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Social Mechanisms in the Establishment of the European Economic and Monetary Union

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This article investigates the reasons, the transformative processes, and the social mechanisms involved in the establishment of the European Economic and Monetary Union (EMU). Contrary to commonly accepted theories used to explain institutional change, it argues that the establishment of the EMU has not simply been the product of historical paths, the rational choices of actors, or social construction of new economic ideas and preferences, but also it has been the product of self-fulfilling prophecies that have facilitated and accelerated the process of institutional change. This article also discusses the role of context-bounded rationality, embodied institutions, reflexivity, and double contingency.

Keywords: European Economic and Monetary Union (EMU), Sociology of European Integration, Mechanisms of Institutional Change, Social Mechanisms.

Este estudio investiga las razones, el proceso de transformación y los mecanismos sociales involucrados en la implementación de la unión monetaria y económica Europea (UME). Contrario a teorías comúnmente aceptadas para explicar cambios institucionales, en este artículo se argumenta que la creación de la UME no es simplemente el producto de un trayecto histórico, la elección racional de los actores, o la construcción social de nuevas ideas y preferencias económicas, sino también ha sido el producto de profecías autorrealizadas que han facilitado y acelerado el proceso de cambio institucional. Además, este artículo analiza el rol de la racionalidad limitada por el contexto, instituciones incorporadas, reflexividad y doble contingencia.

The establishment of the European Economic and Monetary Union (EMU) has represented one of the most important steps in the process of European

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integration. On the one hand, it has "deepened and widened" the economic, political, and social relations that existed among the member states of the European Union (EU). On the other hand, it has also played an important stabilizing function against an excessive fluctuation of currencies and markets by increasing the financial reliability of the member countries and of the Eurozone as a whole. In times of global financial crisis, these have become far from irrelevant political and economic achievements, as is demonstrated powerfully by the multibillion dollar rescue packages that several countries in Central and Eastern Europe and in the Eurozone have negotiated—and are currently negotiating.[1] In addition, while the EMU has been an important instrument for EU institutions to promote further and deeper integration, it also represents an important institutional apparatus for all those non-EU members or candidate countries that have engaged in economic and political transactions with the richest European nations. Stable exchange rates, low inflation, and sound macroeconomic policies became not only key parameters for the members of the Eurozone, but they have also influenced the actions, expectations, and export possibilities of other external trading partners. Despite the increasing scholarly attention that has recently been given to the reasons and transformative processes involved in the establishment of the EMU, several important questions still remain unexplored. What are the key causes, factors, and actors responsible for its establishment? Are existing theoretical frameworks sufficient to provide an exhaustive explanation for its introduction? This article aims to address these issues, investigating the reasons, the transformative processes, and the social mechanisms involved in the establishment of the EMU. Contrary to commonly accepted theories and approaches used to explain institutional change, it is argued that the establishment of the EMU has not simply been the product of historical paths, the rational choices of actors, or social construction of new economic ideas and preferences as new institutionalists or social constructivists would emphasize. Also, and perhaps even more important, it has been the product of self-fulfilling prophecies that have facilitated and accelerated the process of institutional change. By adopting a sociology of European integration perspective, with its special emphasis on the social foundations of Europeanization-related processes (Guiraudon and Favell 2011), this study also discusses four crucial forces that, by initiating a causal chain of social mechanisms, have influenced the establishment of the EMU: context-bounded rationality, embodied institutions, reflexivity, and double contingency. Context-bounded rationality is concerned with the formation of specific "market-making" preferences developed on the

[1] As of January 2011, Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Slovakia have experienced serious currency crises, which have forced governments to start negotiations on multibillion dollar rescue packages with the International Monetary Fund and EU. The same applies also to other countries of the Eurozone, as the most recent cases of Greece, Ireland, and Portugal powerfully demonstrate.

basis of existing institutional structures; embodied institutions imply the internalization of EU market principles; reflexivity involves the self-legitimizing visual representation of “the market” as an autonomous self-enforcing entity; and, finally, double contingency regards the attitudes of EU actors to preempt other actors’ moves with the most appropriate economic and political behavior. I argue here that these main driving forces have helped to alter the existing dominant EU economic and monetary paradigm, shifting from the “embedded liberalism” (Ruggie 1983) of the 1960s and 1970s and the “monetarism” of the 1980s and early 1990s (see McNamara 1998, 2006) to the “embedded Keynesianism” of the late 1990s and early 2000s.

This article is structured as follows. The first three sections provide a brief overview of the main approaches of institutional change (section one), drawing attention to the importance of sociological explanations (section two) and of social mechanisms in the process of European integration (section three). The subsequent two sections offer, by contrast, a brief description of the EMU, its main features as well as emphasizing the importance of context-bounded rationality, embodied institutions, reflexivity, and double contingency in the process of institutional transformation (section four). Here, the important role of self-fulfilling prophecies is also discussed (section five). Finally, the conclusions reflect on the current global financial crisis and ask whether we are in front of a new wave of European monetary and economic integration or even to a complete collapse of the old system.

Beyond Classical Approaches of Institutional Change

Since the beginning of the 1980s, the role that ideas, interests, and institutions play in the process of institutional transformation has been the object of a lively academic debate. This debate has entailed several characterizations by different schools of thought, with substantially distinct centers of attention. These have included historical institutionalism (Hall and Taylor 1996; Mahoney and Thelen 2009; North 1990; Pierson 1996) with its emphasis on historical paths and self-reinforcing mechanisms; rational choice institutionalism (Bates, de Figueredo, and Weingast 1998; Fiorina 1995; Weingast 1998) with its primary focus on the rational motivations and actions of actors; sociological institutionalism (Brinton and Nee 1998; DiMaggio and Powell 1991; March and Olsen 1989) with its accent on norms and formal, and informal institutions; actor-centered institutionalism (Scharpf 1997) with its emphasis on the crucial importance of strategic interaction; and discursive institutionalism (Campbell and Pedersen 2001; Hay 2006; Schmidt 2006, 2008) with its inclusion of ideas and discourses as important elements of institutional transformation. Divergences have also involved those scholars who have looked at the EU institutional change primarily as a “meaning-making” process resulting from a specific, individual-mediated social construction of reality or social constructivism (see McNamara 1998, 2006) and those who have included intentionality and the strategic interactions of actors in this social constructivist account (strategic social constructivism) (Jabko 2006).

