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The uncertain (re)politicisation of fiscal relations in Europe: a shift in EMU's modes of governance

BARTHOLOMEW PAUDYN

Abstract. Europe's numerous fiscal crises – 2003 Stability and Growth Pact (SGP) crisis, its subsequent 2005 reforms, and the recent sovereign debt woes – draw attention to a shift in the management of EMU; namely the inclusion of more uncertainty-based governance. Understood as modalities of government, risk and uncertainty make the production of this fiscal-monetary space intelligible as a recognised form of knowledge and object of government. Whereas the Pact was devised as the anchor for EMU, it has come to symbolise its weakness. This article argues that the result is an antagonistic relationship between the programmatic and operational dimensions of fiscal governance, otherwise seen as a dialectic between the two competing domains of expertise/law and politics. Starting with the 2005 SGP reforms, and exacerbated by the credit crisis, uncertainty has been mobilised to justify alternative forms of managing fiscal conduct linked to new strategies of calculation and issues of responsibility. Bound to variegated notions of 'normality', I contend that the 2005 reforms signal the (re)politicisation of the budgetary framework and the reconfiguration of the politics of limits. Rather than marginalising informal judgement, the government through uncertainty places a greater emphasis on creative entrepreneurialism in fostering compliance in ways risk does not.

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Introduction

The fiscal landscape of Europe is a fragmented collection of national policies interlaced via the Stability and Growth Pact (SGP). In direct contrast to a centralised monetary domain, there is no equivalent supranational economic authority that oversees fiscal conduct. Defections result in Pareto-inferior equilibria, which are not overcome by the threat of sanctions. Both the November 2003 Economic and Financial Affairs Council (Ecofin) crisis and current sovereign debt woes are indicative of this conundrum. Doomed to fail because of its overly rigid structure, the Pact was perceived as artificially uniform.¹ Punitive measures were never seriously entertained; especially since, as Arestis and Sawyer remind us, most countries failed to meet the convergence criteria upon adopting the euro.² False statistics were even submitted. All these factors amplified the politics of risk and uncertainty associated with fiscal management. To amend the negative externalities and ease the tensions produced by the Ecofin crisis, the architects of Economic and Monetary Union (EMU) – the Council with the Commission – introduced a

more flexible and discretionary regulatory framework in 2005. What did this shift represent? Arguably, this marked a transition to a greater reliance on uncertainty-centred modes of governance and signalled the (re)politicisation of budgetary governance and expertise in Europe. How uncertainty is appropriated and informs this managerial shift – which seek to reconcile this dualism between national fiscal sovereignty and EMU policy convergence – is at the core of this article.

In large part, this change in the rationality of fiscal governance is a reaction to the excessive deficit financing being adopted by virtually all Member States. Particularly troublesome for the euro area, as Heipertz and Verdun contend, it is a recognition that the European fiscal framework is a political protocol and not a legally binding contract which can be enforced through conventional legal means.³ Tensions flare as new geographies of authority and notions of expertise form from the injection of competing political agendas into economic policy. Orchestrated through the deployment of a novel set of discourses and technologies of uncertainty, the movement in the reorganisation of this emerging fiscal-monetary space is codified in the reformed Pact; as fragile as it is. New regulatory spaces are opening up that question risk's dominance as a governmental construct as the problem of fiscal management is reframed along vectors of uncertainty. Similar to O'Malley, I argue that uncertainty government involves the mobilisation of the perception of contingency implicit in (fiscal) relations so as to connect strategies of government(ality) and law.⁴

As an invention of government, uncertainty is helping engineer a novel leverage of control, or an authoritative capacity, designed to modulate the fiscal conduct of Member States according to variegated notions of normality. Rather than subscribing to a single and static notion of normality, as was the case with the 'close-to-balance or in surplus' (CTBOIS) requirement, the new Pact reaffirms that the definition of a normal fiscal standard is contestable. EMU is the site of contestation where competing visions of normality are articulated. These considerations inform how states define their national interests. Although they may prove fragmentary, differentiated appraisals are necessary to accommodate this diversity and variability among Member States. Subsequently, this affects how responsibility is reconceptualised and legitimised in EMU. Whatever forms the Pact assumes the ambition is to induce the internalisation of self-regulation among Member States to respect the statutes.

My intention is to problematise European economic governance in light of its fiscal debacle and the March 2005 reforms it engendered. As economic programmes become increasingly susceptible to being (re)politicised according to the socio-economic goals legitimated by 'Europe 2020', the EU's growth strategy, what modes of governance are appropriated in this redefinition of fiscal politics? How does the differentiated assessment of SGP statutes problematise European fiscal management? Moreover, how does this affect the political economy of budgetary surveillance? I submit that budgetary profligacy has (re)politicised fiscal governance and amplified the antagonisms implicit in the organisation of EMU.

This reintroduces neo-Keynesian demand management strategies into an essentially monetarist creation.⁵ Unfortunately, this is unsustainable for very long as budgets are ballooning. At the same time, the dominance of the conventional (neoliberal) risk-centred approach – censoring political involvement in the economy – is being disturbed. New forms of uncertainty government on the ‘preventative arm’, such as the medium-term budgetary objectives (MTO) and review (MTBR), are devised to accommodate the resulting tensions. The interesting observation, however, is not that there is more uncertainty or risk. Rather it is how uncertainty moderates the politics of representation associated with the problem of fiscal profligacy and how these perceptions are mobilised in the form of a new regulatory apparatus which seeks to control EMU subjects into compliance.

Explaining what ‘caused’ these crises is not the objective.⁶ Rather my intention is to reveal how the revised Pact signals a different way of framing the problem of governing fiscal relation in EMU by acting on the capacity of governments as free actors; namely in relation to their sovereignty through the construct of uncertainty. This shift alters the relationship between the programmatic and operational dimensions of fiscal governance – conceptualised as a dialectic between expertise/law and politics – to include new forms of control and subjectification. Expertise is changing as boundaries dissolve around previously immune forms of regulation grounded in risk and new stabilisations are (re)politicised according to goals legitimated by Europe 2020. Derived from variegated representations of normality, expertise adapts to mobilise reframed perceptions of responsibility in the effort to control the conduct of Member States. New compliance technologies, such as the MTBR, act on the contingency of Member States. Rather than imposing some artificially uniform criteria, this subjectification comprises a novel leverage that is exerted by the organisational fiscal apparatus, in the hope of normalising EMU subjects into compliance. Whether it is successful is dubious given deteriorating public balances in the wake of the 2008 credit crisis. Nevertheless, techniques that promote national fiscal ownership are essential for the viability of EMU.

As a modality of government, uncertainty informs the creation of this authoritative capacity to act on states. Greater reliance is being placed on non-quantitative techniques, such as critical judgement and seasoned estimations, to calculate available prospects in the appraisal of fiscal conduct and in the execution of budgetary rules. Not only do aggregating methods akin to risk diminish in utility in unique situations where a probability distribution cannot be quantified to indicate and evaluate Member State performance but their credibility has been severely tarnished by the credit crisis for which, in part, they were responsible. Embedded in a new technological apparatus, this rearticulation is the strategic recodification of expertise/law and authority in EMU. As such, this is a discussion about challenging boundaries and the politics of limits.

