The euro area crisis and alternations in global economic governance

Applying Foucauldian concepts to identify changes in the perception of the role of the market mechanism

Vera Marton

MSc International Business and Politics – Copenhagen Business School

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Supervisor: Jakob Vestergaard

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Abstract
This thesis investigates global collective policy responses devised in the aftermath of the recent crisis, to promote global economic stability, especially as the European Union and euro area in particular became affected by the economic circumstances. Using Foucault's concepts of 'governmentality' and 'disciplinary power' as core analytical tools, the thesis will attempt to inquire whether global economic governance has changed its perception of the market mechanism with the occurrence of the euro area crisis. It has been argued that global economic governance regimes in the post-war years have predominantly been practicing a liberal governmentality exercised with 'exceptional' discipline, in which economies could use the market as a site of verification/falsification. The launch of the 'international financial architecture' initiative and the application of generalized discipline, concerned with getting 'institutions' right, seemed to indicate a shift in governance regime, albeit it could not constitute a transformation in governmentality.

The failure of the installed governance regimes to circumvent the recent financial and euro area crisis prompted the creation of new initiatives, which soon revolved around safeguarding the euro area. Markets became increasingly occupied with verifying/falsifying governmental operations according to new priorities and economic conditions. These were arguably incorporated into global governance agendas through the G20, International Monetary Fund and the European Union amongst others, and seemed to claim that getting 'economies' and 'institutions' right were equally necessary. The market was no longer the judge of practices, but also the dominant facilitator of discipline and regulator of states. This would possibly indicate a transformation towards neoliberal governmentality in which global economic governance might favour constant intervention on the states, and by the states, on the conditions of the market. Given that the course of action and implementation of policies addressing the financial and euro area crisis in global economic governance remains ongoing, the findings are preliminary, but seem to abide by Foucauldian insightfulness.
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Introduction

Much has happened in the aftermath of the financial crisis, which began when the severity of the housing bust in the US became clearer (Krugman 2008:169). The financial crisis has been called the first great economic crisis of the 21st century, since its consequences would engulf most of the global economy (ibid.). The global nature of the crisis, through the interconnectedness of the financial systems, soon required a global response. Efforts to contain the damages on market liquidity were encouraged both at national level and by international forums and organizations, such as the G20 and the International Monetary Fund, henceforth IMF (IMF 2009b). Initially, swift collective policy responses were deemed successful, as the IMF would forecast a weak global recovery (ibid). Further efforts were arguably needed to prevent a similar crisis, but overall policy focus remained on bolstering and improving regulation of the financial sector.

However, in 2009 a minor European economy admitted to have counterfeited economic data. What initially seemed to be a crisis of the Greek economy became an economic crisis engulfing the European Union, sparked by concerns for several sovereigns debt levels in the euro area (Mayer 2008:107). Investors began to scrutinize euro area members, deeming many of them risky investments as also reflected in the yields for government debt, which in late 2009, and 2010 began to differ substantially. Investors were worried about the fiscal situation in the euro area, which in the aftermath of the financial crisis, an in the apparent euro area crisis, seemed immensely important (ibid: 112). Countries, which prior to the crisis had accumulated large debt levels on behalf of eager investors, were now being scorned for their irresponsible fiscal policies. One of the most notorious European economies was Italy.

Italy had in its modern post-war history accumulated a large public debt and was notorious for its volatile political system which saw several prime ministers, some with affiliations to the Italian mafia. However, upon conversion towards the European Monetary Union, investor sentiment became favourable, as several administrations made budget cuts to accommodate the Maastricht Criteria, and Italy's economic conditions improved. Albeit Italy never achieved exact conversion, it was granted permission to adopt the euro. The enshrinement of the Maastricht Criteria into the Stability and Growth Pact in 1997 was to act as a disciplining framework for those member states violating the criteria. Also, its preventive and corrective arms were supposed to make economies ‘visible’ to encourage prudence on behalf of lender and borrower to avoid discrepancies within the euro area. However, even with such mechanisms, and an additional reform in 2005 to incorporate flexibility, the Stability and Growth Pact had little success in enforcing its procedures. Investors did not seem to mind the disobedience, as the Italian economy, alongside most
other euro area members was allowed to sustain their indebtedness without much protest. However, after the financial crisis unravelled, requirements in request for further capital seemed to be the norm. Austerity measures, consolidation and greater focus on fiscal budgets was urged at the regional level, but also at the international level as the IMF would relate the economic situation in the euro area to the fragile global economic recovery (IMF 2013d).