For researchers of European integration, these have become far from irrelevant theoretical distinctions. They have highlighted, on the one hand, the distinct features that characterize a specific type of institutional change (e.g., self-reinforcing mechanisms, rational actions, internalization of social norms, strategic interactions, ideational and discursive practices, processes of social construction of reality, or intentional meaning-making procedures). On the other hand, they have shed light on the shortcomings of excessively deterministic theories of European integration. These include theories based on neofunctionalism (Haas 1968), with its primary attention to the actions of actors situated in supranational bureaucracies and polities; on liberal intergovernmentalism (Moravcsik 1998), with its emphasis on nationally driven negotiations and procedures of institutionalization; and on multilevel governance—which, in reality, is more analytically oriented than theory-based—with its focus on the complex bargaining activities placed at the most disparate levels of the decision-making process: local, regional, national, and supranational (Hooghe and Marks 2001).[2]

To be more precise, when neofunctionalist explanations (Haas 1968) for the EMU are considered, it becomes clear that an analysis of the actions of actors situated in supranational bureaucracies and polities can hardly be sufficient to fully understand the transformative processes that have led to EMU formation. The more intimate beliefs and personal orientations of individuals and epistemic communities (Sabatier and Smith-Jenkins 1993) must also be examined seriously, as they have played a crucial role in shaping the direction of institutional change. The prestructured preferences of actors (e.g., those based on Keynesianism or monetarism) have, in fact, greatly helped to constrain the opportunities available for policy innovation by creating institutional and mental lock-in processes, which have made gradual institutional change a necessary step for further innovation (see Mahoney and Thelen 2009; Schmidt 2008). The reworking of key features of the EMU subsequent to the failure of the Werner Report[3] is an emblematic example here. In short, not simply the actions of agents in supranational bureaucracies need to be considered in order to grasp fully the complex processes linked to EMU formation. Also the social interactions, the cognitive perceptions, and the relational *elective affinities* on new, more suitable policy solutions—which the agents involved in EMU negotiations have found in, respectively, national and international policy venues—must also be seriously taken into account. The relational character of policy negotiations and institutional change becomes here determinant.

[2] For a comprehensive review on alternative cognitive and normative approaches to European integration, see Surel (2000).

[3] The Werner Report was presented at the European Summit in The Hague in 1969. It proposed a gradual, institutional reform that would have led to fixed exchange rates and the adoption of a single currency within a decade.

Moreover, even when the case of Moravcsik's (1998) liberal intergovernmentalism is carefully examined, it is difficult to identify a simple set of nationally driven negotiations, or set of procedures of institutionalization, which, although relevant, may have alone been responsible for influencing the process of EMU formation. Complex patterns of negotiations occurred at different and often co-influencing levels and stages of EU formation and national decision making. These included not simply EU officials, Commission bureaucrats, or important national political leaders looking for successful agreements (e.g., the attempts of Jacques Delors and Helmut Kohl), but also representatives of supranational, national, regional, and local authorities with their respective and often conflicting interests and needs.

Last but not least, even when the multilevel governance account is examined, with its primary focus on the complex bargaining activities among the different level of EU decision making, other relevant shortcomings may emerge. In fact, while the main focus on the multilevel governance approach remains centered on institutionally bounded policy venues where agents act according to preestablished institutional rules, very few can be understood in terms of the emergence of individual preference formations and associated emerging ideas and discourses (see Schmidt 2008). In other words, the creation, confirmation, and negation of driving policy ideas and discourses matter in addition to context-bounded decisions in preexisting institutional structures.

Sociology of European Integration and EMU

Only recently, the sociology of European integration account has proposed itself as a possible complementary conceptual framework capable of highlighting often neglected factors that affect the process of European integration (see Guiraudon and Favell 2011; Saurugger 2008). Even though the sociology of European integration does not have the theoretical and methodological aspirations to resolve the long-lasting diatribes that exist among neoinstitutionalists, social constructivists, or exponents of one of the theories of European integration (Saurugger 2008) referred to above, it has rightly emphasized three important sociological and psychological forces implicit in any process of institutional transformation: context-bounded rationality, embodied institutions, and reflexivity (Kauppi and Madsen 2008). In addition to these three useful conceptual instruments, a fourth one, *double contingency*, should also be mentioned as crucial in the analysis of the EU institutional transformation.

With regard to the first concept of context-bounded rationality, as Kauppi and Madsen (2008) have emphasized, agents act strategically, often pursuing rational objectives. But they do so while being embedded in a defined community environment, which is characterized by a particular ethos and by specific interactions that are institutionally driven.[4] The logic and patterns of interactions within are defined but do not stabilize over time. Institutional structures become a crucial element in the process of institutional change here. Frank Schimmelfennig (2003) has applied this concept to the process of Eastern enlargement and has demonstrated, for example, how the strategic interactions of the EU—and, at the time, future member states—have not occurred in an aseptic institutional environment. They were situated in a specific institutional context that responded to exogenously dictated specific social norms, all of which contributed to constrain the choices and interests of agents.