The following argument is developed in three stages. First, I revisit and develop the fiscal profligacy problematic. Here the recent history of budgetary conduct in EMU is presented in order to begin to understand how the underlying rationality of fiscal governance is changing to accommodate a growing diversity of demands. Next, the conceptual territory of risk and uncertainty, as modes of governance, is discussed in relation to governmentality. Third, I proceed to analyse how the Ecofin crisis triggered the transition to a reliance on uncertainty based forms of regulation. Diagnosing the MTBR of country-specific MTOs reveals how the relationship between expertise/law and politics is changing and what it means for the political economy of budgetary surveillance. By problematising the categories that conventional accounts fail to do, this article sheds light on how the EMU space is conditioned into existence through particular discursive practices deployed to manage uncertainty.

Fiscal surveillance problematic

The problem of fiscal profligacy and practices of responsabilisation have a contentious history. German, or Bundesbank, intentions to export and codify a model of strict fiscal austerity to the rest of Europe met with opposition at the 1996 Dublin Summit.⁷ Originally launched as the ‘The Stability Pact’ (*Stabilitätspakt*), German Finance Minister Theo Waigel stressed the necessity of buttressing the Maastricht convergence criteria by including automatic penalties targeting members who joined the eurozone but breached its fiscal rules. Such draconian measures were also designed to keep the highly inflationary, periphery ‘Club Med’ (i.e. Italy, Greece) countries out. Otherwise, it was believed that their fiscal profligacy would jeopardise the credibility of the common monetary policy. Sustained opposition from France and all but the Netherlands convinced Germany to relent and recognise the employment and ‘growth’ dimensions of fiscal sovereignty. Once again, however, those fears are playing themselves out with the usual suspects (i.e. Greece, Portugal).

A looming threat to EMU is that governments are prone to deficit spending. The appeal of such action grows when governments are faced with recessionary pressures, as in the wake of the 2001 or 2008 economic downturns. Episodes of pro-cyclical fiscal bias challenge the Pact as European governments increase expenditure or cut taxes as opposed to prudently saving in case of an economic shock. Such was the situation precipitating the November 2003 crisis as most countries strayed from adhering to the MTO of CTBOIS and joined camp of the ‘deficit sinners’. As Savage and Verdun suggest, a pro-cyclical policy rapidly came to be challenged as fiscally counterproductive and politically inoperative.⁸ This lack of fiscal flexibility was critiqued as acting as a ‘straitjacket’ and denounced by Romano Prodi in *Le Monde* (October 17, 2002) as a ‘stupid’ pro-cyclical policy for damaging the economic position of member states at a time when expansionary measures are justified. Conversely, as we are witnessing, such behaviour during ‘good times’ merely deteriorates the fiscal position of Member States. They incur higher debt

levels, which prevent them from operating within the parameters of the framework when the economic cycle turns again. Runaway budget deficits can transform ‘exceptional and temporary’ circumstances into severe long-term crises that can destabilise EMU.

National politics contributed to aborting the issuance of an ‘early warning’ to Germany and Portugal in 2001 and again to Germany in early 2002. With an election looming (October 2002), Chancellor Gerhard Schröder was afraid of the disruptive potential that a ‘blue paper’ from Brussels would have on his campaign. According to Dyson, ‘severe domestic political problems’ with ‘Agenda 2010’ only exacerbated the issue of compliance for Germany, compelling Schröder to lobby Ecofin to veto the Commission’s recommendation.⁹ Tensions finally culminated in the fall of 2003. Although an ‘early warning mechanism’ (Article 99(4)) was issued by the Commission, it failed to be activated by the Ecofin Council and ultimately proved ineffective in stymieing the excessive deficits. Acknowledging that they were in violation, Ecofin nevertheless rejected deflationary Commission recommendations and sanction France and Germany. Together with Italy and Portugal, they orchestrated a blocking coalition – by virtue of a qualified majority vote – to hold the Excessive Deficit Procedure (EDP) in abeyance in favour of soft targets and time limits. Begg and Schelkle echo a shared sentiment by declaring that this ‘sounded the death knell for the unloved Stability and Growth Pact’.¹⁰

Given such political temperaments are common, the Ecofin crisis reveals that threats to the integrity of the SGP cannot be effectively mitigated by devising targets against which risk probabilities are assigned. To be effective, budgetary surveillance must be more amenable to diverse, national political developments in the enforcement of the rules. Lacking a uniform expected value, the vulnerability of risk’s dominance in defining and managing EMU subjects and practices is exposed. Risk techniques are often ill-suited to adequately manage fiscal relations. Heralded as a standardised and ‘objective’ system, the Pact is in fact a political ‘contract’ amongst countries to retain sovereignty over fiscal policy. Unlike a conventional contract, however, its politicised nature thwarts its enforcement by legal means. Hence, Heipertz and Verdun are correct to assert that the ‘essence of the pact is not a mechanism of “quasi-automatic sanctions” but the institutionalisation of a *political* pledge to aim for low deficits’.¹¹ First and foremost, the SGP is a political protocol and fiscal indiscipline is a political failure. Whereas the SGP was devised as the anchor for EMU it has come to symbolise its weakness. As such, uncertainty has been mobilised to justify alternative forms of managing fiscal conduct linked to new strategies of calculation and issues of responsibility.

The discretionary response

The Pact no longer diminishes the perception of hazard as originally intended. This points to the antagonistic relationship between the programmatic (expertise/law) and operational (politics) dimensions

of budgetary governance. To reduce the downside risks facing the fiscal framework and restore its shattered legitimacy, officials need to tackle the problem of reconciling the dualism of national fiscal sovereignty and policy convergence. One response to this new environment came in the form of a European Council agreement entitled ‘Improving the Implementation of the Stability and Growth Pact’. Five areas of improvement were identified by Ecofin and entrenched in the ‘political compromise’, which the European Council formally sanctioned in March 2005.¹²

Success depends on the strength of and adherence to clear rules that favour discipline-oriented budgets. Whereas the reference values were retained, an increased focus on debt sustainability – with a greater emphasis on current national developments – improves the economic logic of the Pact. In addition, the following recommendations are deemed necessary:

- 1) enhance the economic rationale of the budgetary rules to improve their credibility and ownership;
- 2) improve ‘ownership’ by national policy makers;
- 3) use more effectively periods when economies are growing above trend for budgetary consolidation in order to avoid pro-cyclical policies;
- 4) take better account in Council recommendations of periods when economies are growing below trend;
- 5) give sufficient attention in the surveillance of budgetary positions to debt and sustainability.¹³

From these statements, one may extrapolate the individualising tone underscoring the mentality of reform. The uniform requirement of CTBOIS is replaced with new, differentiated MTOs. Fresh provisions are measured in cyclically adjusted terms. From the revamped MTBR to a comprehensive account of ‘other relevant factors’ in the decision to invoke the EDP, the mechanistic and probabilistically aggregating methods akin to risk located in the original Pact are less visible.

With a renewed emphasis on long-run sustainability, the budgetary surveillance capacity changed with the recognition of ‘differential treatment’ and the accommodation of ‘exceptional and temporary’ circumstances.¹⁴ In expanding the discretionary power of EU experts and officials, such as those located in the Economic and Financial Committee (EFC) or the Economic Policy Committee (EPC), the (re)politicisation of fiscal relations becomes increasingly visible.¹⁵ Informal judgement, not just aggregating probabilities, becomes more paramount in appraising budgetary conduct and in the execution of the new fiscal framework. As a ‘crude fiscal coordination mechanism’, Crowley argues that the Pact leaves substantial room for political manipulation.¹⁶ Subjective estimations, which are susceptible to political bias, point to a government through uncertainty. This rearticulation of risk and uncertainty into the political imagination of EMU is reconfiguring the politics of limits where expertise/law and politics often overlap and blur.