The change in investor sentiment could easily be attributed to contagion and the general uncertainty about the economic outlook. However, it soon became evident that more prudent debt management in Italy, and other heavily indebted European Union economies, was not only intended for excessive violations, but also as a new regional standard of practice. Additionally, encouraged at the global level through initiatives created by the IMF and World Bank, debt management was to ensure global economic recovery and command economic discipline through better surveillance mechanisms. The focus on global economic recovery and economic growth seemed to be directed through market requirements. To eliminate the possibility of further economic turmoil, favourable market conditions were to be reintroduced rapidly, often so stringently that the operational cost seemed to be ignored. The elimination of risk to secure economic prosperity seemed to entail further surveillance, more economic discipline and governance, encouraged at the global and regional European Union level.

Within this context the thesis seeks to investigate the following question:

**Has global economic governance changed its perception of the market mechanism with the occurrence of the euro area crisis?**

The initial interest in the topic did not arise from concerns regarding the increasing domination of market interests over state sovereignty, but from the observation of a short period of time in which unique events seemed to rapidly alter previous perceptions of how to conduct global economic governance. After the initial shocks from the financial crisis subsided, the measures encouraged and imposed on several European economies seemed to command a broader consensus of how proper global economic governance should be designed and executed.

**Research design**

The following section will present the research design, outlining the research philosophy and the research strategy, followed by a section on critical reflections and delimitations.
Research philosophy – the Ontological and Epistemological position

Using Marsh and Furlong’s (2010) assertion about ontology and epistemology it can be established that whilst research questions are essentially ‘prior’ - as they deal with one’s own assumptions about the nature of the world, epistemology constitutes accredited knowledge in a particular field of study, reflecting a theory of knowledge about the world. Marsh and Furlong emphasize that whilst epistemological and ontological positions are related, they need to be separated in a research study. Moreover, a researcher’s ontological position will inevitably affect, but not necessarily determine the epistemological frame and the outcome of the research.

Various ontological positions are deriving - as Marsh and Furlong define it - from either foundationalism or anti-foundationalism. Whilst foundationalists believe in an immanent reality of the world, independent of our knowledge, anti-foundationalists neglect the existence of a ‘real’ world independent of socially constructed meanings. In consequence, an anti-foundationalist observer cannot have objective assumptions about the ‘reality’ of the world, as these interpretations would always be affected by other’s social constructions associated to it (Marsh and Furlong 2010). Two core positions of foundationalism are the positivist and the realist traditions, both sharing an interest in causal and explanatory relationships between phenomena. However, whilst the former is concerned with establishing relationships between phenomena by using direct observation, the latter believes in the existence of deeper structural relationships, which might not be directly observable, yet essential for explaining or predicting causal and affectual relationships (Marsh and Furlong 2010).

The distinction between core epistemological positions is different amongst social scientists; moreover, further distinctions are made within traditions. The poststructuralist strand has challenged most traditional epistemological traditions. A new variant of interpretivist strand identified in this development is poststructuralist interpretism, which according to Bevir and Rhodes (in Marsh and Furlong 2010) is rather difficult to define. They highlight the work of Michael Foucault as one core representative of this tradition. His version of interpretism emphasises the crucial role of social discourse - rather than the beliefs of individuals- for understanding of social phenomena. According to Foucault: to understand an object or action, political scientists have to interpret it in a wider discourse of which it is part” (Bevir & Rhodes in Marsh and Furlong 2010:28). Classifying an epistemological position necessitates an understanding for its criticisms and shortcomings. Given that the ontology of interpretism is highly subjective, the reasoning of the research can be expected to be likewise subjective.
With the application of Michel Foucault's governmentality and disciplinary power as the core analytical concepts, one could conclude that the ontological and epistemological position of the thesis follows Foucault's ontology and episteme. However, as previously stated, the research philosophy adopted and the outcomes of the study will most likely also be affected by the researcher's own position.

