**Variegated Capitalism and the Eurozone Crisis: Modell Deutschland, Neo-Liberalism, and the World Market**

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Building on a critique of recent literature on the varieties and diversity of capitalism, this chapter introduces the notion of variegated capitalism and some associated concepts for the analysis of the complex, multi-scalar, indeed fractal, interrelations between the territorial fixity (location or *Standort*) of certain aspects of capital accumulation and spatial fluidity (space of flows) in the dynamic of differential accumulation. Second, following a brief digression on the concept of *Modell Deutschland* in order to distinguish it from the more usual notion of *das deutsche Modell*, it analyses one case of asymmetrical variegated capitalism from the complex structural coupling and contradictory dynamics of the economies of the European Union and their insertion into wider regional, transatlantic, and global markets. This matters because the Eurozone crisis is often analysed in terms of the differential economic performance of *national* varieties of capitalism – whereas the crisis can be better understood and explained in terms of the dominance within European economic space of the latest version of *Modell Deutschland* as a mode of organizing economic relations within and beyond German frontiers. Finally, the chapter ends with some broader comments on core-periphery relations in the world market and the effects of financialization (i.e., the shift of the role of credit from intermediation to dominance in the circuits of capital) in differential accumulation.

## The Varieties and/or Diversity of Capitalism

An initial problem in studying varieties of capitalism is to define capitalism – no easy task when capitalism itself is such a dynamic, changing system. Yet most studies on the varieties of capitalism (VoC) or diversity of capitalism (DoC) largely take capitalism for granted (just as the fish takes water for granted). Even where this question is addressed, the main studies lack an agreed definition of capitalism or, at least, one that permits comparative analysis with a global analytical horizon (cf. Bohle and Greskovits 2009; Jessop 2011). This makes it harder to trace the historical roots of the capitalist mode of production or periodize its development.

There is nonetheless an implicit definition in recent VoC and DoC literature, namely, some variant of Max Weber's formally 'rational capitalism'. I refer here to his six-fold classification of modes of orientation to profit (*Erwerbsorientierung*). This distinguishes *two modes of rational capitalism*: first, free trade in markets and the rationally-calculative organization of commodity production; and, second, trade and speculation in money, currency, loans, and credit markets. He also identified *three modes of political capitalism*: profits from predatory activities; activities that derive profits on the market from force and domination; and profits from 'unusual deals with political authority'[1]. A sixth type comprises traditional commercial transactions (Weber 1922; 1965; see also Swedberg 1996). While some recent DoC work on economies has recognized different kinds of political capitalism, especially instances of 'crony capitalism' and/or kleptocracy in transitional post-socialist economies, the dominant Hall-Soskice approach initially overlooked these possibilities – especially its ideal-typical characterization of liberal market economies. Yet the emergence of finance-dominated accumulation and the recent crises in neo-liberal market economies is closely linked to the role of political capitalism in rolling back the state and in extending neo-liberal institutions and modes of calculation through force and domination as well as political suasion.[2] A more comprehensive analysis of diversity and/or variation should consider Weber's other types of orientation to profit – especially as they are integral to the world market and the circuits of financial capital.

A further problem is that most post-war studies of diversity and variety have assumed that different types of capitalism are primarily instantiated on one scale of economic arrangements, typically the national scale. Even where other scales are considered, different types of capitalism are still largely treated in relative isolation from each other, rather than in terms of their interdependencies, complementarities, structural coupling, and possible co-evolution in a wider context. This neglect could occur for the sake of statistical convenience, because of the importance of national or territorial states in defining the institutional framework in which accumulation occurs, or on the grounds that the national market is important for accumulation in large economies. None of these reasons is especially persuasive and each can lead to errors in theoretical and empirical analysis. Counter-examples could include work on varieties of imperialism, the distinctive problems of small open economies, the variation inside national economic space in regional economic arrangements, the significance of hierarchically ordered international city networks, and the role of complementarities, competition, and rivalries in the international division of labour.

The alternative approach developed below draws on five themes that are missing from, or marginalized in, VoC and DoC work: the improbability of accumulation, variegation, compossibility, ecological dominance, and the world market. Together they enable critical scholars to identify some shared theoretical limitations that make it hard to grasp and explain the dynamics of differential accumulation.

First, DoC and VoC analysts tend to assume that accumulation will continue where the institutional conditions for effective strategic coordination and adaptation among relevant stakeholders are present.[3] In contrast, my analysis regards accumulation as improbable because of inherent contradictions that are incompressible even when a given capitalist formation appears to be stable and to perform well thanks to fixes that enable crisis-tendencies to be displaced or deferred.

Second, whereas DoC and VoC analysts tend to consider types of capitalism in relative isolation, the concept of variegated capitalism emphasizes the complex interrelations between the territorial fixity (location or *Standort*) of certain aspects of capital accumulation and its extra-economic supports, on the one hand, and, on the other, the spatial fluidity (space of flows) in the organization of capital accumulation (cf. Harvey 1982; Smith 1993; Agnew 2010). Variegation is present at every scale (however defined) of differential accumulation. It is not merely present in the articulation of 'national' varieties of capitalism but also occurs from the smallest scales up to the world market. This results in the interpenetration, entanglement, interiorization, hybridization, re-contextualization, and cannibalization of social relations at different sites and scales. Moreover, as the preceding sentence implies, although variegation is present at many scales, it does not assume identical forms but is at best 'quasi-self-similar'. For example, the pathological co-dependence of the USA and China at the level of the world market is similar (but not identical) to the dysfunctional articulation of the *Modell Deutschland* with the rest of the Eurozone.