On the one hand, the consensus is that pro-cyclicality must be deterred. On the other hand, there is a disjuncture between what sounds plausible in law and how it is actually practiced. With the

introduction of ‘exceptional’ and ‘other relevant factors’, it is possible to repeat the steps of the EDP if failure to comply may be attributed ‘to *unexpected* adverse economic events with a considerable impact on the budget’.¹⁷ Special circumstances, such as the financial and debt crises, have the potential of delaying adjustments into the third year subsequent to an occurrence. Frictions over this notion of exaggerated lags provoked the proposition of a ‘minimum fiscal effort’, which would see a consolidation of the structural balance by a minimum of 0.5 per cent of GDP. Rather than being obligatory on the ‘corrective arm’, this became the objective for adjustment towards the differentiated MTOs. Yet this criterion may be ‘massaged’ if attempts are frustrated by adverse circumstances, leading Cafruny and Ryner to contend that such discretionary clauses will, in fact, invite arbitrary abuses and irresponsible interpretations.¹⁸ Ostensibly, the revisions seem to preclude any direct intrusion into the fiscal affairs of Member States in favour of vague, precautionary mechanisms. The political discourse of uncertainty is becoming more evident. Left unchecked, excessive and diverging budgetary balances can destabilise EMU.

Abuses have indeed exacerbated the dangers brought about by the dilution of the very regulatory mechanisms designed to dissuade profligate behaviour. Repeated fictitious data by the worst offender (i.e. Greece) together with dubious risk management strategies reveal how a combination of regulatory and market failures have acted as a catalyst for the reconfiguration of state involvement in the economy. With unaltered incentives for compliance, Winkler contends that the SGP has lost its ‘teeth’ to become an impotent tool for fiscal consolidation.¹⁹ Arestis and Sawyer echo this sentiment, positing that ‘the death of the SGP is probably a better description of...the revamped SGP in March 2005’.²⁰ Rigid rules may have been supplanted by elastic assessments but at what cost? Less transparent and more complicated than the original framework, contestation and uncertainty abound as to whether the Pact can in fact garner the necessary political commitment upon which its success hinges. The credit crisis has only amplified the politics of uncertainty and unmanageable budgets cast doubt on the commitment to fiscal responsibility. Conversely, is harmonisation plausible given what the Ecofin crisis has revealed about fiscal sovereignty and the asymmetric application of the statutes?

As such, a primary deficiency associated with the original SGP remains. Compliance does not depend solely on a new fiscal framework. As Buti notes:

if the problem is primarily one of adherence to the rules, the priority should be to ensure rigorous implementation of the existing rules rather than to change them. At the same time, it is widely recognized that simply attempting to apply the existing rules after the watershed of November 2003 is not a viable option. Re-establishing a sense of ownership of the fiscal rules by all parties would be the precondition for their effective enforcement.²¹

Indeed, a successful regulatory regime of any kind cannot neglect that national fiscal ownership rests on the internalisation of self-regulation by Member States. Convergence between national interests and EMU

objectives demands forecasts, analyses and recommendations that are specifically tailored to each individual member state and their unique circumstances rather than vague and generic ones. Given that these relationships are highly politicised, the internalisation of self-regulation is fostered by the convergence of national preferences as the option of defection becomes less attractive. In short, for EMU policy to be successful, it needs to manage individual national contingencies through new compliance procedures that do not infringe excessively on national fiscal sovereignty. Far from assured, the government through uncertainty is a step in that direction.

Flexibility in defining ‘normal’ fiscal conduct is crucial to accommodating state interests and Community ambitions. Risk government lacks this capacity to target the variability and diversity of political decision-making. On the other hand, practices of uncertainty incorporate discretion with creative entrepreneurialism as they help refocus legal responsibility. Member states are envisioned as enterprising subjects entrusted with the duty of prudently managing their fiscal books. It reaffirms sovereignty without sanctioning a culture of distrust as it simultaneously ‘enables and opens up new possibilities for its subjects, and restrains these subjects as they are made subjects of a certain calculative and disciplinary regime’.²² National fiscal ownership may be enhanced as the government through uncertainty does not inhibit the internalisation of self-regulation as much as a discourse of exogenous risk. Although the greater manoeuvrability which it grants Member States must be in accordance with an infrastructure of referentiality (i.e. normality) that accommodates their unique contingencies within the context of a broader EMU. Arguably, states are more amenable to accept responsibility for their fiscal policy if they can identify common linkages between what they, and the EU, consider normal budgetary conduct. The alternative (i.e. uniform rules) has proven a failure.

A new analytical instrumentality: Trajectories of risk and uncertainty

This article is making to sets of claims. One set refers to an emerging governmental phenomenon that is coming into being; namely this fiscal-monetary space called EMU. More than a national space, its construction is rendering certain pressures arising out of its organisation visible. These operational/political dynamics conflict with the SGP’s original programmatic/legal objectives. The second set of claims concerns how governance is changing to reflect these tensions and its effects on the political economy of budgetary surveillance. How is surveillance as regulation adopting to deal with the problem of fiscal profligacy? To answer this question, I submit that ‘governmentality’,²³ as a new analytical instrumentality, directs our attention to the diverse set of discursive practices that help constitute conceptions of normality as anchors for fiscal relations in this new space. It is this rearticulation of what is considered normal budgetary conduct that helps to legitimise new forms of responsibility upon which surveillance is based. Uncertainty is a modality of government that informs this transition.²⁴ Its

performative effect is the recodification of new forms of authority that strive to balance fiscal sovereignty and Community protocol.

This is not a ‘theory’ of governmentality concerned with the kind of grandiose proclamations about universal ontology or a single normative truth characteristic of much of the IR literature. Rather, governmentality is an empirically-based analysis of the various styles of government that populate the entire terrain of international politics; including EMU. As Marieke de Goede argues, without being impeded by all the false dichotomies and theory-based burdens afflicting traditional IR explanations, we are better equipped with the tools that allow us to come to terms with the very conditions necessary for the actualisation of all kinds of governed relations.²⁵ It helps ascertain how truth claims are constituted by dissecting the very discourses, institutions and technologies employed in their actualisation. Thus, Foucault concludes, it renders ‘visible a *singularity* at places where there is a temptation to invoke a historical constant...or an obviousness which imposes itself uniformly on all’.²⁶

As a set of analytical tools, it can be deployed to decipher the connection between the cognitive, moral and material political economy of EMU. Its interdisciplinary character resembles more of a methodological approach than a totalising theory burdened by such things as attribution bias, causality or the responsibility of establishing ontological equivalence. Through the deconstructive/reconstructive ethos of governmentality, I excavate the governmental terrain of budgetary politics to reveal how knowledge – as a susceptibility to vulnerable fiscal conduct and as a register of responsibility – is constituted and legitimated in the production of responsible EMU subjects. First, the ‘deconstructive’ thematic seeks to interrogate budgetary management in order to reveal how the issue of fiscal profligacy is problematised and affects the political economy of fiscal surveillance. Second is the ‘reconstructive’ thematic, which is concerned with evaluating how this regulatory space is being reassembled through specific practices of representation/truth production, such as the MTOs and the MTBR, which embody a performative element delimiting the constitution of EMU as an object of government. In this sense, as Miller and Rose contend, the notion of an unproblematic reality is questioned as deconstruction discloses expert and political complicity in the representational process.²⁷