**Research strategy**
The choice of a research strategy can be influenced by several considerations and circumstances. The epistemological choice will imply certain research approaches and reasoning. When looking at the ‘Research Onion’ provided by Saunders, Lewis and Thornhill several other factors of practical nature such as field investigation possibilities, time horizon or data collection constrains etc., might also influence the research design. The research strategy employed is a qualitative case study, in which the time horizon can form the research strategy into either a longitudinal or cross-sectional study. Given that longitudinal research methods require a ‘diary’-like representation of phenomena investigated over a given period of time, the research method adopted in the thesis is descriptive and cross-sectional in nature, investigating prints of events which evolved at a particular time (Saunders, Lewis & Thornhill 2007).

The empirical material used for the research is primarily reports, organizational and governmental publications, conference material, media data etc. The theoretical framework within which the empirical object is analysed, consists of Foucault’ “Discipline and Punish” and “The Birth of Biopolitics”. The point of departure, however, has been taken in Jakob Vestergaard’s “Discipline in the Global Economy?” which analyzes ‘international financial architecture’ as a disciplinary type of governance. His analytical concepts with foundations in Foucault's theory, has been extended to include the frameworks of global economic governance, whilst additionally using several references within Vestergaard's book to create a background for supplementary research and critical reviews. To avoid the pitfall of too much description, and deviate from Foucault’s own methods, there has been a supplementary exploration of relevant data on which it would be possible to hypothesize and subsequently relate it to the literature. Even though the thesis is limited by a given time-horizon, integration of data as actual as possible has been attempted, in a case which is still on-going.

**Critical reflections and delimitations**
The theoretical approach adopted for the case study is principally inspired by the work of Michel Foucault. His concepts of governmentality and disciplinary power will be applied to the analysis of global governance regimes in the post-war era, the Washington Consensus, the International Financial Architecture initiative, the Post-Washington Consensus including the initiatives taken in the aftermath of
the financial crisis and in response to the euro area crisis. Some, however, would argue that Foucault’s concepts have become redundant with the progression of societal evolution. Whilst some have compared Foucault’s obsolescence to 19th century Marxism in contemporary economic frameworks, or Weber’s failure to see beyond the iron cage, Binkley argues that it is difficult to apply the same paraphrasing to Foucault, as it is difficult to pin his “work down to a periodizing scheme” (Binkley 2009:xii).

Recent challenges to Foucault’s theories and concepts rests, according to Binkley, on erroneous assumptions that do not take into consideration the aim to enlist a “study of the past(...)that organize our (or any) present” (ibid:xiii). Accordingly, it was never Foucault’s desire to explain any particular present, “in terms of its evolution out of a given past” (ibid). Therefore the Foucauldian tool-box for the historical critique of the present, Binkley argues, is still relevant through their adaptability to actualities (Binkley 2009a:xii). The concept of governmentality “…adds an explicit focus on relations of power(...) by inquiring into the types of (governmental) practices and techniques that produce certain types of identities and behavior as appropriate, legitimate, effective, and so on” (Neumann 2010: 64). The strength of governmentality, according to Higgins and Larner, lies in its explanation of how governance is conducted, and its acknowledgment that governance technologies are constituted discursively (Higgins and Larner 2010). However the receptions of Foucault’s concept of governmentality and his analysis on neoliberalism has, according to Donzelot and Gordon, been flattened “…into a set of polemical, ideological, and globalising generalities, dispensing with the kind of descriptive investigation Foucault undertook in 1979…” (Donzelot and Gordon 2008:53).

Governmentality needs to be seen as a continuity of Foucault’s earlier and later ideas such as power, discipline, government of self etc. (ibid). As Foucault’s concepts were meticulously described, one must be careful not to overstretch the concepts and discard their emphasis on various documented mechanisms for shaping the ‘conduct of conduct’, or ‘government’ as a term which “…ranges from ‘governing the self to ‘governing others’”’ (Lemke 2001:192). Therefore the application of governmentality to global economic governance regimes, besides utilizing the concept in a broad context, will try to touch upon the mechanisms which shape the ‘conduct of conduct’. Additionally, Foucauldian discipline relies on technologies, which can be adapted to actualities, despite claims that “we live in a post panoptic society” (Binkley 2009:xii). Their effectiveness also relies on a great deal of specific mechanisms, of which some will be addressed in relation to global economic governance, also at the regional European level.
By focusing on the adaptability of discipline and governmentality, it is possible to identify striking parallels to “the current regime of global economic standardisation, surveillance and corrective reform” (Vestergaard 2009: 14). Similarly, global efforts to create awareness on the management of sovereign economies through globally adopted criteria, which seem unique in comparison to previous governance regimes, would require an understanding of prior regimes to understand present initiatives, which makes Foucault’s “analytical framework more appropriate” (ibid:15). The thesis will attempt to investigate the possible transformation in governmentality on a global and thereof regional European scale. Furthermore the thesis will investigate the possible formation of docile economies through an analysis of disciplinary mechanisms installed both at the global and regional European level– past and present. The object is not to criticize modern global economic governance or the feasibility of the present structures, but merely to investigate a possible shift in global economic governance and the power attributed to the market mechanism by applying Foucault’s original works.