Third, at the level of the world market as the ultimate horizon of capital accumulation, 'not everything that is possible is compossible'. In other words, because it is possible to envisage different types of capitalism based on past history or isolated examples, the growing integration of the world market in real time constrains what types can co-exist in current conditions. Compossibility involves more than fleeting co-existence due to chance variation: it depends on the actual scope for co-selection, then co-retention, and, later, co-institutionalization of specific features of different types and their social supports. VoC literature alludes to compossibility, if at all, *within* a given variety (with its mutually reinforcing institutional complementarities or isomorphism) and, on this basis, concludes that hybrids perform less well than pure forms. More interesting for present purposes is compossibility *among* varieties of capitalism. To what extent can different varieties co-exist in the same economic space and, where they are compossible, does this have benign, neutral, or negative effects on their individual and collective economic performance (or another criterion, such as democratic legitimacy, social welfare, or environmental degradation)? The 'Chimerican' and Eurozone cases suggest that compossibility is not always benign.

Fourth, ecological dominance concerns the relative importance of different varieties of capitalism within a self-organizing ecology of economic arrangements and their extra-economic supports. This involves more than their relative economic efficiency as rival modes of rational capitalism because liberal and coordinated market economies are articulated in the real world (rather than the ideal-typical world of pure types) to different forms of political capitalism and competition between them is also promoted through political (and, indeed, sometimes military) means as well as through the invisible hand of the market. An interest in ecological dominance invites questions about the uneven development and structural coupling of different capitalist regimes in a regional or global division of labour (e.g., the Rhenish, Nordic, and liberal market models in European economic space or the dominance of the liberal market model in the global economy). Analogously, one could ask about the relative dominance of commercial, industrial, or financial capital within circuits of capital on different scales. These aspects are typically inter-related. Thus the ecological dominance of neo-liberal market coordination reflects the relative predominance of finance-dominated accumulation in neo-liberal economies in the world market and the relative ecological dominance of financial capital in the global circuits of capital. Ecological dominance is especially clear in the positive and negative externalities that each variety generates for the others, in 'good' as well as 'hard' times. This can also be put in terms of which varieties of capitalism tend to be problem-makers and which problem-takers in the world economy.

Finally, in contrast to the variety and diversity literature, the present approach takes the world market as both the historical presupposition and the posit (outcome) of differential accumulation.[4] Recognition of variegated capitalism can only be an initial, albeit important, step to analyzing the world market in terms of an uneven and combined development that integrates not only particular branches of capitalist production but also diverse pre- or non-capitalist forms of production and their respective social supports. It is the world market that constitutes the self-organizing ecology of self-organizing economic spaces and that provides the framework within which the spatio-temporal logics of territorialization, place-making, scale, and networks interact to produce the uneven dynamic of accumulation on a world scale (Jessop et al. 2008; Jones and Jessop 2010). The totality of production includes subsistence production, petty commodity production, household production, informal productive and reproductive labour and, *a fortiori*, their dynamic interrelations with capitalist production in all its variety. These modes of production and forms of labour are unified, to the extent that they are, through the increasing global 'ecological dominance' of capital accumulation. Indeed, the more tightly integrated is the world economy, the more strongly do capital's contradictions come into play on a world scale. This has positive and negative effects. As we will see below, uneven development can drive world market integration forward and also fetter it.

## Capital as a Contradictory, Dilemmatic, and Conflictual Object of Regulation

For Marx, what most distinguishes the capitalist mode of production (hereafter CMP) from other forms of commodity production is the treatment of labour-power *as if* it were a commodity. This in turn determines many other forms of the capitalist relations of production, their core contradictions, and the basic regulatory and steering problems that must be solved, if only temporarily, partially, and provisionally, for the improbable course of accumulation to continue. Starting here provides an entry point into the basic regulatory and steering problems associated with differential accumulation. These problems cannot be resolved solely through market forces or, indeed, through the redesign of markets: extra-economic modes of régulation-cum-governance are also required. Even the resulting hybrid forms of governance cannot ensure a smooth course of accumulation.

To address these issues I now introduce the concepts of institutional and spatio-temporal fixes. An institutional fix is a complementary set of institutions that, via institutional design, imitation, imposition, or chance evolution, provides a temporary, partial, and relatively stable solution to co-ordination problems involved in securing economic, political, or social order. Such fixes are partly constitutive of this order rather than *post hoc* solutions to pregiven coordination problems; and they typically involve an institutionalized, unstable equilibrium of compromise. This is the rational kernel in the VoC interest in *institutional complementarities* and the DoC concern with *institutional diversity* but both approaches exaggerate the rationality of these features, which often result from trial-and-error experimentation and work, to the extent that they do, thanks to their association with specific spatio-temporal fixes. The latter (hereafter STFs) establish spatial and temporal boundaries within which the always relative, incomplete, and provisional structural coherence (and, so, institutional complementarities) of a given order are secured – to the extent that this occurs. Overall, we can compare stages or varieties of capitalism in terms of the weights attributed to different contradictions and dilemmas (hierarchization), the importance accorded to their different aspects (prioritization), the role of different spaces, places, and scales in these regards (spatialization), and the temporal patterns of their treatment (temporalization) (see Jessop 2011, 2013).