For O’Malley, risk and uncertainty are not to be treated as either real or unreal.²⁸ This relationship is not one of mutual exclusion. Neither risk nor uncertainty is inherently more or less abundant in this post-2005 reconfiguration of the fiscal framework. To understand this process as merely denoting the exchange of one class of variables for another is to miss the more interesting governmental dimension to this problematic. After all, there is not a rigid binary opposition between these modes of governance. Risk is not in the process of being completely displaced in as much as it is constantly ‘assembled into complex configurations with other technologies, particularly – if not only – with uncertainty’.²⁹ Although some

like Beck or Reddy may advocate otherwise,³⁰ the relationship between risk and uncertainty is contestable and heteromorphic.³¹

Whereas risk is defined as an aggregable and probabilistically quantifiable frequency of an undesirable event, uncertainty may be understood as a singular, subjective estimation; as the ‘fluid art of the possible’.³² Uncertainty implies that possible outcomes may be identified but cannot be assigned a probability distribution denoting the success of such decisions given their unique circumstances. Greater reliance is placed on non-quantitative techniques, such as seasoned judgement and rules of thumb, to calculate available prospects. From a governmental perspective, uncertainty is qualitatively different than risk. However, conventional IPE typically privileges a perceived binary opposition between (quantitative) risk and (qualitative) uncertainty. Fixated on ontological totalities, these accounts patrol the margins of indeterminacy in the attempt to translate uncertainties into risks. But as constructs, they are configured together in ‘lines of continuous variation that can never be homogenised into a linear process of change or transformation’.³³ In such an unstructured environment like the EMU space – which fails to reproduce itself at regular intervals – a uniformly collectivised approach may be desirable but ultimately infeasible.

Migration of risk

To properly understand the recodification of expertise/law and politics through the mobilisation of uncertainty, we first need to know how calculative frames became adopted in Europe. As hinted above, risk is typically calculated in terms of probabilistic estimations. Statistically refined by economists, ‘risk is the measure of variance around an expected value’ and is considered a tangible phenomenon/force.³⁴ Once this degree of probability is determined, it is then transformed – as ‘objective knowledge’ – through technologies into a capacity to mitigate abnormalities. In his article, Kessler discusses these symptoms of predictive positivism.³⁵ Although the government through risk informs EMU policy, it is not indigenous to this space. To appreciate the transition to modes of uncertainty, we first need to trace how risk has captured the imagination of EU policy-makers to help define the EMU regulatory response to the problem of fiscal profligacy. This knowledge will help us understand how calculative frames are used to configure spaces and orders of political and legal responsibility.

Against the backdrop of the extremely volatile financial markets of the 1980s and the fears triggered by the collapses of, among others, Barings, Matellgesellschaft, and Long-Term Capital Management the following decade, risk began to dominate the agenda of both private and public actors.³⁶ With a calculus of probabilities at their disposal, EMU officials came to understand fiscal profligacy as a problem rooted in the language, ideas and methods of commercial risk management (e.g. risk metrics). Increasingly, Walters and Haahr submit that risk began to displace other forms of understanding EMU governance – through the lens of national economic security or in terms of socio-economic classes.³⁷ In

order to promote sustainable budgetary balances, a risk-based SGP depreciated the role of informal judgement and policy discretion. Surveillance rested on the Pact being transparent, consistent and equally administered in accordance with the quantitatively defensible process of risk. An arsenal of probabilistically predictive mechanisms was deployed to achieve these objectives.

Neither unique to EMU nor politics for that matter, the migration of risk from the corporate sector and the study of how it has informed the design of the fiscal regulation remains underdeveloped in IPE. Instead, risk has been accepted as a natural fixture of EMU governance. To dispel this misconception, this article analyses European public sector management according to three primary organisational elements of risk identified by Power.³⁸ Having a sound sense of how risk penetrated EMU, we may then evaluate how its authority to shape spaces and conduct changed with the expansion of sovereign debt.

The first concerns the emergence of risk-based ‘internal control’ in redefining organisational governance. Initially of principal interest to the field of financial auditing, internal control systems have been expropriated as a governance mechanism not only to the entire corporation but to the ‘broader public space’, thus equating them as ‘co-extensive with risk management’.³⁹ Early warning systems, such as those employed by Ecofin, under Article 99(4) of the TEU, externalise institutional control arrangements as they monitor for budgetary positions that ‘are not consistent with the broad guidelines or risk jeopardising the proper functioning of EMU’. To buttress its relative position in the Stage III surveillance process, DG EcFin underscores the significance of cyclical economics and econometric budgetary forecasting in the early warning alerts issued by Ecofin on the Commission’s recommendation.

Simultaneously embodying and constituting the objects of governance, internal controls ‘translate primary risks into systems risks’, thereby allowing EMU to standardise its approach to potential dangers.⁴⁰ Codified in Council Regulation 1466/97 as part of the ‘preventative arm’, this procedure connects various regulatory bodies which would otherwise be fragmented. Order is established across multiple sites within EMU through the coordination of resources in the identification and monitoring of threats before they happen. Unfortunately, this logic proved fallacious in 2003, 2008 and 2010.

Next is ‘operational risk’, whose variable form makes providing a precise and incontestable definition problematic; something which is characteristic of risk in general. But perhaps a broad definition offered by the Basel Committee includes the risk of ‘loss arising from various types of human or technical error’ and ‘typically measures of internal performance, such as internal audit ratings, volume, turnover, error rates and income volatility, rather than external factors’.⁴¹ What is striking about this component of risk is that it is actually devoted to regulating through uncertainty more so than risk. As Kessler notes, positivist philosophy often misrepresents uncertainty as a risk.⁴² Just as there exists no sound measure indicating when the next a Jerome Kerviel (Société Générale, 2008) will surface to exploit a system, there is no probabilistic method to predict the kind of budgetary policy flip-flopping performed by the Schroder

government. The degree of exigency involved in fiscal politics exceeds the capacity of the economic/utilitarian calculus of risk.

Initially stressing microeconomic supply-side reforms, Dyson explains how Schroder abandoned the ordo-liberal orthodoxy – to considerable opposition from the Bundesbank – in favour of employment and growth strategies.⁴³ An informal agreement in 2002 prevented the issuance of an official ‘early warning’ before the election. Soon the ‘Alliance for Jobs’ was quickly scrapped and replaced by ‘Agenda 2010’ (March 2003), targeting labour-market and welfare-state reforms. Thus, politicians, as rogue traders, do not lend themselves to being readily managed as a numerical probability. Herein lies the tension between the programmatic and operational dimensions of fiscal governance. Since operational risk is in fact a form of uncertainty, it is imprudent to problematise its management in terms of risk. As a misguided approach, the original Pact was an inadequate system that only aggravated the operational dangers facing itself.

Finally, the category of ‘reputational risk’ connects the question of legitimacy and power with organisational identity. Simultaneously, the ‘logic of consequences’ anchored in rational expectations confronts, and overlaps, a ‘logic of appropriateness’, which articulates norms of responsible behaviour. Together they produce the growing leverage of ‘reputational capital’ and the devolution of legitimate forms of power.⁴⁴ Automatic sanctions, argued Waigel, would help foster compliance as Member States knew that penalties were virtually a definite consequence of fiscally profligacy. Such conditions would protect the integrity of the rules-based SGP from frivolous decisions, thereby enhancing its legitimacy. However, it was Germany who eventually reneged on its promises as it lobbied with France to hold the SGP in abeyance. Every threat of or actual violation damages the reputation of the Pact. But these temperamental behaviours are too idiosyncratic to be captured in a probability distribution.⁴⁵ Thus, reform was necessary to address these exigencies and it came in the modality of uncertainty.