A Concise History of Economic Governance
To better understand global economic governance and assess its durability, it seems important to touch upon the economic assumptions behind the implemented policies that might also reflect upon structures and policy intentions. Whilst there are various economic assumptions behind global economic governance, the next section will attempt to address the assumptions traceable in the institutions, which historically have had the biggest impact in shaping global economic governance, and which represents the framework that the euro area is affected by. The section will address these assumptions through historical lenses to clarify their origin and track their progress within the later frameworks of global economic governance.

Assumptions behind modern economics is by most mainstream economists accredited to the works of Adam Smith who became the first “economist” distinct from other contemporary tract writers, proposing or opposing particular economic policies preceding him from the long mercantilist era (Dowd 2000:29). The mercantilist era, spanning from the 13th to the 17th century, had inherited many doctrines from medieval Europe. Merchants and traders would in medieval Europe conduct all transactions according to a ‘just price’, which would compensate them for costs accrued prior to the sale and assure the maintenance of their predestined position in society (ibid:8). The Black Death and the continuous fighting between rival powers in the 15th, 16th and 17th century would, according to historians, slowly erode the feudal system (ibid:18). The expensive consolidation of nation states altered societal hierarchies, as
profits were needed to fund costly war-efforts. Merchants and their profits were important for the monarchs’ source of revenue, and were accordingly gratified with favourable trade policies (ibid: 23).

A demographic increase in population, however, put strain on the established economic framework of mercantilism, as Adam Smith contextually presented his famous notion of an ‘invisible hand’, reflecting English society’s many small aspiring businessmen and their dissatisfaction with upheld regulations and mercantile bastions hampering their interests. The market should, according to Adam Smith, allow for the exercise of individual motivation for optimal enrichment, as in contrast to the mercantile system where market forces only benefitted the few (Vestergaard 2009:187). Merchants in Lyon were similarly struggling with established regulatory frameworks, when they asked finance minister Jean-Baptiste Colbert to “laissez-nous faire” (Routh 1975:45). A freer market would lead to a surge in wealth, which David Ricardo expanded to include the benefits of global free trade (Dowd 2000:31).

However, whilst Adam Smith advocated for some regulation to prevent self-interest from distorting the market mechanism, his arguments were overlooked, according to critical historians, as many countries experienced the benefits from disposing with mercantilist monopolies (Vestergaard 2009:187). Laissez-faire, which originally was a protest against excessive mercantile regulation, came with political liberalism to embody a concept which ascribed a minimal role of government within civil society, deriving its foundation from Adams Smith’s conviction of an ‘invisible hand’ guiding the economy rendering government interference unnecessary (Heywood 2003:52). Arguably, even the most famous criticisms of laissez-faire, which came in John Stuart Mill’s “Principles of Political Economy” and Karl Marx’s observations in his 1867 “Capital”, did not manage to alter the domination of the unregulated market, albeit some argue it curbed the intensity with the expansion of socialism (Dowd 2000:41).

Classical economic theory evolved through the works of political economists to become an economic science. It was tangible through the economic man, who Jeremy Bentham defined through the desire for pleasure, calculable through terms of utility (Heywood 2003:50). The creation of the calculable economic man transformed economics into a “…science of economizing, maximizing and efficiency”, a science which “…studies human behaviour as a relationship between ends and scarce means which have alternative uses” (Sir Lionel Robbins cited in Dow 2000:83). The quantification of economics marked the transition from classical to neoclassical theory, which by the early 20th century could present a long period of evidence for the market’s effective distribution of wealth. As expressed by J. M. Keynes: “What an extraordinary episode in the economic progress of man that age which came to an end in August 1914!” (Keynes cited in Dowd
Economic progress however did not come entirely to an end according to economist W. Arthur Lewis, who claimed that the years of 1919-1939 were “...an age of dislocation, and an age of experiment” (W. Arthur Lewis cited in Dowd 2000:96). However, it is widely assumed that the depression following the Great Crash of 1929 was followed by an economic “epiphany” which led to a “Keynesian revolution”. The revolution in Keynes’ “General Theory” defied the laissez-faire concept and the assertion that unregulated markets would most efficiently distribute economic resources as the Great Depression unfolded (Dowd 2000:131).