Embodied institutions become, in this way, a second crucial and strictly related conceptual instrument employed by Kauppi and Madsen (2008) to describe the deep and mutual relationship that exists between institutions and individuals. Institutions should not be seen simply as external entities to individuals, as most of rational choice or historical institutionalists would emphasize. Rather, they represent quasi-material, internal elements to the individual actors that structure their preferences, ways, and patterns of behavior. This expansion of the concept of context-bounded rationality, which includes the process of norms and value internalization, has been used by various sociologists of knowledge and social psychologists over the decades (e.g., Berger and Luckmann 1966; Elias 1983; Goffman 1959; Mead 1934). Yet, it has only rarely been applied to the study of European integration. A notable exception is Peterson and Bomberg's (1999) analysis of *Decision-Making in the European Union*. Here, the authors have succeeded in highlighting, perhaps for the first time, the processes of internalization of EU rules that influenced the actions of civil servants. EU civil servants, as it has been shown, enter EU institutions as nationals of member countries, but they become very quickly "EUized" by the existing institutional practices and environment of EU institutions. The development of a double, noncontrasting, national, and EU identity—viewed for many years with suspicion as a sign of a possible schizophrenic personality—has also been documented by several subsequent qualitative and quantitative studies on EU citizenship (e.g., Duchesne and Frognier 2007; Medrano 2003). These have demonstrated once again the importance of norm internalization in the process of European integration.

The third key conceptual instrument identified by Kauppi and Madsen (2008), reflexivity, has also been the object of much theoretical and methodological discussion among political scientists and sociologists (e.g., Beck, Giddens, and Lash 1994; Bourdieu 1992; Habermas 1981; Luhmann 1984) but, astonishingly, far too often neglected by researchers of EU integration. Kauppi and Madsen (2008) and Georgakakis' (2008) contributions on this topic describe reflexivity in terms of the procedural self-observation and self-reference of agents and institutions, which, through the establishment of

[4] For the notion of "embeddeness," see Weber ([1904-05] 1958, [1922] 1968), Polanyi, Arensberg, and Pearson (1957), and Granovetter (1985).

self-reinforcing and self-legitimizing mechanisms, succeed in ensuring further stages of institutional transformation. This occurs primarily thanks to the institutional rules, practices, behaviors, and norms that these institutions have themselves created and helped to reinforce. As highlighted by Vachudova (2008) in the case of further waves of EU enlargement, EU institutions and practices have become, year after year, not only more desirable and commonly accepted elements of the candidate countries' internal institutional transformation, but they have also fostered, through several leverage effects, further actions aimed at EU integration that have reinforced previously established pathways of institutional change.

A fourth crucial, and neglected, conceptual instrument concerns the issue of double contingency as recently discussed by the German economic sociologist Heiner Ganßmann (2007) in his investigation of individuals' economic actions. In the tradition of American and German economic and political sociology (see, e.g., Luhmann 1984; Parsons and Shils 1951), Ganßmann has drawn the attention to the fact that economic, political, and social agents look not only at themselves when choosing their specific course of actions, but also observe and consider the strategic behavior of other actors, attempting to preempt, whenever possible, the possible moves of the other side. Institutional actors are not the blind, deaf, dumb, and self-centric agents that many historical and rational choice institutionalists cast them as. They are environmentally and socially aware agents, conscious of their relative position of authority. Individual actions are therefore characterized not by "single" but rather by "double" interactions, while "social reflexivity" and not "individual reflexivity" becomes the key to understanding any process of institutional change. If EU institutional socialization occurs, this can only follow the form of a double socialization that takes into account more than single environments and interactions.

As a result of what has been shown previously, it can be concluded that ideas, interests, and institutions are not externally created elements of institutional change, but form part of a complex system of institutional, social, and organizational relationships, which greatly influence the "usages of Europe" (Jacquot and Woll 2008) one has. Hence, the focus of investigations of institutional change-related processes shifts necessarily from individual interactions to social interactions, which result in being embedded in a dynamic and continuously changing social, psychological, and institutional environment.

Social Mechanisms in the Process of European Integration

As a subclass of social mechanisms, mechanisms of institutional change become crucial elements for improving an understanding of the EU integration process. They are permeated by institutions, interests, and ideas, yet they are also deeply embedded in continuously changing institutional, individual, and social relations (Cerami 2009; Ettrich 2008; Mayntz 2003). Mechanisms of institutional change transform the institutional and organizational relations of the EU bureaucracy, altering the "ways of doing things" of the institution. However, they are also influenced by the social and interpersonal relations present in the same institution—relations that characterize its everyday functioning.

The recent emphasis of social mechanisms as important elements of institutional change has inevitably resulted in an exponential growth in the number of the classifications available (Cerami 2009; Elster 1998; Hedström and Swedberg 1998; MacAdam, Tarrow, and Tilly 2001; Mayntz 2003; Tilly 2001; Zeitlin 2009). To highlight a few notable examples, MacAdam, Tarrow, and Tilly (2001) and Tilly (2001) have identified "environmental," "cognitive," and "relational" mechanisms depending on the respective influence they have on the environmental conditions affecting the life of individuals, on the psychological processes that cause specific behavioral patterns, or on the connections among people, groups, and interpersonal networks. In a similar vein, Hedström and Swedberg (1998) have differentiated between "situational," "individual action," and "transformational" mechanisms on the basis of the ways where the environment affects the individual's actions, how the individual assimilates the impact of exogenous events, and how individuals influence social outcomes through their actions.

In addition, when social mechanisms have been seen from primarily a strict historical-institutionalist perspective, the focus has shifted from abrupt to incremental transformative change as well as from relations among individuals to relations among institutions. From this perspective, Streeck and Thelen (2005) have offered a fivefold typology of institutional change (displacement, layering, drift, conversion, and exhaustion) each one associated with a particular mechanism (defection, differential growth, deliberate neglect, redirection or reinterpretation, and depletion, respectively). In an attempt to address the shortcomings of an excessive deterministic approach based on strict path-dependent behavior, Zeitlin's (2009) analysis of processes of institutional change in employment and social inclusion policies—associated with the introduction of the open method of coordination—has led to the identification of five substantially different mechanisms, which more specifically link social action to institutional outcomes. These are external pressure, financial support, socialization and discursive diffusion, mutual learning, and creative appropriation by domestic actors.

Despite the presence of significant differences on the role played by exogenous forces in the process of institutional change, the importance of social mechanisms in institutional transformation has now been reaffirmed. In fact, mechanisms of institutional change not only help to alter the main institutional settings, incrementally or abruptly changing the main procedures, as many historical institutionalists would emphasize. They also involve a modification of the organizational and social relations with their associated macro–micro linkages (Coleman 1986; Hedström 2008; Hedström and Swedberg 1998; see also Figure 1). As pointed out by Hedström and Swedberg (1998) and

Hedström (2008), external conditions structure individual behavior and personality, which are then translated in individual action that determine specific social outcomes.