Moreover, because the capital relation is reproduced – to the extent that it is – in and through social agency and also entails specific forms, stakes, and sites of conflict and struggle, these institutional and spatio-temporal fixes are never purely technical. This is because there are important cognitive and institutional obstacles that hinder the resolution of coordination problems in rational capitalism, political capitalism, and traditional commercial capitalism. The development of institutional fixes also depends on building support in and across many conflictual and contested fields to secure support for the corresponding accumulation strategies, their associated state projects and, where relevant, hegemonic visions. Thus fixes are typically linked to specific patterns of institutionalized conflict and compromise. Exploring these issues is helpful in understanding the diversity and/or variety of accumulation regimes, modes of régulation-cum-governance, and wider societal configurations. It also provides important insights into their crisis-tendencies and potential breakdown.

### *Das deutsche Modell* and *das Modell Deutschland*

The gradual formation, enlargement, and integration of the EU reflects efforts by economic and political forces to restructure national states and economies in the hope of solving long-standing structural ‘problems’ of competitiveness within regions, national economies, and wider European economic space. The complementarities long-noted between the French and German modes of growth (e.g., Aglietta 1982) are reflected in the significance of the Franco-German axis in the formation and transformation of the European economy and the European state-building process. But the contradictory, crisis-prone and, indeed, crisis-driven dynamic of European integration is not reducible to the overweening ambitions (and unintended effects) of Franco-German cooperation. Before developing this argument, I make a short excursus on the meaning of *das Modell Deutschland* and its difference from the German model (*das deutsche Modell*) more usually considered in VoC work.

Modell Deutschland has several meanings in the social sciences and lay politics. For the former it can refer to the German variety of capitalism, in the latter it served as a campaign slogan for the SPD in the general election of 1976, with ‘Modell’ to be understood both as a vision (or projected model) to be realized in Germany and as an actually existing institutional configuration (or current model) to be copied elsewhere in Europe (Esser et al., 1979: 2). These meanings were synthesized in the work of the Konstanz School of international political economy, formed in the late 1970s to consider the SPD *Modell Deutschland* strategy (on the history of the school, see Simonis 1998). It developed an approach that ‘connected the level of politics systematically with the economy and the social relations of society’ (Simonis 1998: 259). More specifically, it aimed to: (1) connect the economic (growth, competitiveness), social (social integration, low unemployment), and political (crisis management) successes of the German model; (2) examine the increasing economic, social and political repudiation of the model by subaltern classes and social movements, and (3) explain the continuing political stability of the West German state despite this growing resistance (ibid.). A key feature of the approach was its concern with hierarchy and core-periphery relations in the international division of labour; relations among fractions of capital; state-capital relations; and the broader theme of *Vergesellschaftung* (societal organization). These themes were all linked to the export-oriented, neo-mercantilist German growth model, i.e., the question of Germany's insertion into the European and world markets – with particular attention paid to Franco-German relations.

In contrast to later VoC analyses, the Konstanzer approach had four interesting features: (1) politics and the state were central to their analyses; (2) the economic focus was on institutionalized class compromise rather than the micro-economics of the firm; (3) where firms are concerned, the emphasis fell on relations among capital fractions; and (4) rather than assuming the equilibrium and stability of pure varieties of capitalism, it examined phases of growth, stagnation, crisis, crisis-resolution, etc – distinguishing the period of post-war reconstruction, the relatively stable period of continuing growth or *Wirtschaftswunder* from the 1950s until the early 1970s, and the more challenging period at home and abroad thereafter. These four features are salutary reminders of the narrow focus of the Hall-Soskice approach.

The key point about the German model is its strong export performance relative to the size of its economy compared with other export giants, such as the USA, Japan, and China. Germany's GDP depends more on exports as a proportion of GDP than any other large economy and this has been prioritized in its domestic and foreign economic policy. Indeed, as one critic of Germany's neo-mercantilism has observed:

> For more than 50 years, exports have been seen as the primary driver of German economic growth, and their promotion has been the nearly sole focus of German foreign economic policy. … this focus on exports has persisted through periods both of economic success, as during the 1950s and 1960s, and of economic decline, as during the last 25 years – and thus cannot be said to be clearly associated with one or the other (Posen 2008: 119).

Thus the German economy is vulnerable to adverse events and shifts in European and world markets – especially as it specializes in the export of capital goods (especially for manufacturing capital goods) and high-quality, research-intensive consumer durables, for both of which categories of export there is a limited domestic market and, therefore, every reason to pursue a neo-mercantilist strategy (cf. Cesaratto and Stirati 2010; Porter 1990; Simonis 1998; Streeck 2009).

This has prompted efforts by German capital and the German state (initially the West German state, now the unified German state) to shape the governance of the world market from 1945 onwards, especially in periods of crisis and crisis-management. This is reflected in the German role in regional and international monetary regimes and the problems of managing the deutsche mark and, later, the euro with a view to maintaining Germany's export competitiveness as well as regional and international stability. In this regard the Bundesbank continues to play a key role domestically, regionally, and internationally; in addition, German companies rely more heavily on bank finance than on equity capital and, despite some changes in a period of neo-liberal policy reforms, there is continuing coordination between *Hausbanken* and the firms with which they conduct business. The emphasis continues to be on financial intermediation and risk management rather than the more Anglo-Saxon model of deregulated finance that engages in financial speculation and risk-taking.