Keynes did not dispute the efficiency of the market as a neoclassical economist, but merely provided the argument that in the absence of effective demand, non-private sources of demand (government) would have to compensate for the lack of economic activity (ibid). Arguably, after 1945 Keynesian economics became orthodoxy for both economists and the majority of western politicians. However, as the impressive post-war economic growth came to a halt, Keynes’s assumptions were challenged by residual economic schools. The stagflation across several economies in the 1960s-1970s hampered economic growth, resulting in high levels of government debt and unemployment. This supported Friederich von Hayek’s and Milton Friedman’s critique of a ‘managed’ or ‘planned’ economy, which they argued had been the causation for the worsened economic status (Heywood 2003:95). They advocated, amongst other, for a return to the roots of classical economics and freedom from the state on grounds of economic efficiency and market responsiveness, preferring a minimal but strong state to allow for the virtues of the market, including the allocation of resources to their most profitable use (ibid:94).

The economic policies of both the Reagan and the Thatcher administrations in the 1980’s were arguably influenced by the return of free-market economics and monetarism, as both administrations believed that market forces could solve economic problems (ibid:96). Neoliberals argued for the expansion of the reach and frequency of market transactions, requiring only fiscal discipline from the state through control of the money supply (ibid:24). Fiscal discipline and deregulation was advanced as the economic solution by neoliberals and international institutions such as the IMF. The neoliberal framework has since been criticized, albeit arguably not replaced. As Stiglitz notes, many crises have since revived the discussion of an unregulated market applied in global economic governance (Stiglitz 2008:49). The recent financial crisis, and following euro area (debt) crisis could in the future provide an alternate understanding of economics and global governance, since various attempts to support the market mechanism have failed with what some have dubbed the worst crisis since the Great Depression (Krugman 2008:181).
Global Economic Governance

Whilst global economic governance can embody various understandings, the following section will only address the discourses which came to influence institutions and economies on a global scale. To address the durability of the governance framework in which the euro area had to operate, it requires the assumption that some dominant economic theories were enacted globally through the instruments or institutions of global economic governance. One of them was, according to Frances Stewart, the Bretton Woods agreement where 45 country representatives met to establish a framework for international cooperation in order to avoid a repetition of the economic policies that had contributed to the Great Depression. This was to be done through the implementation of Keynesian economics (Stewart 1987:465). Although the Bretton Woods institutions would differ radically from Keynes’ initial plans, their foundation was inspired by Keynesian economics (ibid). However, according to economist José Antonio Ocampo, the Keynesian emphasis on real economic activity was tested and supplanted over time, as the emergence of neoliberalism brought forward new centre stage priorities in global economic governance: fixated fiscal balance, price stability and deregulation (Ocampo 2008:63). Neoliberal economics, he continues, was rapidly dominating the economic discipline as a new framework for global economic governance materialized.

Washington Consensus and beyond

The Washington Consensus was coined in 1989. The first written presentation was in John Williamson’s background paper for a conference, which intended to examine the extent to which the ideas of old development economics that had governed Latin American since the 1950’s, were being swept aside by a different set of ideas accepted within the OECD. In order to ensure that the conference dealt with a common set of issues, Williamson devised a list of policies which he thought everyone in Washington would agree were needed more or less everywhere in Latin America, and labelled this the ‘Washington Consensus’. The paraphrasing of ‘everyone in Washington’ would illustrate the consensual opinions of political Washington which consisted of: Congress, senior members of the administration, technocratic Washington of international financial institutions, the economic agencies of the U.S. government, the Federal Reserve Board and the think tanks (Williamson 2004:15). Although Williamson claims to be uninspired by the ‘neoliberal’ innovations of the Regan and Thatcher administrations, he highlights the perseverance of privatization, which became Thatcher’s gift to the economic policy agenda of the world (ibid: 16). The ten reform programs that constituted the Washington Consensus are listed below.
The Washington Consensus, according to Williamson, has been used to mean various things for different people (ibid:21). One of the more popular interpretations refers to the policies and reforms the US governments and Bretton Woods institutions applied to their client countries. Especially the IMF, Williamson argues, has championed the Washington Consensus through the liberalization of capital accounts, however deviating it was from his original intentions (ibid). With its specifically listed policies to attain economic growth efficiently, it was a popular conception that the Washington Consensus was a synonym for neoliberalism or market fundamentalism. Even as an oversimplification of the rendition of recommended policies, Stiglitz argues that the Washington Consensus had come to refer to development strategies that focused on privatization, liberalization, and macro stability (Stiglitz 2008:41).