An important but often neglected element of institutional stability and change is represented by causal chains of social and institutional mechanisms. As a causal chain of social mechanisms, *self-fulfilling prophecies*[5] have speeded up the implementation of specific policy preferences and helped to highlight hitherto unexplored pathways of institutional change. New avenues for future research have emerged as a result. As a sequential chain of several rational imitation mechanisms (Hedström 2008), the self-fulfilling prophecy occurs when an initial belief—whether false or true—culminates in a behavior that sooner or later makes the initial belief become a reality. Robert K. Merton's (1968) famous example was based on the insolvency of a bank caused by false rumors concerning its bankruptcy. These rumors led the depositors to withdraw their money and to close their bank accounts, ultimately leading to a run on the bank and causing the bank to really go bankrupt.

As shown in the following sections, identifying the entire causal chains (causal reconstruction) associated with the mechanisms from which a phenomenon has originated becomes important not only for understanding the real patterns and pathways of any institutional transformation (see Mayntz 2003), but also for identifying the real patterns and pathways of European integration and EMU formation.

Context-Bounded Rationality, Embodied Institutions, Reflexivity, and Double Contingency in the Establishment of the EMU

As highlighted by Kathleen McNamara (1998, 2006), the creation of the European Monetary System (EMS) in March 1979 based on fixed but adjustable exchange rates and the Single European Market in 1986 based on the free circulation of products, services, capital, and labor, was not simply the successful completion of a complex process of political bargaining lasting several decades. It was also the result of the new ideational consensus based on the new neo-liberal economic paradigm, which found in monetarism its highest expression. As Jabko (2006) has pointed out though, the establishment of the EMU represented a "quiet revolution" for EU institutions and its member states where "strange bedfellows" were all actively involved. These strange bedfellows included both supporters and critics of the free market, politicians of the left and the right, and bureaucrats and business leaders of the most disparate political affiliations, as well as high-level government officials in all member states (Jabko 2006, 2). According to the author, despite the presence of significant ideological differences, one way or another, all these actors

[5] For an extensive review of the role of self-fulfilling prophecies, see Biggs (2009).

succeeded in finding a common terrain on the "free market," where their rational choice, path-dependent decisions, and strategic interactions could have finally been mediated.

How was this possible? Can the strategic interests and actions of actors along a new economic paradigm be the simple cause of such a drastic EMU institutional transformation? Have other factors, transformative processes, and mechanisms also played an important role? Without the need to deny categorically any of the above mentioned aspects, since all have played a significant role in the process of EMU formation, the following sections sketch briefly four other complementary driving forces which, by initiating a causal chain of social mechanisms, have facilitated and quickened the process of institutional change.

Context-Bounded Rationality

As shown by the long and tortuous history of the EMU,[6] context-bounded rationality has played a crucial role in the process of economic and monetary integration. The establishment of the EMU has, in fact, not taken place in an institutional vacuum of unclear ideas, processes, and procedures. It has been fully embedded in the institutional structures and organizational and social relations that have permeated further stages of EU integration. This has included, in the most crucial years before EMU was established, the dominant institutional and ideological consensus found in the new monetarist paradigm. Even though it represented the new driving force for further integration, this paradigm still had to deal with past ideas, interests, and institutions. As McNamara (1998, 55) has correctly remembered, "the compromise of embedded liberalism" (see also Ruggie 1983), which made it possible to expand and contract the national money supply to reach full employment and economic growth, could no longer form a basis for multilateral monetary cooperation within a fixed exchange rate regime. Capital flows had become too high to continue to coexist with fixed rates and policy autonomy, making reforms in economic and monetary policy making particularly urgent.

This transformation, however, did not take place from a *tabula rasa* of procedures and ideals, but it necessarily had to materialize within previous ideological, institutional, and interest-based boundaries, where the "compromise of embedded liberalism," as described by John Ruggie (1983), and the new monetarist logic, as identified by McNamara (1998, 2006; see also Blyth 2002), were recombined into a new more up-to-date economic and monetary framework. The inadequacy of the "snake in the tunnel"[7] and the subsequent

[6] For more information on the history of the EMU, see Dyson (1994), Dyson and Featherstone (1999) and SCADPlus (2008).

[7] The "snake in the tunnel" was the first attempt at European monetary cooperation introduced in the 1970s, which aimed to limit fluctuations between different European currencies by creating a single currency band.

debate around the future of the EMS culminated in Jacques Delors' report of April 1989, which set up the blueprint for the implementation of the future EMU. Because this success was influenced drastically by previous moves (as in the case, for example, of the lessons learnt from the rejection of the Werner Report of 1970), the implementation of more successful policy ideas, values, and beliefs became a necessary objective to overcome the institutional lock-in processes and political entrepreneurs' resistance to policy innovation (Dyson 1994; Dyson and Featherstone 1999). However, this is not to say that the policy *status quo* was the obvious and unavoidable result of path-dependencies and lock-in processes, but simply that any subsequent institutional change took a gradual path where existing institutions and procedures needed to find new ways for institutional transformation (see Mahoney and Thelen 2009; Schmidt 2006, 2008).