West Germany's first export-led slump arrived in 1975 but problems had surfaced earlier in falling productivity and declining profits. This gathering storm provoked the social-liberal coalition to develop the *Modell Deutschland* solution in the early 1970s. On the macro level, this sought to enhance competitiveness through corporatist arrangements aimed at modernization and austerity. It also sought to block the movement from economic to political crisis by integrating the unions into the crisis-management process (Hübner 1986: 375). The state intervened at the regional as well as federal level: it provided funds to modernize old branches and develop high value-added products for export; promoted international cooperation to stabilize existing export markets and create new ones; financed worker retraining; underwrote the social costs of change; and mobilized union support at plant, branch, regional and national levels to reduce the political costs of modernization (Esser 1986). Even this strategy encountered real difficulties by 1981–2. These included union disquiet with the austerity programme and mass unemployment, growing hostility from employers to labour and the state, a deflationary *Bundesbank* policy, opposition in the upper chamber (*Bundesrat*), and conflict among the governing parties (Scharpf 1991). The crisis was followed by a neo-liberal turn, *die Wende* (1982–3), and a Christian–Liberal coalition government committed (at least rhetorically) to 'more market, less state' and to renewing the social market economy (Webber 1986: 2). But the *turn* reflected the exhaustion of the SPD's approach rather than the collapse of the neo-mercantilist, export-led strategy itself and the Christian-Liberal coalition gave the model a new inflection to adapt it to changed conditions rather than trying to *overturn* it. In short, this period involved what a process of neo-liberal policy adjustment within what remained a largely neo-corporatist strategy.

The Hartz reforms marked another stage in the adjustment rather than overthrow of *das Modell Deutschland* and the rationale behind these reforms continues to prevail in the management of the Eurozone crisis – not only in Germany but also through their generalization to other member states. This observation is interesting because the Eurozone crisis is often referred to the differential economic performance of national varieties of capitalism – whereas it can be better understood and explained in terms of the dominance within European economic space of *Modell Deutschland* as a mode of organizing economic relations within and beyond German frontiers. This has important implications for the form and dynamics of the unfolding financial, economic, political, constitutional and social crises in the European Union from the moment that the European Single Market project was launched until the present.

**The Dynamics of Variegated Capitalism in Europe**

The six founding members of the European Economic Community had modes of growth and regulation belonging to what first wave 'VoC' scholars term 'coordinated market economies' (notably Germany) or hybrid cases biased to coordination. They have also been described as 'Rhenish' economies (Albert 1993) or as comprising a mix of corporatist, dirigiste, and, for Italy, hybrid models – with none conforming to the liberal market model (see Schmidt 2000). Specific labels apart, they can certainly be described as variants of regulated rather than liberal capitalism and as having conservative-corporativist or, in Italy's case, a clientelist Mediterranean welfare regimes (cf. Hantrais 2000; Ruigrok and van Tulder 1996). Italy's depiction as an 'outlier' in these typologies hints at future problems, especially when other Southern European or non-Rhenish economies joined the European Union.

The initial steps towards European integration aimed to establish the conditions for peaceful co-existence among former belligerents and to integrate Western Europe into Atlantic Fordism (Cafruny and Ryner 2007; Milward 1992; van der Pijl 1984).The 'Monnet mode of integration' was concerned to create a 'Keynesian-corporatist' (*sic*) form of statehood on the European level favourable to various national Fordist modes of development (Ziltener 1999). Market integration was expected to have spillover effects that would consolidate *regulated* capitalism on a wider scale and promote deeper political integration. Thus the early stages of integration enabled the European Communities to develop as relatively compatible instances of variegated regulated capitalism based on institutionalised compromise between capital and labour and reflected in social or Christian democratic Keynesian welfare settlements.

The situation changed as the European Community expanded to include members with different modes of growth, regulation, and welfare. Initially the United Kingdom was relatively isolated as a liberal market economy (an anomaly behind de Gaulle's earlier veto on UK membership) but nonetheless helped to spread the influence of de-regulated international finance into the Continental heartland. The problematic co-existence of varieties of capitalism was aggravated by the differential impact of the emerging crises of Atlantic Fordism and contrasting responses within and across national models in Europe. Since crisis has been a key driver of integration, these developments were not fatal. They would have made it harder to re-scale demand management and indicative planning from the national to European level and/or establish a tripartite Euro-corporatism (on Euro-corporatism, see Falkner 1998 and Vobruba 1995; on its limits, Streeck 1995). But the Monnet mode of coordinated market integration was marginalized in favour of the more liberal internal market project, which involved different kinds of adaptation in neo-liberal, neo-corporatist, and neo-statist regimes without ensuring mutual convergence towards a single variant of capitalism. This neo-liberal turn was based on radical neo-liberal regime shifts in some economies and neo-liberal policy adjustments in others (on types of neo-liberalism, see Jessop 2007). Thus, despite the prescriptive, ‘hard law’ nature of the internal market project at this stage, there were different national responses (Menz 2005) and economic and social variegation was reproduced in new forms.