### The Post-Washington Consensus

In the wake of the Asian crisis triggered in 1997, the international community and institutions addressed the need to strengthen the ‘architecture’ of the international financial system. The crisis revealed the depth of financial interconnectedness, necessitating the provision of a framework to limit the impact of regional economic difficulties upon global actors. The term “international financial architecture”, henceforth IFA, was soon widely adopted and it installed more precise notions of proper governance with the launch of specific standards and codes (Vestergaard 2009:5). Vigorously promoted by the IMF and the World Bank, proper governance was now to be extended into the organization and regulation of economies, which were encouraged to comply with exact means to achieve increased global transparency and financial stability (ibid). The adaptation of global governance standards would make economies ‘proper’, as they would benefit from economic stability. A ‘proper economy’ is here understood as an entity which incorporates the encouraged economic perceptions, standards and codes which were launched by economists and their institutional peers. The importance of being ‘proper’ resides with the assumptions behind that IFA initiative, which presumes that there is a mechanism of ‘market discipline’ rewarding or punishing economies according to their degree of compliance with proposed standards (Vestergaard 2009:7). Some argue that the IFA initiative indicated a shift or break from the Washington
Consensus’ stringent focus on whether governments were pursuing “sound” macroeconomic policies, to a more encroaching type of governance including the micromanagement of corporations and banks (ibid).

The construction of the IFA initiative seemed to diverge from the previous emphasis on deregulation, and was rendered necessary to prevent future crises and resolve any occurrences of such in a more effective manner (ibid: 89). The IFA initiative would concentrate on 5 major areas, namely: transparency, the development and assessment of internationally accepted standards, financial sector strengthening, involvement of the private sector, and modification of IMF financial facilities (ibid). The IMF argued that financial instability could only be diminished by effective surveillance, harmonization and convergence, and would upon its enforcement ensure the benefits of access to international capital (ibid:90). As a product of the IFA initiative and cooperation between the IMF and World Bank the Financial Sector Assessment Programme reflected a consensus in the international community which needed new policies, tools and methodologies to foster financial stability (IMF 2013a). The development of standards, which would need global adaptation to strengthen the IFA, was to be developed in 12 areas, which could fall into three main categories as shown in the table below:

<table>
<thead>
<tr>
<th>Policy transparency</th>
<th>Financial sector integrity</th>
<th>Market Integrity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data dissemination (IMF)</td>
<td>Bank supervision (BCBS)</td>
<td>Accounting (IASC)</td>
</tr>
<tr>
<td>Fiscal policy transparency (IMF)</td>
<td>Securities (IOSCO)</td>
<td>Corporate governance (WB; OECD)</td>
</tr>
<tr>
<td>Transparency in monetary and financial policy (IMF)</td>
<td>Insurance (IAIS) Payments systems (CPSS)</td>
<td>Insolvency and creditor rights (UNCITRAL; IMF;WB)</td>
</tr>
<tr>
<td>Anti-money laundering</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Vestergaard 2009

IMF: International Monetary Foundation
IOSCO: International Organization of Securities Commissions
UNCITRAL: United Nations Committee on International Trade Law
BCBS: Basle Committee on Banking Supervision
WB: World Bank

Compliance with the three categories and complementary standards would, according to the IMF, contribute to economic stability and result in better informed lending and investment decisions due to more effective market discipline (Vestergaard 2009:92). Several mechanisms within the IFA initiative,
such as the Financial Sector Assessment Programme, would promote a new analytical framework alongside corrective policy techniques to assess the overall stability in individual countries, ultimately intentioned to make policy design easier (IMF 2005:3). This also implied that the IMF saw the function of ‘proper’ economies as important for a well-functioning international system (Vestergaard:93). The standards and codes were to be accompanied by a scheme of surveillance through Reports on the Observance of Standards and Codes, as the IMF would emphasize the importance of surveillance as a tool for strengthening institutions (ibid). Surveillance would ensure the continuous awareness of the economic conditions and assist authorities and markets in understanding the strengths and weaknesses of the financial systems, resulting in more effective market discipline (ibid:101).