In fact, while it is possible to affirm that market fundamentalism soon became the leading economic orientation of the Brussels and Washington Consensus during the 1980s, it should also be remembered that the differences in economic approach existent among the various European member states clearly made an abrupt institutional change to an unfeasible political option. In particular, while several national political governments espoused the cause of monetarism at the EU level, they still had to deal with the social-democratic electorate in their home country. The "cautious monetarists" included important governments and political factions in the Scandinavian countries (as in Denmark and Sweden), as well as in Continental and Southern Europe (as in Germany, France, and Italy), where the myth of a "market economy with a human face" was never fully abandoned in national political discourses. To portray a more comprehensive history of the EU and the EMU, it should therefore be affirmed that the consensus found on monetarism was not an easy convergence toward universally accepted neo-liberal ideas but one often subjected to contrasting forces. On the one hand, it followed the assumption that neo-liberal and anti-inflationary policies had to become a priority rather than simply employment and growth. On the other hand, because of the multilevel system of governance of the EU and the differences existent among the member states, it made a complete departure from Keynesian social guidelines (such as full employment and social redistribution), a nondesirable political and economic objective. The introduction of the EMU entailed, as a result, both a path-dependent as well as path-departing character. Even though the Maastricht Treaty covered issues of economic governance only superficially, path-dependent elements of the EMU institutional change consisted in Keynesian ideals for full employment and social redistribution embedded in the "ways of doing and understanding" things of several EU actors (such as the former Directorate Genernal Employment and Social Affairs, more recently renamed "DG Employment, Social Affairs and Inclusion"), while path-departing features were represented by the new monetarist ideological and institutional shifts because of the supposed inefficiency of the old system. As highlighted by Dyson and Featherstone (1999, 19), dealing with the EMU negotiation process took, to a large extent, a self-referential character, which can easily be described in terms of Merton's (1968) self-fulfilling prophecy. Here, the unintended consequences occurred in a prestructured institutional environment, but these often resulted from the actions of intentional actors who were bounded together in a process concerning which they were imperfectly informed and whose overall course was beyond their individual control.

A difficult and, to some extent, ambiguous consensus between two contrasting logics (monetarism and Keynesianism) was found, however, in the Lisbon European Strategy that soon became the most significant European response to the ambitious and perhaps overconfident political, economic, and social objectives in developing a common European Social Model (ESM). This, as stated in the *Presidency Conclusions of the Nice European Council* of 2000 (European Council 2000), should have been capable of providing a high level of social protection and social cohesion for all European citizens thanks to an improvement in social dialogue and sound economic policies. Even though with weak policy instruments (as in the case of the open method of coordination; see Dehousse 2010) , from 2000 onward, in numerous official speeches and publications, the ESM started to be presented as a different, and more inclusive, model in comparison to the one present in the United States (for an interesting comparison, see Alber 2006). In this way, the promotion of a unique "ESM" helped to achieve two functional objectives for the EU integration process. On the one hand, as a useful conceptual instrument, it helped to resolve the ambiguity of competing logics, interests, and needs through a new set of policies, programs, and philosophies more centered on the citizens, positive integration, instead of on the single market, negative integration (Scharpf 2009). On the other hand, as a new buzzword, it helped the formation of a common "European way" to economic and social development, which should have helped to resolve Europe's identity problem (see Favell 2005) giving a unified form to highly differentiated political, economic, and social systems.

Embodied Institutions

Embodied institutions, expressed in terms of the internalization of market principles, represent a second crucial element in the establishment of the EMU. Since politics, polities, and policies do not only occur in preestablished institutional settings but are also made by individuals who structure their personality and individual orientation on the basis of the environment in which they live, the institutional consensus was later translated into norm and value internalization. This provided the EU individual actors with an image of the appropriate pathway of institutional change to follow. To avoid what Festinger (1957) would define as a situation of "cognitive dissonance," the EU institutional and individual consensus found in market freedom was then converted into appropriate actions by several EU and national actors (especially by the European Commission under Jacques Delors in the 1980s, albeit with the support of several subsequent European Councils). In this way, EU and national institutions succeeded to translate, in a relatively short period of time, the preferences for neo-liberal policy making that were already present into consonant policy actions and instruments. Immediately after the 1970s oil crisis, and empowered by the advent of Thatcher's and Reagan's new economic vision, the number of international and national documents with a clear emphasis on the successes of markets exponentially increased.[8]

Even in this case, past experiences embodied in institutional and personal memories played a crucial role in dictating the guidelines for EMU negotiations. The failure of the Werner Report became a key reference point to fully understand the negotiation or prescription mistakes that had to be avoided. These involved primarily a wrong or partial understanding of the contrasting interests and needs that may have emerged among the member countries. In this context, an important example can be given by the preference attributed to the *Bundesbank* over the *Banque de France*, with the first seen as a model to follow by domestic central banks for its degree of independence and policy efficiency (Dyson 1994; Dyson and Featherstone 1999, 19, 25).

However, subsequent to the first signals of Reagan's and Thatcher's economic inefficiency, monetarism as the leading doctrine started slowly to be reconsidered. This reflection on the new underlying principles of the EU took place also thanks to a change in several European governments—such as in Great Britain under Tony Blair, Germany under Gerard Schröder, and Italy under the then-President of Commission Romano Prodi—which, by supporting a more center-left-oriented policy-making approach, also encountered the favors of the European Parliament traditionally more prone to espouse policies of solidarity because of its strong social-democratic and Christian-democratic factions. Here, market-correcting measures implemented to promote greater social equality were no longer seen as detrimental to economic development, as in the golden age of neo-liberalism, but rather as a necessary precondition for long-term economic growth (see Carmel 2005). As shown in the following sections, this nevertheless should have continued to take place under the umbrella of fiscal and anti-inflationary priorities, as previously set in the Brussels and Washington Consensus, so as not to drastically change the structure and institutional responsibilities of the European Central Bank, which has been one of the most important stabilizers and facilitators of the European project since its first establishment.

Reflexivity

The third key element in the establishment of the EMU, reflexivity, has concerned the capability of EU institutions and individuals to see themselves

[8] See, for instance, the Single European Act of 1986, the 1992 Maastricht Treaty, and the 1997 Amsterdam Treaty up to the 2001 Treaty of Nice, but also key priorities in The Charter of Fundamental Rights of the EU.

visually represented and legitimated by the consensus they themselves had created in "the market." The European Single Market with its associated institutions played, in this way, a self-reproductive and self-legitimizing function for EU institutions. By continuous reference to "the European Single Market," "the European Monetary Union," "the Euro," "an ever closer Union" (Dehousse 1994), and "a European citizenship" (see Jabko 2006), individual actors—both EU and national civil servants—not only provided their audience with a clear image of what the EU really consisted of. Through a "mirror effect," they also provided the double justification and legitimization necessary for citizens and officials to believe in the European project.