Eastwards expansion further increased the heterogeneity of the EU and further reduced the scope for a concerted EU-wide coordinated market economy approach, especially as new member states were largely committed to the neo-liberal project. This effect was not accidental but promoted by neo-liberal forces both within the European Union (notably the United Kingdom) and beyond it (notably transnational capital and international agencies dominated by US imperialist interests that saw post-socialist states as potential economic, political, and security allies).

The increasing variegation of European economic space contributed to the search in the 1990s for another mode of integration. This is seen in the turn from policies of harmonisation in economic and, to a lesser extent, social policy towards negative rather than positive integration. Measures to eliminate restrictions on ‘the four freedoms’ (the free flow of goods, services, capital, and labour) tend to weaken the coherence of the respective national cores of coordinated market economies and to advantage mobile capital (on the neo-liberal bias of negative integration, see Altvater and Mahnkopf 2007; Scharpf 2010; van Apeldoorn 2002). Governance methods also became more flexible. Movement toward Economic and Monetary Union (EMU), for example, set convergence criteria but allowed member states to decide within limits on the measures (including, it turns out, deception) required to meet them. Still more flexible is the open method of coordination (OMC), which was introduced stepwise in several policy areas and then officially consolidated in the Lisbon agenda. The OMC involves neither a rescaling of Westphalian sovereignty nor an advanced form of liberal intergovernmentalism. Instead it aims at continuing collibration in a changing equilibrium of compromise that depends on 'super-vision' and 'supervision', i.e., a relative monopoly of organised intelligence plus overall monitoring of agreed governance targets procedures across diverse fields (Willke 1997). This mix of centrally agreed targets and decentralized measures helps to mediate the increasing variegation in European economic space, with its different modes of growth and regulation and different modes of insertion into the European and wider world markets, without imposing a one-size-fits-all economic and political programme or relying purely on negative integration. This occurs by allowing states to pursue different approaches to shared EU objectives, facilitating the extended reproduction of a variegated capitalism through a co-evolutionary dynamic of structural coupling.

But these new forms of governance can only compensate partially for the problems of economic and political incompossibility in an expanding EU that is itself located in an increasingly heterogeneous world market and polity. The OMC is not (and could never have been) a purely technocratic fix that would harmoniously integrate European economic and political space. Rather, reflecting the complex position of the European Union within a variegated capitalism that is not confined to European economic space but extends to the world market, EU collibration and meta-governance have become another site on which conflicting economic strategies, political projects, and hegemonic visions have been pursued – not only by competing interests within that space but also by outside forces with a more or less strongly interiorised presence inside the EU, other international bodies, and key transnational agencies and forums (cf. Bieling 2010; van Apeldoorn 2002; Ziltener 2000). Thus in addition to struggles among member states over the overall strategic direction and/or specific economic and social policies, the emerging system of 'multi-scalar metagovernance in the shadow of post-national statehood' has also been a vector for American neo-liberal pressures to redesign the world order.

From one viewpoint, given the ecological dominance of neo-liberalism on a world scale from the 1980s (Jessop 2007), pursuit of neo-liberalism within the EU might have appeared as the line of least resistance given the co-existence of several 'varieties of capitalism' with their complex contradictions. One indicator of this is the changing strategic orientation of the European Round Table, which is an important site of compromise between contending fractions of capital and a major vector of the interiorization of external constraints as well as intra-European conflicts and contradictions (van Apeldoorn 2002; Macartney 2010). It took a neo-liberal turn in the 1990s that reflected the influence of the US Chamber of Commerce in Europe as well as the changing balance of forces among European capitals. This reflects the complex ways and diverse vectors through which the European Union is integrated into the world market more generally, including its recent growing trade and financial ties to China (for a recent assessment, see World Economic Forum 2012).

But one-sided pursuit of neo-liberalism has its own contradictions and pathologies that have now matured and produced neo-liberal blowback. Thus, rather than providing an adequate institutional architecture for governing the European Union, negative integration plus more flexible methods of coordination have created a variegated free market that lacks strong governance capacities, especially in periods of crisis. This structural flaw was partially hidden during the 'Great Moderation' (linked to US monetary policies and imported deflation from China) and the initial boost to growth (especially in the Southern periphery) that followed introduction of the Euro.[5] But failure to address this flaw in the good times has made crisis-management harder in the face of the subsequent North Atlantic Financial crisis, the surfacing and intensification of the Eurozone crisis, and issues of sovereign debt.

**European Economic and Political Space(s) in the World Market**

The recent and continuing global financial crisis has finance-dominated, neo-liberal accumulation at its core; it was made in the USA and first broke out there, spreading via a mix of contagion and endogenous crisis-tendencies to other parts of the world market, even when these had not undergone neo-liberal regime shifts or had even taken defensive measures against the effects of neo-liberalism. Yet the ecological dominance of neo-liberalism in the world market has survived the global financial crisis and its ramifications. This reflects the global weight of the American economy, the continued dominance (despite declining hegemony) of the US federal state in the world political order, the lobbying power of financial interests in an increasingly corrupt US legal and political system, and the ecological dominance of the world market within world society. The ripple effects of the North Atlantic Financial Crisis are evident in the growing imbalances in the world market, making it harder to solve problems in any national economy or macro-region, which also makes it harder to address the problems globally (World Economic Forum 2012).