Uncertainty as a boundary object

Now that we understand how the government through risk gained traction in the context of EMU, I now turn to how the political economy of budgetary surveillance has transformed with the transition to uncertainty modes of rule. Keeping in mind that uncertainty is often misrepresented as a risk, I unpack the uncertainty approach through the deconstructive/reconstructive tools of governmentality to reveal its distinct conceptualisation and effects on the relationship between expertise/law and politics in EMU. Similar to risk, the logic of uncertainty has entered the discourse of many disciplines and has been appropriated in diverse ways. Uncertainty is a problematising activity which is aimed at addressing the problem of governing the variability and diversity implicit in fiscal relations according to various logics of authority and responsibility. To govern through uncertainty is to do so:

in non-quantitative ways, by reference to experienced judgment, shred guesswork, rules of thumb, analogies and so forth. By implication, uncertainty therefore is a way of governing futures that are imagined as singular, infrequently recurring or unique.⁴⁶

Here expertise/law must adapt to cope with the flexible (political) dimension of budgetary relations. A more accommodating politics of limits may reconcile the tensions between national fiscal sovereignty and policy convergence. Of course, excessive accommodation often leads to excessive deficits.

Developments in economic theory, and in particular marginal utility and optimal allocation equilibria modelling, reveal how uncertainty is mobilised to help reconfigure the EMU space and fiscal responsibility.⁴⁷ Knight distinguished between risk and uncertainty in his analysis of profit in market economies. He took exception to the ‘practical omniscience’ of every actor in the market purported by economic orthodoxy.⁴⁸ Uncertainty is the inescapable reality of entrepreneurialism. ‘Unique’ business decisions are subject to imperfect information about the future. This hinders one’s decision-making capacity as expected utility-maximisation is inapplicable in various stages of economic life where uncertainty prevails. Definite numerical probabilities cannot be assigned to outcomes because agents lack a clear notion of the possible consequences of their actions. Not knowing what causal relations maximise utility jeopardises rational actor modelling of a predictive Pareto-efficient equilibrium. Nevertheless, Knight believed that the:

‘degree’ of certainty or of confidence felt in the conclusion after it is reached cannot be ignored, for it is of the greatest practical significance. The action which follows upon an opinion depends as much upon the amount of confidence in that opinion as it does upon the favourableness of the opinion itself.⁴⁹

Calculations do occur but in the form of informal judgements emphasising the success of the estimate more so than the actual outcome itself. Often these are reinforced by the ‘shared mental models’ that actors subscribe to, which are cognitive practices used to interpret uncertain environments and discern interests.⁵⁰

Sympathetic to Knight’s approach, Keynes believed that uncertainty eliminates the numerical measure of incidence preventing the forecasting of such things as prices, war or future interest rates. He also echoed the sentiment that irrespective of the absence of calculable probability:

the necessity for action and decision compels as...to overlook the awkward fact and behave exactly as we should if we had behind us a good Benthamite calculation of a series of prospective advantages and disadvantages, each multiplied by its appropriate probability, waiting to be summed.⁵¹

This is in contrast to the conceptualisation of uncertainty as an unknown risk.⁵² For Beck, enhanced information or better computational systems subsequently transform uncertainty into risk, which makes it tractable to rational choice modelling. But Keynes argued that there is an epistemological dimension implicit in the qualitative comparison of propositions. Lacking the comparative normality from which to

assign a superior outcome, rational choice models are incapable of telling us what to do. In other words, uncertainty is not reducible to risk. This undermines conventional economic orthodoxy as it questions the integrity of its decision-making capacity.⁵³

General equilibrium theory often informs liberal intergovernmentalist (IG) studies of EMU in the form of abstract game-theoretic modelling where the intention is to identify the optimal strategy of action.⁵⁴ Presented as ‘scientific knowledge’, risk is said to provide an accurate range of referentiality according to which fiscal conduct may be empirically measured. ‘Win-sets’ represent the negotiating margin of manoeuvre available to state actors during a crisis. For intergovernmentalists, holding the EDP in abeyance against Germany and France simply reaffirms the progressive loss of credibility the Pact endured as larger states shunned its rules at their own discretion.⁵⁵

Yet, this ‘desire to replicate the prescriptive and predictive success of the hard sciences and a belief in the infallibility of rationalist-empirical epistemology’ proves inadequate in situations of uncertainty.⁵⁶ The selection of outcomes in accordance with the dictates of expected utility modelling is hampered. Should uncertainty only be a risk disguised by cognitive limitations, Blyth argues that:

how ideas inform agency in moments of uncertainty would be irrelevant...All ideas would be correspondence theories with zero ambiguity, and courses of action, interests, and choices, would be clear. In sum, politics would be unnecessary; which given its ubiquity suggests that there may be limits to viewing uncertainty as a problem of complexity.⁵⁷

The social dimensions of risk and uncertainty do not readily lend themselves to statistical aggregation and forecasts.

Conventional theories, such as economic equilibrium models or IG, do not problematise how interrelations define and condition an event; namely the link between governmental rationality and practice. They treat risk and uncertainty as self-evident, monolithic technologies and in the process reinforce a fictitious quantitative/qualitative dichotomy. Nor do they account for the construction of normality, which, as Hacking reminds us, ‘has become one of the most powerful ideological tools of the twentieth century’.⁵⁸ These epistemological deficits detract from the explanatory value of mainstream accounts of EMU. To divorce the fiscal regime from political reason by resigning ourselves to a totalising vision of risk or uncertainty hampers our capacity to understand the changing nature of EMU governance. Simply attempting precise technocratic control of something as multifarious and fluid as socio-political conduct is virtually impossible. One cannot aggregate and probabilistically pre-empt all the available combinations that factor into the decision-making process. Rather than defining this lack of secure knowledge as a type of incalculable risk, another analytical – as well as governmental – category is necessary. Here is where the value-added of uncertainty is most apparent in the problematisation of European fiscal management.

Whereas the Pact was designed with clear statutes privileging risk management and a (weak) punitive mentality, the operational dynamics of EMU thwart this programme by challenging the idea of a single notion of normality underpinning the legal and political definition of a responsible fiscal subject. Variegated constructions of normality are being tolerated and practiced – for the time being. Because of these unique contingencies, surveillance must monitor how individual state propensities towards fiscal profligacy affect broader EU standards. Increasingly, this depends more on discretion and creative foresight rather than probabilistic modelling to ascertain normality. As countries, such as Germany or Greece, receive differential treatment in what is supposed to be a common monetary union, the relationship between expertise/law and politics is reconfigured.

From this process, variegated prescriptions of responsibility are produced that the EU can use as a leverage to control the fiscal conduct of individual countries. Similar to Aalberts and Werner, I argue that the invention of sovereignty is reaffirmed by targeting it in the control of Member States.⁵⁹ The objective is to foster an enhanced sense of fiscal ownership. Thus, the Pact is a device that acts upon Member States in the attempt to constitute them as specific economic objects of government susceptible to the programmatic ambitions it embodies. Through this subjectification process, authority is exerted intended to normalise EMU subjects into compliance by mobilising their unique uncertainties.

Uncertainty as a new mode of governance in the SGP

Medium-Term Budgetary Review

Accelerated by the huge infusion of stimulus following the credit crisis, more than ever, ‘fiscal policy is at the centre of domestic democratic politics’.⁶⁰ The Council is adamant that national institutions need to ‘play a more prominent role in budgetary surveillance to strengthen national ownership, enhance enforcement through national public opinion and complement the economic and policy analysis at the EU level’.⁶¹ As the new Code of Conduct stipulates, the improvement and sustainability of public finances is predicated on effective peer support and peer pressure establishing transparent and credible monitoring procedures.⁶² ‘Europe 2020’ reinforces this message. Unless Member States demonstrate a clear and decisive political commitment to the proper maintenance of their own books, symmetrical and effective multilateral surveillance remains in doubt. To this end, a strategic dialogue, in the form of the medium-term budgetary review, is scheduled to evaluate the updated Stability and Convergence Programmes (SCP) in order to ensure compliance with the statutes.