The track record of practical policy success made the *Bundesbank* represent, in this context, the ideational model to follow for those national central banks that envied the independence of the *Bundesbank*, its strong public profile in Germany, and its performance in achieving goals (Dyson and Featherstone 1999, 26). As Dyson (1994) and Dyson and Featherstone (1999) have correctly emphasized, a strong process of emulation of Germany as a policy model was, in effect, taking place. This, in turn, helped to facilitate and legitimate a version of the EMU based on central bank independence, which greatly resembled and favored the political and economic aspirations of Germany as well as of most national central bankers with additional case-to-case benefits granted to the other member countries (Dyson and Featherstone 1999, 26).

Reflexivity became, in this way, simultaneously the source of, and the scope for, further European integration. Step after step, EU institutions not only expanded their areas of influence over an ever larger number of policy domains but also provided further legitimacy for the preexisting rationale and bureaucracies, thus reinforcing the establishment of a common European policy space. It comes as no surprise that because the dominant rationale was based on market orthodoxy, this economic vision spilt over into subsequent areas. These included the sectors of energy, enterprise, competition, development, customs, external trade, and taxation where the various DGs always actively promoted a market-centered vision of EU integration and injected regional and social policy with social cohesion measures that had to serve the reasons of the markets. Whether these represented a substantial path-departure from Keynesian objectives is, however, still difficult to affirm, especially if the more recent consensus for the goals of the Lisbon European Strategy, or the more recent EU 2020, is considered. In fact, despite the existence of some ambiguities and especially those linked to the liberal bias expressed by the Maastricht Treaty, since the beginning of 2000s the "social dimension" of the EU has continuously been reaffirmed in official documents and high-ranking meetings; and to reach further economic and monetary integration, "economic" and "social" objectives have often been seen as two sides of the same coin. Needless to say, this represented an important ideological and institutional turn, corresponding neither to "embedded liberalism" nor to pure monetarist ideals as promoted in the past decades. Here, it could perhaps be argued that a form of "embedded

Table 1. Leading Economic and Monetary Paradigms in the Establishment and Consolidation of the Economic and Monetary Union (EMU)

Economic Paradigm	Years	Key Characteristics	Outcomes
Embedded liberalism	1960s and 1970s	Expansion and contraction of the national money supply to reach full employment and economic growth	Several years of poor economic performance associated with "Eurosclerosis" led to disillusionment with the state intervention
Monetarism	1980s and early 1990s	Excessive expansion of the money supply is assumed to be inherently inflationary. Monetary authorities should therefore focus on price and fiscal stability	Unconditional faith in the superiority of markets led to raising levels of poverty and income inequality and disillusionment with markets' sole achievements
Embedded Keynesianism	Late 1990s and early 2000s	Neo-liberal and anti-inflationary policies associated to Keynesian ideals for full employment and social redistribution. Focus on "empowerment" of individuals.	Recombination of embedded liberalism and monetarism in order to avoid Eurosclerosis and raising poverty. Promotion of "social investment state" to consolidate EMU while fostering "social citizenship."

Keynesianism" (in the sense of Keynesian goals embedded in neo-liberal policy making) has been the key characteristic of the EU in the past decade.

In fact, as highlighted in Table 1, during the 1960s and 1970s the key characteristics of *embedded liberalism* concerned the expansion and, in some cases, also the contraction of the national money supply to reach full employment and economic growth. This resulted in several years of poor economic performance associated with "Eurosclerosis" that had the unintended consequence of leading to disillusionment with state intervention. It is unsurprising then that *monetarism* suddenly became the key force during the 1980s and early 1990s (Blyth 2002). Under the auspice of the Thatcher and Reagan macroeconomic approach during this second period, an excessive expansion of the money supply was assumed to be inherently inflationary. Monetary authorities should have therefore focused their attention on ensuring price and fiscal stability. However, unconditional faith in the superiority of markets led to rising levels of poverty and income inequality and disillusionment with markets' sole achievements (Milanovic 2007; OECD 2008). During the late 1990s and early 2000s, something changed and *embedded Keynesianism* rapidly became the new key feature leading future EU policy orientations. During this period, neo-liberal and anti-inflationary policies were not dismissed as suitable instruments in international political economy. Yet, Keynesian ideals for full employment and social redistribution—more recently in the EU 2020 strategy also for sustainable growth—were unexpectedly brought back to life. The focus of policy makers' attention shifted, in this way, from empowering the economic system through relaxation of controls and state intervention to the empowerment of individuals so as to increase their attachment to the labor market. A *recombinant institutional transformation*[9] materialized, taking the form of an amalgamation of embedded liberalism and monetarism to avoid the Eurosclerosis associated with the promotion of a "social investment state," to consolidate the EMU while fostering "social citizenship" and reducing poverty and social exclusion.

But how was this new hybrid economic and social paradigm really translated in practice? What key policies, programs, and philosophies that resulted from this new cognitive and normative discourse (see Schmidt 2008) really emerged? Since the advent of the Lisbon European Strategy and, more recently, of the EU 2020 strategy, a new economic and social policy conception based on the notion of "social investment state" took the lead in official meetings and EU-sponsored publications (see, e.g., Begg, Draxler, and Mortensen 2007). It also emerged as ascendant among the academic community where increasing attention was placed both on those policies aimed at increasing the social integration capacity of citizens in the newly established single market and on their development and adaptive capabilities in evermore deregulated, yet interconnected and Europeanized, labor markets (see Cerami 2008; Dehousse 2008; Esping-Andersen and Palier 2008; Hemerijck 2010; Morel, Palier, and Palme 2011). New policies, programs, and philosophies emphasizing the importance of education, investment in children, and investment in life-long learning were suddenly sponsored in the official meetings and expert consultations of the DG Employment and Social Affairs and other interested Directed Generals (such as Economic and Financial Affairs DG, Enlargement DG, Internal Market and Services DG) and consulting bodies (such as the European Bureau of Policy Advisers). These became the core elements of a new developmental strategy that had to make the "empowerment" of the individuals the key for deeper and wider European integration.

