not necessarily have to happen in this way. Social democratic reforms also could stabilize and cushion capitalist class power by providing some concessions to the working class. While the final outcome of the crisis in Europe tends to be unforeseeable, it is for sure that struggles for emancipatory solutions do make the still very unlikely progressive scenarios more realistic.

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