Let us consider this issue in relation to another quasi-self-similar form of ecological dominance that is instantiated mainly on a European scale but is also central to the global dynamic of variegated capitalism. This is the ecological dominance of *Modell Deutschland* as an export-led accumulation regime that, despite significant neo-liberal policy adjustments, has remained firmly inside the co-ordinated market economy camp – partly because of the continuing need to coordinate complex material interdependencies in the German space economy[6] and partly because of the legacies of Ordoliberalism. Nonetheless, reflecting the ecological dominance of the US on a global scale, even Germany's ecological dominance in shaping European integration is constrained. As Cafruny and Ryner presciently stated:

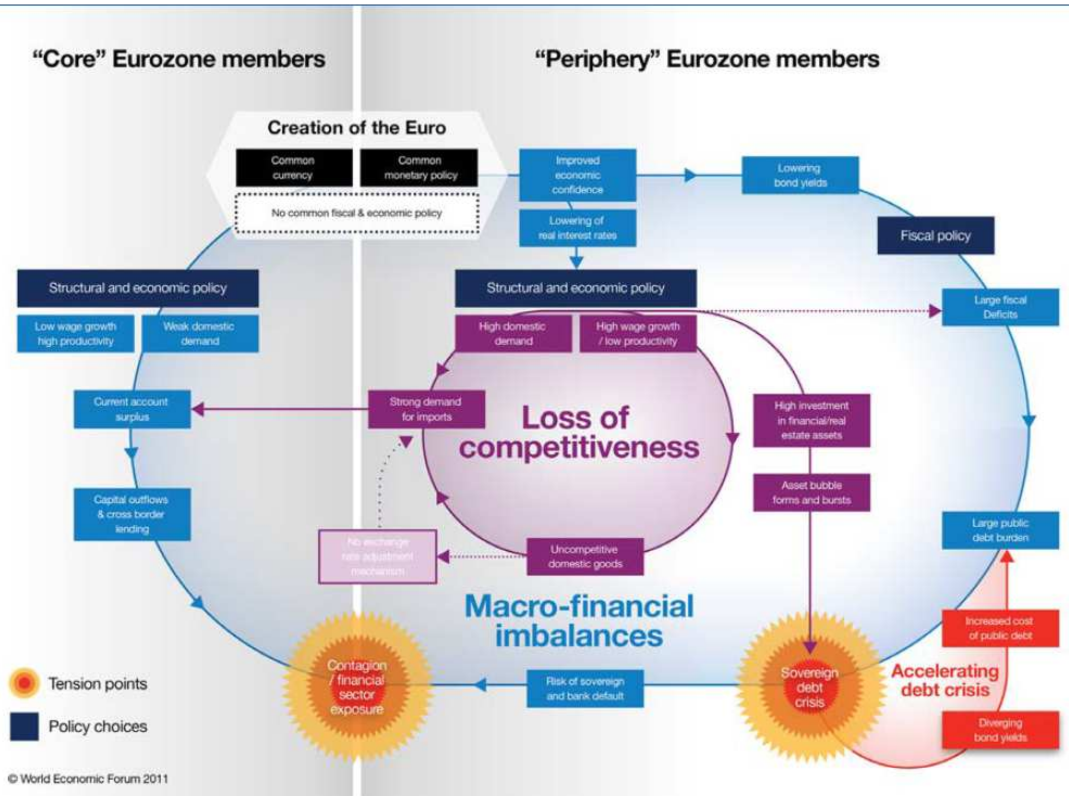
> The EU's aspiration to build a monetary union to promote competitiveness, sustained growth, regional autonomy and social cohesion is self-limiting because the Maastricht design of the EMU is inherently connected to a neo-liberal transnational financial order that displaces socio-economic contradictions from the US to other parts of the world, including Europe. Europe's subordinate participation within this order pre-empts the possibility of resolving structural problems of post-industrial, or as we prefer post-Fordist, society in a manner consistent with Europe's social and Christian-Democratic accords. Economic stagnation, uneven development, and the widening gap between new forms of governance and social citizenship amplify legitimation problems and political conflicts, with adverse effects on the EU's political ability to mobilize as a counterweight to the US (Cafruny and Ryner 2008: 60).

Germany's ecological dominance (or, phrased differently, the asymmetrical co-dependence of the German and other EU economies) is especially notable in the operation of the highly variegated Eurozone. A long-term deflationary bias in economic policy was not just a reaction to hyperinflation in the years of the Weimar Republic but also crucial for Germany's capacity to renew its export competitiveness in capital goods and diversified quality production after post-war reconstruction. This is reflected in a neo-mercantilist approach by German capital and its state to foreign economic policy and European integration (Bellofiore, Garibaldo and Halevi 2010; Lapavitsas et al., 2010; Schlupp 1980). Thus, as EU integration has widened and deepened, conditions judged for Germany's export-competitiveness have been imposed on, or otherwise affected, the resilience and potential for growth elsewhere.

Other Rhenish economies in Northern Europe are closely linked to the German model. For example, alongside its own export strengths, the Netherlands provides important commercial and business services that support Modell Deutschland; Austria and the new, post-socialist member states in Central Europe also fit into this accumulation regime. The French economy has different specializations in the world market and different growth dynamics, which depended more on dirigisme than neo-corporatism and, until common currency policies developed, more on competitive devaluation than deflation (Aglietta 1982; Deubner et al., 1992; van der Pijl et al., 2011). While it is an old geo-political rival to Germany, certain complementarities in their post-war growth dynamics enabled a Franco-German axis for many years to promote a shared approach to European economic strategy and state-building. This now seems to be unravelling under the impact of the Eurozone crisis.