Double Contingency

A fourth crucial element in the process of economic and monetary integration, double contingency, concerned the possibility of EU institutional actors looking at other agents' moves present in the global arena while trying to preempt or follow their actions with the most appropriate economic behavior. Introducing the Euro has not been a simple one-sided transformation but a process where multiple complex interactions have been necessary. EU institutions looked internally to find the self-justification and legitimization they

[9] For the concept of *recombinant transformation*, see Stark and Bruszt (1998) and Cerami (2006).

needed to move forward in a difficult and, to some extent, revolutionary process of market creation. They nevertheless have also observed, and paid close attention to, what was going on beyond the European borders. Economic and monetary paradigms were not simply adopted blindly in Brussels or in Frankfurt, where the EU or the European Central Bank have their seats, but have also been implemented with an eye on what was occurring in the major European capitals as well as in Washington, DC where the International Monetary Fund and the World Bank have their head offices.

As Dyson and Featherstone's (1999, 18) outstanding analysis has shown, "negotiators operated with calculations of relative gains and losses from EMU and sought to deploy statecraft to the attainment of political aims in more-or-less sophisticated ways. They oriented their behavior to the likely moves of other players both domestically and within the European Community." In terms of institutional bargaining power, this implied not only an improved understanding of the main points in common and of divergence between the two major actors (France and Germany), but also the possibilities of an agreement with possible other member states (especially Belgium, Italy, Spain, and, of course, the United Kingdom).

The case of Margaret Thatcher's strong refusal of any constructive discussion regarding the establishment of the EMU is here emblematic. Yet, even in this case the EU institutional impasse in convincing a reluctant partner has not been seen as an insurmountable constraint for future policy success. Thanks to past memories of policy failure, while recognizing in advance possible policy resistance, EMU negotiators succeeded in bypassing future policy blockades by creating useful opt-out options that made membership to the EMU voluntary and not a necessary precondition for further EU integration.[10] The full recognition of the divergent interests and needs of the other parts linked to strategic preemptive moves based on double contingency, in fact, made it possible to speed up the process of policy and institutional transformation while avoiding the imminent risk of a perpetual *status quo*.

The Creation of the European Monetary Union as a Self-Fulfilling Prophecy

The combination of actions associated with context-bounded rationality, embodied institutions, reflexivity, and double contingency resulted in a causal chain of social mechanisms that self-legitimized the initial behavior of national and EU actors. It also led to subsequent actions that on one the hand reinforced the preestablished pathways of institutional transformation[11] and, on the other hand, accelerated the speed and pattern of institutional change, thus entailing an important path-breaking character.

[10] For an excellent review on negotiations and power politics, see Leca (2009, 2010).

[11] In this sense, the process of establishing the EMU can be seen as a path-dependent process of incremental transformative change: that is to say, a situation that pushed for further gradual steps toward greater integration.

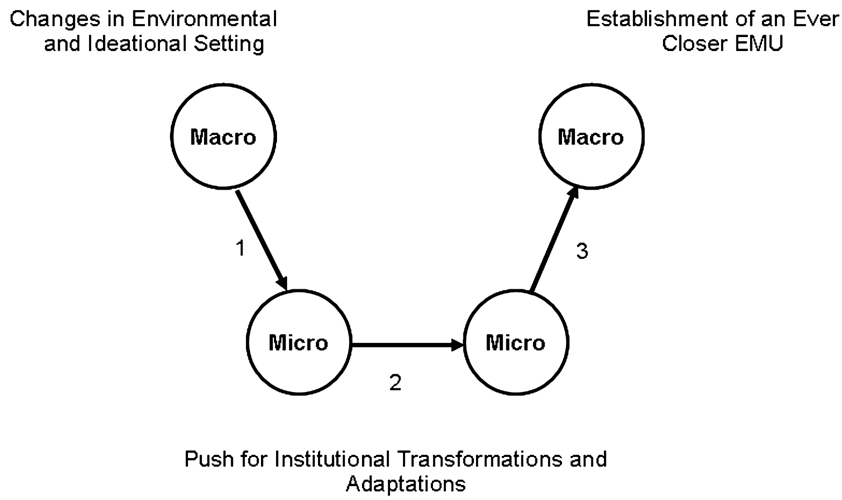
Merton's (1968) self-fulfilling prophecy can be taken as a good example of the key causal chains that have influenced the establishment of the EMU in this context. As in the case of the financial crisis of 1929, the source of Merton's inspiration for the notion of self-fulfilling prophecy lay in the initial beliefs of the necessity of a single European EMU associated with the beliefs concerned with the superiority of self-regulating free markets. This has permitted the EMU to become the real favorite policy option of several EU and national institutional actors. Its introduction was, in this way, subjected to a run. Timing and sequencing of reforms, two crucial concepts for new institutionalists (see Pierson 2004), have here been drastically altered in their normal flow by this causal chain of social mechanisms that have pushed the source and scope of the institutional transformation toward an ever closer union.

To go more into details, the initial beliefs regarding the necessity of establishing the EMU to resolve the problems created by the dissolution of the Bretton Woods system and of the "snake" led to precipitating the events concerning the urgency of the EMU formation. The collapse of the Werner Report, despite representing an insurmountable policy blockade, in fact created an opportunity to increase the speed of actions, as *status quo* or policy inaction would have resulted in a further and inevitable catastrophe obstructing the future goal of wider and deeper EU integration (McNamara 1998, 2006).

Always in this case, the institutional consensus found in monetarism and in the ideational superiority of the *Bundesbank* independence and efficiency as the right model for further EU integration soon spread among the policy communities and in policy venues (Baumgartner and Jones 1993), acquiring day-by-day the necessary self-legitimization that made further actions in that direction self-evident. In the presence of self-referential policy prescriptions to follow, and corroborated by an unwritten political, economic, and institutional agreement, any deviant behavior became practically impossible. Indeed, cascade-like actions by key institutional agents (such as those aimed to ensure further steps toward a single monetary implementation) suddenly became the logical consequence of a self-sustaining process of EMU formation.