Whatever faith remains in the disciplinary effect of rules has allowed them to be retained as the centrepiece of multilateral surveillance. Of course, now the architects of EMU recognise the precariousness of relying disproportionately on numerical guideposts for effective fiscal governance. If excessively rigid, rules are breached; if overly lax, they prove redundant. In themselves, fiscal rules are

not sufficient enough to either guarantee compliance or promote convergence. Only as stakeholders will governments assume greater responsibility for their budgetary conduct in a manner conducive to the broader goals of European integration. The MTBR is intended to help facilitate this process by engaging individual Member States in a serious political discussion about their latest and forthcoming budgets.

The purpose of the MTBR is twofold: (1) to ensure a proper coordination of national fiscal policies in the euro area; and (2) to provide sufficient peer support and pressure for sound fiscal policies at the national level.⁶³ By specifying how fiscal programmes will achieve balanced budgets in a sustainable manner, it is possible to minimise the mismatch between budgetary positions and cyclical conditions. In the long-term, the tension between fiscal stabilisation and debt sustainability can be recalibrated as convergent forces help regulate variable policies. Here the MTBR aligns itself with the proposal for a ‘European Semester’ to provide better *ex-ante* integrated fiscal policy coordination. Together, ‘the formulation of more timely country-specific recommendations would benefit all aspects of surveillance - fiscal, macro-financial and structural’.⁶⁴

To deliberate the merits of recent budgetary circumstances and to ensure the effective convergence of national fiscal policies, the MTBR is executed before the summer. Prevention is purportedly enhanced and uncertainty mitigated since this redesign is more complementary to national fiscal calendars. Assessable consultations at this juncture occur after the presentation of updated SCPs but prior to the next round of budgetary planning. At this early stage, the MTBR can shape the national debate before budgets are finalised. It can encourage domestic reforms leading to the update of national fiscal frameworks and the closer convergence of policy.⁶⁵

Concurrently, Member States are invited to submit any information on their policy intentions that they deem pertinent in order to foster a comprehensive discourse about fiscal programmes. In the past, the MTBR typically reflected the risk projections endorsed in the spring Commission forecasts, which adhered to a ‘no-policy-change’ mentality. To be incorporated, a fair degree of certitude about programmatic detail was necessary. Consequently, as Blyth contends, ‘static models of change...made the content of new institutions a determinate function of the problems faced by previous institutions’.⁶⁶ Characteristic of risk analysis, this approach fails to compensate for policy intentions which are merely being entertained but evade being assigned a statistical vector in regards to their probability. Contingency is being neglected. To ameliorate this omission, thus enriching the budgetary surveillance process, the Eurogroup now welcomes the incorporation of such speculative agendas. The Commission is entrusted with evaluating this information in the preparation of forthcoming MTBR discussions.⁶⁷

Improved communication and the mobilisation of uncertainty in these redesigned fora provide a better reference of normality in the management of the contingencies facing governments. Such a strategic dialogue ‘underlies the important role that national fiscal rules and institutions can play in the

attainment of sound budgetary positions and in the respect of the provisions of the Treaty'.⁶⁸ National fiscal ownership may be heightened as closer collaboration improves the identification, assessment and execution of MTOs and the fiscal programmes in which they are embedded. Initiatives of this sort demand that governments exercise their creative entrepreneurial skills in negotiating the different challenges facing them. Through the MTBR, the Commission is in a position to assist. Better overall governance translates into more prosperous economic conditions as states become less susceptible to idiosyncratic shocks spilling over. Buoyed by favourable markets (i.e. 'good times') – when they return – constraints on fiscal freedom become more tolerable as the Pact becomes more palatable.

The MTBR is a disaggregating technology which opens up national fiscal spaces to reconfigure legal and political responsibility in EMU. It 'relativises identities by penetrating or dissolving boundaries around relatively closed systems' and 'creates trans-societal and post-territorial discursive spaces and networks of relations'.⁶⁹ This challenges the traditional politics of limits between EU institutions and Member States and what are perceived as international/national boundaries. By penetrating the national fiscal landscape, the MTBR can influence the design of budgetary policy to a degree not previously visible. Subsequently, domestic and Community objectives may be perceived as congruous and their interests as interwoven.

Intact, national fiscal sovereignty is nevertheless modulated by the mobilisation of uncertainty as a governmental technique. Uncertainty government exerts an 'indirect, productive power', or leverage, which reaffirms sovereign spaces, while simultaneously making governments more susceptible to the endogenous responsibility of managing their own contingency.⁷⁰ This contrasts with risk-centred formulas of rule which are, arguably, more exogenous of agency given their preoccupation with supposedly objective and quantifiable knowledge.

At the core of this reassessment is the problematisation of state competence in terms of the relationship between expertise/law and politics. Through these reformed discursive practices, a novel fiscal-monetary space is being constructed where politics and expertise/law overlap to create new orders of responsibility. Rather than binary opposites, legal notions of what is considered proper fiscal conduct are relocated in the political. Through the politics of representation, uncertainty government renders particular EMU stabilisations visible and therefore manageable according to variegated notions of normality. But these fiscal configurations are temporary and constantly undergoing transformation as they are confronted with domestic, regional and global forces of change. To judiciously regulate fiscal relations means to effectively manage contingencies which are unique to each national context. The current reforms are one step in that direction as they recognise the uncertainty underpinning economic surveillance. Growing sovereign debt woes will only demand additional practices of self-regulation.

Conclusion

Europe's fiscal framework is susceptible to the antagonistic relationship between the programmatic dimension of EMU governance and its operational politics. The original Pact framed and sought to mitigate potential externalities resulting from this tension primarily through the modality of risk. Assigning a probability distribution to an outcome was said to produce the optimal allocation which yields the highest utility. Measuring variance through risk calculations could transform the management of an indeterminate future into a quantifiable and defensible exercise. Unfortunately, risk is backward looking and relies on the past reproducing itself at regular interval. Persistent variability and unique situations, however, characteristic of fiscal relations, cannot be captured in this manner. They are better understood and operationalised through the rationality of uncertainty. The 2005 reforms codify this approach.

Through the diagnostic analytic of governmentality, I have problematised the conceptual and governmental categories of risk and uncertainty in relation to fiscal developments in EMU. Recent recessionary pressures, spurred by the global credit crisis, only amplify the resonance of the government through uncertainty.⁷¹ Greater room to manoeuvre in deciding what constitutes as normal fiscal conduct has proven indispensable in keeping EMU intact. By defining 'exceptional' circumstances as being normal within the context of particular states, while engaging in prudent reviews, the EU is in a better position to mitigate uncertainty by remedying what Beckert identifies as the 'discrepancy between cognitive capacities and situational complexity'.⁷² It can modify how the fiscal experience is temporally framed to hopefully influence the pace of adjustment. Each national fiscal situation is imbued with its own particular historicity and contingencies that inform how amenable it is to various forms of multilateral surveillance. What constitutes as the 'tolerable' costs of adjustment that Greece – or any future bailout – can endure, given the inevitable austerity measures, will need to include calculations of uncertainty as well as risk.