This structural coupling of EU economies was reinforced through the adoption of the formally demanding Stability and Growth Pact and the introduction of the EMU, innovations that were expected to produce convergence in economic performance through effective political action to extend (hypothetically) efficient free markets. Serious doubts on this score prompted four German professors to petition the German Constitutional Court in 1998 to get the Euro declared unconstitutional on the grounds that its certain failure (given the inability of its prospective members, including Germany, to meet the fiscal requirements for entry) would invalidate EMU and require further unconstitutional measures to rescue it (see Hankel et al., 2010). This dispute rumbled on into 2012 and was decided by a carefully crafted Constitutional Court decision in September 2012, which determined that the European Stability Mechanism probably did not violate the German constitution. It nonetheless allowed the ECB to purchase toxic assets and other bonds up to a specific limit but would require a parliamentary vote were that limit to be exceeded decreed that: 'no rule of the treaty must be interpreted in a way which would result in higher payment obligations by Germany, without the consent of the German representative'. This enabled the German President to sign the ESM and fiscal pact into German law but retained a powerful future veto for the German Parliament.

There were other grounds for scepticism too. In particular, the scope of EMU membership did not meet the standard neo-classical criteria for a common currency zone (indicating that less competitive economies would sooner or later be forced into recession and deflation) and there were no credible institutional arrangements to enforce long-term fiscal discipline, compensate for uneven development and economic performance, or coordinate crisis-management in a situation where conventional crisis responses such as devaluation were ruled out. Although the successes of the Eurozone and the status of the Euro as a world currency were being celebrated (prematurely) 10 years after the EMU was introduced (e.g., Pisani-Ferry and Posen 2009), structural incompatibilities and institutional design flaws were already quite evident by 2009, intensified in 2010-2011, and have become acute in 2012, prompting radical action by the ECB and other international financial institutions as well as efforts to introduce further European integration at the expense of national fiscal and financial sovereignty.




Source: World Economic Forum 2012: 15

Even disregarding the deceptions practised by several sovereign states to meet the convergence criteria and the deliberate fudges introduced to allow Italy and Belgium (and others through the principle thereby established) to sidestep the national debt-to-GDP hurdle, the fiscal austerity and other measures taken by Eurozone members to produce convergence led to structural weaknesses (hidden public debt, cuts in vital infrastructure spending) and to reduced expenditure on education, health, and welfare. More generally, future structural problems were inscribed into the Eurozone at its inception because of the inherent tensions among member states originating in incompatible accumulation regimes, patterns of insertion into European and world markets, modes of regulation, and governance capacities. Yet these tensions were overlooked in the assumptions and operations of the European Central Bank, which largely derived its policy paradigm from the German model and placed undue faith in the capacity of market forces to produce upward convergence in economic performance from this next step towards market completion. This led Heise (2005) to argue that Germany's impact on the EMU governance regime is so great that the term 'Germanic Europe' would seem appropriate.

Because member states cannot legally use exchange rate adjustments and/or lax domestic fiscal policy to mitigate the deflationary impact of shocks, the operation of the Stability and Growth Pact and EMU has locked the Eurozone economies into a politics of disinflation and competitive deflation. The European Central Bank has policed this lock-in and, in general, has served the interests of *Modell Deutschland* and transnational financial capital (cf. Lapavitsas et al., 2010).

In short, the Eurozone crisis is not primarily a liquidity crisis or rooted in state insolvency but originates in what Dadush and Stancil (2011) term, euphemistically, 'misaligned economic structures and lost competitiveness'. This misalignment is reflected in a wide range of micro- and macro-economic divergences in productivity, unit labour costs, competitiveness, trade surplus and deficit positions, and other imbalances (e.g., European Commission 2010; Lapavitsas et al., 2010). Indeed, each new shock highlights further the structural incoherence within the Eurozone as well as the contagious interconnections with crisis-tendencies and crisis dynamics elsewhere in the world market, making it harder to rely on fisco-financial 'extend and pretend' (more politely called re-profiling) and/or on political 'muddling through'. This has produced a crisis of crisis-management on many scales with open fights among financial officials and government ministers over how to rescue the Eurozone and the European project. There are wider struggles over the balance of sticks and carrots, the distribution of gains and losses, and the best way to manage political fallout. It has also underlined the contrasting interests of different fractions of capital, of centre and periphery, of deficit and surplus economies, of capital and workers, of insiders and outsiders, in Europe's variegated capitalism. It has also intensified the institutional crises in European governance structures and undermined the legitimacy of the European project.

A significant factor in this epic recession (Rasmus 2010) is the dense web of bank loans and credits that makes it hard to disentangle any concerted European action to assist some sovereign states to manage their respective fiscal and sovereign debt crises from the efforts of some member states to reduce or defer the risks of insolvency of their respective private and public financial institutions. The reaction of the mighty bond markets and rating agencies as well as the risks of contagion, speculation, and moral hazard are also frequently invoked sources of constraint. Thus, although devalorization is a normal mechanism of crisis recovery in capitalism, there are still intense struggles over how this should be achieved, over which time horizon, and at whose cost. On balance, market forces and political pressures have discouraged weaker states from exiting the Eurozone even though partial default and competitive devaluation might provide some relief from savage austerity measures and facilitate restructuring. With or without withdrawal, the weaker economies could well take measures that would trigger or reinforce debt-deflation-default dynamics (Rasmus 2010) with contagion effects within and beyond the Eurozone.