Furthermore, beyond the mechanical reproduction of procedures that moved toward a self-sustaining and self-enforcing deeper EMU integration, path-dependencies and lock-in processes also played an important role in reinforcing previous decisions. Unsurprisingly, the first actions and policy choices of actors moved toward greater monetary integration by highlighting the "right" pathway to follow (the one based on the *Bundesbank*'s model). They also eliminated from the panorama all possible alternative points of view that would have created either cognitive or institutional dissonance among institutional and policy actors. If the team was working (and it seems it did so pretty well), there was no need to look for changes of direction!

Figure 1.
Macro–Micro Linkages



Sources: Coleman 1986; Hedström 2008, Fig. 13.2, p. 331; Author's modification.

So what, in sum, were the causes that helped to speed up the establishment of the EMU? And can they simply be found in exogenous factors stemming at the macro level (e.g., the oil crisis or the consensus toward a new economic paradigm)? As emphasized by Hedström (2008), the importance of the macro–micro linkages must, in any investigation of institutional change, not be underestimated. Macro-level events have, in fact, produced a clear impact on individual reasons and properties, which have then subsequently resulted in individual actions and in specific social outcomes. In the case of the EMU, the change in the environmental conditions that made the existent economic and monetary policies outdated (such as Keynesianism and neo-liberalism/ macro–micro) have produced a substantial impact on the necessity of conducting institutional transformations and adaptations so as to ensure the survival of the European project (embedded Keynesianism/micro–micro). These institutional transformations and adaptations have resulted in the establishment of an ever closer and deeper EMU (micro–macro), which is nevertheless still subjected to environmental changes (see Figure 1).

Conclusions

This article has emphasized the importance of social mechanisms in the establishment of the EMU. I argued that context-bounded rationality, embodied institutions, reflexivity, and double contingency-led actions have all influenced the process of economic and monetary integration, exponentially speeding up its introduction and consolidation. The considerations proposed here do not aim to dismiss the validity of new-institutionalist or social-constructivist accounts. Rather, they are intended to complement existing theories and approaches of European integration by highlighting the influence of so far unexplored mechanisms of institutional change. The establishment of the EMU has, in fact, been the product not only of actions centered on institutions, ideas, and interests, but also the product of a self-fulfilling prophecy understood in terms of causal chains of social mechanisms, the impact of which was less visible since it was hidden in the social and psychological background of institutional agents. The question that arises at this point is *What comes next? Will the global financial crisis move the EMU beyond the current leading economic paradigm?*

As the recent national and international responses to the global financial crisis seems to show, the infatuation for unregulated market competition has now come to an end, particularly given that a failure in regulatory systems can be identified as one of the main factors responsible for the global financial crisis (Hall 2008). What this will represent for the EMU remains an open question, however. As George Soros (2009), a well-known financial speculator and, more recently, philanthropist, stated to the *New York Review of Books*, "[t]here are two features that I think deserves to be pointed out. One is that the financial system as we know it actually collapsed. . . . [t]he other feature is that the financial system collapsed of its own weight." For him, the collapse occurred in both the assumption of markets as self-correcting entities and the worldview we had in advance (quoted in Rothstein 2010, 4). Markets, Soros concluded, are "bubble-prone. They create bubbles and therefore they must be regulated." If he is correct, what then will the future EU responses be? Will EU institutions and actors return to the past—Keynesianism, embedded liberalism, monetarism, or embedded Keynesianism—or will they instead develop new policy tools to stabilize an unstable environment? As emphasized by Hall (2008), the response in the United States and Europe will probably be to increase regulation in financial markets. Yet, while for the United States the principal obstacle will be represented by the lobbying power that financial institutions have in the U.S. Congress, for the EU the main problem will be to provide formal means for a coordinated regulatory response among all different member states. European member states and EU institutions are, as a consequence, called to reconsider their economic, monetary, political, and social priorities and prerogatives if the aim of greater and long-lasting prosperity for all European citizens is to be sustained.

Whether we are in front of a new phase of drastic institutional change is still too early to say. What is certain is that a new wave of European economic and monetary integration—and a wave that is substantially different from the one present in the past decades—is knocking on the door, representing a possible path-departure from the leading economic paradigm we have known so far. On the basis of the discussions conducted in previous sections, it might therefore be asked what will be the main causal and social mechanisms that will allow the introduction of a new worldview in absence of the environmental, ideological, and institutional basis that made the establishment of the EMU a necessity for further EU integration. The preconditions of *context-bounded rationality*, *embodied institutions*, *reflexivity*, and *double contingency* have now been drastically altered by the negative occurrences caused by the global financial crisis. Similarly, the causal chain of social mechanisms that made the creation of the EMU a self-fulfilling and self-sustaining prophecy has also been significantly altered. To make this issue even more complex, it could also be asked, as some commentators have proposed (see Schmidt 2010), whether the establishment of a European Monetary Fund or of a European Social Tax would be a possible solution for further EU integration and stabilization of markets. If not, what will the possible new policy responses be to the crisis and impasse that current EU financial and monetary institutions are facing? This article leaves these questions open in the hope that further research efforts in these areas will soon be conducted.

About the Author

Alfio Cerami is research associate at the Centre d'études européennes at Sciences Po, Paris. His research concentrates on the ways political, economic, and social transformations influence the process of democratization and of consolidation of democratic institutions. A portion of his research activities is also given to analytical sociology and to mechanisms of institutional change. His most recent publications include *Migration and Welfare in the New Europe* (together with E. Carmel and T. Papadopoulos, 2011, Bristol: The Policy Press), *Post-Communist Welfare Pathways* (together with P. Vanhuysse, 2009, Basingstoke: Palgrave Macmillan), and *Social Policy in Central and Eastern Europe* (2006, Berlin: LIT Verlag).

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