By dissecting how the representation of contingency is socially manufactured through deliberate – rather than determining – technologies of truth production, we 'open up technical and depoliticized economic practices to political scrutiny'.⁷³ Through the MTRB technique, the Commission can modulate its regulatory approach depending on the context and time, thus steering both national debate as well as broader euro area development. Expertise/law is once again in the process of being reabsorbed by heterogeneous political forces as it conforms to the management of fiscal relations. The review strengthens the levers of multilateral surveillance without infringing excessively on national fiscal sovereignty. The shared objective is the stability and prosperity of EMU. For it to materialise, however, it

must accommodate plural notions of normality. As this configuration of discursive practices disrupts the artificial uniformity of risk management, it grants authority to non-quantitative methods anchored in discretion and judgement, thereby redefining expertise within EMU. This provides for a more comprehensive understanding of fiscal governance.

Notes

¹ Differentiated medium-term budgetary objectives have replaced the ‘close-to-balance or in surplus’ requirement, which states did not respect, in order to account for heterogeneous economic developments and fiscal uncertainty. The reference values of 3 per cent deficit to GDP and 60 per cent debt to GDP were retained.

² Philip Arestis and Malcolm Sawyer, ‘Macroeconomic Policy and the European Constitution’, in Philip Arestis and Malcolm Sawyer (eds), *Alternative Perspectives on Economic Policies in the European Union* (New York: Palgrave MacMillan, 2006), p. 57.

³ Martin Heipertz and Amy Verdun, ‘The Dog that Would Never Bite? What We Can Learn From the Origins of the Stability and Growth Pact’, *Journal of European Public Policy* 11:5 (2004), p. 770.

⁴ Pat O’Malley, ‘Uncertain Subjects: Risks, Liberalism and Contract’, *Economy and Society* 29:4 (2000), p. 478.

⁵ The Lisbon Agenda focuses on the promotion of ‘job creation, structural reforms, and social cohesion’ and the creation of ‘the most competitive and dynamic knowledge based economy in the world’. It has yet to be ratified.

⁶ A pro-cyclical bias deteriorated state finances and was compounded by the differential treatment of Member States.

⁷ German politics of fiscal austerity are embedded in its cultural memory of 1920s hyperinflation and the prominent role of the Bundesbank in steering both economic and monetary policy.

⁸ James D. Savage and Amy Verdun, ‘Reforming Europe’s Stability and Growth Pact: Lessons from the American Experience in Macrobudgeting’, *Review of International Political Economy* 14:5 (2007), p. 843.

⁹ Kenneth Dyson, ‘Germany: A Crisis in Leadership in the Euro Area’, in Kenneth Dyson (ed.), *The Euro at 10: Europeanization, Power, and Convergence* (New York: Oxford University Press, 2008), p. 151.

¹⁰ Iain Begg and Waltraud Schelkle, ‘The Pact is Dead: Long Live the Pact’, *National Economic Institute* 189 (2004), p. 86.

¹¹ Heipertz and Verdun, ‘The Dog that Would Never Bite? What We Can Learn From the Origins of the Stability and Growth Pact’, p. 770.

¹² Council of the EU, *Improving the Implementation of the Stability and Growth Pact* (Report to the European Council, 7423/05, Brussels, 2005).

¹³ Ibid.

¹⁴ Council of the EU, *Improving the Implementation of the Stability and Growth Pact*.

¹⁵ A clarified division of labour distinguishes assessment, by granting the Commission the ‘right to bark’, from decision-making, or the ‘right to bite’, which still falls exclusively into the province of the Council.

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- ¹⁶ Patrick Crowley, 'The Shape of Things to Come: The EU's Post-EMU Institutional Architecture', in Amy Verdun (ed.), *The Euro: European Integration Theory and Economic and Monetary Union* (Lanham, Md.: Rowman & Littlefield Publishers, 2002), p. 166.
- ¹⁷ European Commission: DG for Economic and Financial Affairs, *European Economy: Public Finances in EMU 2006* (Brussels: DG EcFin, 2006), p. 107.
- ¹⁸ Alan W. Cafruny and Magnus Ryner, *Europe at Bay: In the Shadow of US Hegemony* (Boulder: Lynne Rienner, 2007).
- ¹⁹ Bernard Winkler, 'Stability and Growth: The Role of Monetary Policy and Other Policy Actors in EMU', in Francisco Torres, Amy Verdun, Hubert Zimmermann (eds.), *EMU Rules: The Political and Economic Consequences of European Monetary Integration* (Baden-Baden: Nomos, 2006).
- ²⁰ Philip Arestis and Malcolm Sawyer, 'Macroeconomic Policy and the European Constitution', p.20.
- ²¹ Marco Buti, 'Will the New Stability and Growth Pact Succeed? An Economic and Political Perspective', January 2006, available from http://europa.eu.int/comm/economfinance/publications/economic_papers/2006/ecp241en.pdf; Internet, Retrieved 09/01/06.
- ²² Jens H. Haahr, 'Open Co-ordination as Advanced Liberal Government', *Journal of European Public Policy* 11:2 (2004), p. 209.
- ²³ Michel Foucault, 'Governmentality' in Graham Burchell, Colin Gordon and Peter Miller (eds.), *The Foucault Effect: Studies in Governmentality*, (Chicago: University of Chicago Press, 1991), pp. 87-104; Mitchell Dean, *Governmentality: Power and Rule in Modern Society* (New York: Sage, 1999); Marieke de Goede, *Virtue, Fortune, and Faith: A Genealogy of Finance* (Minneapolis: University of Minnesota Press, 2005).
- ²⁴ Pat O'Malley, *Risk, Uncertainty and Government* (Portland: The Glasshouse Press, 2004).
- ²⁵ Marieke de Goede, 'Beyond Economism in International Political Economy', *Review of International Studies* 29 (2003), pp.79-97.
- ²⁶ Michel Foucault, 'Questions of Method', in Graham Burchell, Colin Gordon and Peter Miller (eds), *The Foucault Effect: Studies in Governmentality* (Chicago: University of Chicago Press, 1991), p. 76 (original italics).
- ²⁷ Peter Miller and Nikolas Rose, 'Governing Economic Life', *Economy and Society* 19:1 (1990), p. 8.
- ²⁸ Pat O'Malley, *Risk, Uncertainty and Government*, p. 15; Determining the tangibility of a specific threat is not the intention. Whether or not objective knowledge is acquired as a capacity for future behaviour is of little concern because risk and uncertainty are neither analytically real nor unreal. Given their permanent state of virtuality, ontological questions are rendered peripheral. Instead, attention is devoted to understanding how the governmental rationalities underpinning EMU are framed and articulated in these terms.
- ²⁹ Pat O'Malley, *Risk, Uncertainty and Government*, p. 27.
- ³⁰ Ulrich Beck, *Risk Society* (London: Polity Press, 1992); Sanjay Reddy 'Claims to Expert Knowledge and the Subversion of Democracy: The Triumph of Risk over Uncertainty', *Economy and Society* 25:2 (1996), pp. 222-54.
- ³¹ Lorna Weir, 'Recent Developments in the Government of Pregnancy', *Economy and Society* 25:3 (1996), p. 383.
- ³² Pat O'Malley, *Risk, Uncertainty and Government*, p. 5.
- ³³ Mitchell Dean, 'Putting the Technological Into Government', *History of the Human Science* 9 (1996), p. 56.