Attempts at crisis-management are further complicated by political crises at different scales, including splits in national and transnational power blocs, representational and legitimacy crises, loss of temporal sovereignty, and problems of institutional integration. This leads in turn to continued 'muddling through' reflected in a chaotic sequence of *ad hoc* and poorly coordinated emergency measures, taken in response to successive shocks and declining confidence, aggravated by divergent national interests and the growing de-legitimation of the European project. In any case, there can be no 'one-size-fits-all' solution because each member state has its own problem mix.[7] Adopting the terms of the prevailing economic and political discourse, 'painful adjustments' are just as necessary in strong economies, whether in or out of the Eurozone, as they are in those liable to financial collapse and sovereign default.

Thus the problems of ‘Club Med’ economies in the Eurozone are partly related to the impact of the German model within European economic and political space and Germany’s room for manoeuvre in the crisis is limited in turn by the path-dependent effects of its ecological dominance. Up to the time of writing (September 2012), however, no plan for such mutuality of sacrifice plan has been able to unify transnational capital, secure majority backing from member states, and galvanize the key European state agencies into action. On the contrary, despite the latest pronouncements from the ECB and the conditional approval of the German constitutional court, muddling through combined with debt-deflation-deleveraging dynamics continues to reproduce the conditions for a gradual implosion of the Eurozone, with a progressive shrinking of the core and worsening ‘blowback’ effects of austerity politics for the periphery to this shrinking core. The accumulating global imbalances in the world market with the growing signs of an imminent, and worse, world recession in 2013 make the prospects even more frightening.

## Conclusions

Rather than considering varieties of capitalism in isolation, we should consider their structural coupling, co-evolution, complementarities, rivalries, and antagonisms in a world market with an emergent logic that is rooted in interactions among varieties of capitalism and other forms of social and private labour. This difference in approach from conventional work on the diversity and/or variety of capitalism produces important differences in the spatio-temporal horizons of analysis as well as different accounts of crisis dynamics and resulting transformations. Thus, overall, a latent incompatibility at the heart of the European Union produced a shift from positive measures to produce convergence around a coordinated market economy model to acceptance of negative integration in which market forces might lead to convergence around a neo-liberal market economy model. But this has foundered on the rocks of an increasingly manifest, pathological incompossibility between (a) the neo-mercantilist strategy of Modell Deutschland underpinned by a continuing commitment to Ordo-Liberalism but not averse to neo-liberal policy adjustments à la Hartz I to IV and (b) the imposition of neo-liberal structural adjustment and austerity amounting to substantial neo-liberal regime shifts in the weaker European Union economies – the number of which grows as the counter-productive neo-liberal cure produces debt-default-deflation dynamics, double dip recessions, and contagion effects in Europe and beyond.

Delivering the potential of this approach requires us to recognize the fractal character of variegated capitalism and its complexities across the tangled economic and political spaces produced by the intertwining of territorial logics (here *Standortpolitik* at different scales) and the space of flows (especially the flows promoted by neo-liberalism). This can be seen in the still evolving, hotly contested set of immediate emergency measures, short-term crisis-management, medium-term crisis-mitigation, and longer-term crisis-avoidance policies. There are also significant differences between the economies that undertook the most marked neo-liberal regime shifts (Eire, Iceland, the UK, Spain, the Baltic Republics, and Eastern and Central Europe) and those that inclined more towards neoliberal policy adjustments (notably the Benelux economies, France, Scandinavia, Germany, Austria, and Switzerland). Southern Europe is different again but its crisis-tendencies and crisis-dynamics are inseparable from the broader European Union picture. Finally, paradoxically, despite its grounding in the (il)logic of neo-liberal, finance-dominated accumulation, the intensifying crisis in 2007-2012 has reinforced calls to further entrench neo-liberalism within the European framework.

**Endnotes**

[1] This is how Swedberg (1996) translates Weber's sub-type of political capitalism: the German is 'Außerrordentliche Lieferungen politischer Verbände'.

[2] For now, I ignore the predatory capitalism associated with 'wars', whether true wars of conquest or colonization or metaphorical but profitable 'wars' on drugs, terror, etc.

[3] DoC is more likely to invoke the dialectic of path-dependency and path-shaping, VoC to identify selection mechanisms that produce efficient institutional solutions

[4] The world market is more tightly integrated spatially and temporally now than in earlier phases of capitalist development but it played a key role in the genealogy of

capitalism through primitive accumulation on a world scale and through the influence of mercantilism, imperialism, free trade imperialism, and neo-liberal globalization.

[5] Eurozone membership temporarily boosted demand in peripheral economies by lower borrowing costs and investment flows and benefitted German exports in Europe from higher demand and globally as the Euro traded below the DM rate.

[6] This is not confined to Germany's national borders but extends beyond them through various commercial, industrial, and financial linkages.

[7] Eichengreen (2010) puts this pithily: 'the economics [of the eurozone crisis] is really quite simple. Greece has a budget problem. Ireland has a banking problem. Portugal has a private-debt problem. Spain has a combination of all three'.

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