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- ³⁴ Dimitris N. Chorafas, D. *Risk Management Technology in Financial Services* (New York: Elsevier, 2007), p. 24.
- ³⁵ Oliver Kessler, 'The Same as It Never Was? Uncertainty and the Changing Contours of International Law', *Review of International Studies*, this volume.
- ³⁶ Donald MacKenzie, 'Long-Term Capital Management and the Sociology of Arbitrage', *Economy and Society* 32:2 (2003), pp. 349–380.
- ³⁷ William Walters and Jens Henrik Haahr, *Governing Europe: Discourse, Governmentality and European Integration* (New York: Routledge, 2005).
- ³⁸ Michael Power, *The Risk Management of Everything* (London: Demos, 2004).
- ³⁹ Michael Power, *Organized Uncertainty: Designing a World of Risk Management* (New York: Oxford University Press, 2007), p. 35.
- ⁴⁰ Michael Power, *The Risk Management of Everything*, p. 24.
- ⁴¹ Basel Committee on Banking Supervision, 'Operation Risk Management', available from <http://www.bis.org/publ/bcbs42.pdf?noframes=1>. Examples of external factors would include market price movements or a change in a borrower's condition.
- ⁴² Oliver Kessler, 'The Same as It Never Was? Uncertainty and the Changing Contours of International Law'.
- ⁴³ Kenneth Dyson, 'Germany: A Crisis in Leadership in the Euro Area', pp. 150-152.
- ⁴⁴ Michael R. MacLeod, 'Financial Actors and Instruments in the Construction of Global Corporate Social Responsibility', in Alnoor Ebrahim and Edward Weisband (eds.) *Global Accountabilities: Participation, Pluralism, and Public Ethics* (New York: Cambridge University Press, 2007), p. 246.
- ⁴⁵ Interestingly, market confidence in the long-run sustainability of debt obligations appears to have mitigated the risk of higher premiums. Yield spreads on government bonds did not react in any significant direction to the November 2003 crisis. Virtually identical, 10-year government bond rates were 3.72% in France, 3.71% in Germany, and 3.88% in Italy. Conversely, Spain's maintenance of a low deficit (1.1%) went unrewarded. That kind of assurance, however, is socially constructed and often volatile, which makes reputation potentially unmanageable through strict risk calculations.
- ⁴⁶ Pat O'Malley, *Risk, Uncertainty and Government*, p. 13.
- ⁴⁷ Kenneth J. Arrow and Gerald Debreu, 'Existence of an Equilibrium for a Competitive Economy', *Econometrica*, 22 (1954), pp. 225-90; Edmond Malinvaud, 'First Order Certainty Equivalence', *Econometrica*, 37:4 (1969), pp. 706-718.
- ⁴⁸ Frank Knight, *Risk, Uncertainty and Profit* (New York: A.M. Kelley, 1921/1964), p. 197.
- ⁴⁹ *Ibid.*, p. 227.
- ⁵⁰ Arthur T. Denzau and Douglass C. North, 'Shared Mental Models: Ideologies and Institutions', *Kyklos* 47:1 (1994), pp. 3-5. Interests are ideationally-bound rather than pre-given immutable facts. Denzau and North address this point but their contribution is mainly limited to the realm of ideas. Aside from some marginal comments about institutions, however, Denzau and North fail to adequately explicate how these mental constructions are actually translated into practice. By neglecting the materiality of discourse while privileging ideas in the construction of

social structures rather than explaining how they are produced and renegotiated, Denzau and North are prone to idealism.

⁵¹ John Maynard Keynes, 'Theory of Employment', *Quarterly Journal of Economics*, 51:2 (1937), p. 214.

⁵² Ulrich Beck, Anthony Giddens, and Scott Lash, *Reflexive Modernization* (Cambridge: Polity Press, 1994); Ulrich Beck, *World Risk Society* (London: Polity, 1999).

⁵³ Jens Beckert, *Beyond the Market: The Social Foundations of Economic Efficiency* (Princeton, N.J.: Princeton University Press, 2002), p. 42.

⁵⁴ Guido Tabellini, 'Money, Debt and Deficits in a Dynamic Game', *Journal of Economic Dynamics and Control*, 10 (1986), pp. 227-42; Robert Putnam, 'Diplomacy and Domestic Politics: The Logic of Two-level Games', *International Organization*, 42:3 (1988), pp. 427-460; Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht* (Ithaca: Cornell University Press, 1998).

⁵⁵ Marco Buti and Lucio R. Pénch, 'Why Do Large Countries Flout the Stability Pact? And What Can Be Done About It?' *Journal of Common Market Studies*, 42 (2004), p. 1026.

⁵⁶ Darryl S.L. Jarvis and Martin Griffiths, 'Risk and International Relations: A New Research Agenda?', p. 17.

⁵⁷ Mark Blyth, 'When Liberalisms Change: Comparing the Politics of Deflations and Inflations', in Ravi K. Roy, Arthur T. Denzau and Thomas D. Willett (eds), *Neoliberalism: National and Regional Experiments with Global Ideas* (New York: Routledge, 2007), p. 78.

⁵⁸ Ian Hacking, *The Taming of Chance* (New York: Cambridge University Press, 1990), p. vii.

⁵⁹ Tanja Aalberts and Wouter Werner, 'Mobilising Uncertainty and the Making of Responsible Sovereigns,' *Review of International Studies*, this volume.

⁶⁰ Kenneth Dyson, 'The First Decade', in Kenneth Dyson (ed.), *The Euro at 10: Europeanization, Power, and Convergence* (New York: Oxford University Press, 2008), p. 24.

⁶¹ Council of the EU, *Brussels Spring European Council: Presidency Conclusions, 22 and 23 March 2005*, 7619/1/05, REV 1, CONCL 1, (Brussels, 2005), p. 26.

⁶² Council of the EU, *Code of Conduct* (Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes; endorsed by the ECOFIN Council on 11 October 2005).

⁶³ European Commission: DG for Economic and Financial Affairs, *European Economy: Public Finances in EMU 2007* (Brussels: DG EcFin, 2007), p. 74.

⁶⁴ European Commission: DG for Economic and Financial Affairs, *Reinforcing Economic Policy Coordination: Communication COM(2010)250 final* (Brussels: DG EcFin, 2010), p. 8.

⁶⁵ Mark Hallerberg and Joshua Bridwell, 'Fiscal Policy Coordination and Discipline: The Stability and Growth Pact and Domestic Fiscal Regimes', in Kenneth Dyson (ed.), *The Euro at 10: Europeanization, Power, and Convergence* (New York: Oxford University Press, 2008), pp. 69-86.

⁶⁶ Mark Blyth, *Great Transformations: Economic Ideas and Institutional Changes in the Twentieth Century* (New York: Cambridge University Press, 2002), p. 9.

⁶⁷ European Commission: DG for Economic and Financial Affairs, *European Economy: Public Finances in EMU 2007*, 74.

⁶⁸ Council of the EU, *Press Release, 2753th Council Meeting, Economic and Financial Committee, 10 October 2006*, 13600/06 (Presse 278) (Luxembourg, 2006), p. 16.

⁶⁹ Barrie Axford and Richard Huggins, 'Towards a Post-National Polity: The Emergence of the Network Society in Europe', in Dennis Smith and Sue Wright (eds), *Whose Europe? The Turn Towards Democracy* (Oxford: Blackwell, 1999), pp.121-147.

⁷⁰ Tanja Aalberts and Wouter Werner, 'Mobilising Uncertainty and the Making of Responsible Sovereigns,' *Review of International Studies*, this volume, p. 15.

⁷¹ In fact, overzealous and dubious risk practices have contributed to this entire mess.

⁷² Jens Beckert, *Beyond the Market: The Social Foundations of Economic Efficiency*, p. 40.

⁷³ Marieke de Goede, 'Introduction: International Political Economy and the Promises of Poststructuralism', in Marieke de Goede, M. (ed.), *International Political Economy and Poststructural Politics* (New York: Palgrave Macmillan), p.6.