For some, however, the creation of the IFA initiative was seen as the IMF’s and World Bank’s attempt to reinvent themselves based on escalating criticism in the late 1990’s (ibid:174). The IFA initiative would expand the range and scope of governance to avoid the criticized “one-size-fits-all” approaches solely based on macroeconomic data, and include microeconomic governance of the private sector, as encouraged by an emerging new consensus (ibid:172). Addressing the shortcomings of the Washington Consensus, previous advocates have, in the reflection of failures, also begun to modify the economic prescription for growth into what Stiglitz dubbed a “Washington Consensus Plus” (Stiglitz 2008:49). The Washington Consensus Plus was an effort to create “second generation reforms”, which extends the Washington Consensus to include focus on structural reforms, upgrading of policy process, addressing the efficiency of both private and public governance, to acknowledge the balance needed between market and state, or at least the right institutions (ibid:50). However, as Stiglitz argues, layers are still being added to support the development of the Post-Washington Consensus. Therefore, policy initiatives which were created by the IFA initiative or thereafter, will be part of the Post-Washington Consensus to include the many additions addressing its predecessors’ inadequacies¹. The conception of a Post-Washington Consensus have come to include an acceptance that institutional frameworks matter, and that making the market work efficiently requires more than deregulation policies and low inflation (Vestergaard 2009:172).

However, as Stiglitz observed, even the emergence of a Post-Washington Consensus could not alter the recurrence and severity of systematic financial crises usually affecting developing nations (ibid:58). Likewise, the implementation of strengthened governance standards and codes created by the IFA

¹ This includes the Barcelona Development Agenda, from which most of Stiglitz’s arguments in this thesis have been recovered.
initiative have not prevented the financial crisis that slowly began in 2007, and later also developed into an economic crisis centred around the euro area. The frameworks installed by global economic governance had yet again been inadequate in their mission to promote stability and ensure growth.

In the wake of the financial crisis and subsequent euro area crisis, austerity measures accompanied by structural reforms were to help economies converge yet again towards ‘properness’, in order to restore confidence in the markets. However, the nature of ‘properness’ is yet to be resolved. The restoration of confidence in the markets, as encouraged by the IMF and the President of the European Commission, will in addition to initial policy responses require further structural policies addressing public inefficiency, lack of competitiveness, unsustainable debt levels and regulation (European Union 2012). Especially as initial remedies proposed by the international community and institutions yet have to produce results for its clients, who, according to the IMF, still await the benefits bestowed by markets in return for the ‘proper’ implemented policies (IMF 2011e). Global economic governance seems to be at a vital crossroads where responses to argued inadequacy might either install a new understanding or reintroduce past regimes, as governance frameworks both outside and inside the EU have failed to circumvent or contain the financial and subsequent economic crisis.

The following sections will present Foucault’s concept of governmentality and disciplinary power used as the core theoretical framework adopted to understand and theorise alterations in structure, emphasis and mechanisms installed in global economic governance to promote economic growth.

**Governmentality**

Governmentality was for Foucault a term that included the level of reflection “...in the practice of government and on the practice of government” (Foucault 2008:2). In his lectures at College De France addressing early liberalism, Foucault wished to demonstrate a historical link between what he described as three ‘movements’ in western history, movements that described the evolution of the ‘art of government’, which he argued constituted “...a solid series”, that “…even today has assuredly not been dissolved” (Foucault cited in Vestergaard 2009:193). Foucault identified these movements as the replacement of the ‘administrative’ state with a ‘governmental’ state; the emergence of ‘the population’ as something to be moulded as an object of governmental techniques; and finally, the process which isolated ‘the economy’ as a specific sector of reality, and political economy as the principal form of knowledge of that field of reality (Vestergaard 2009:193).
Modern ‘art of government’ emerged in the sixteenth century with the establishment of the regime of raison d’état, releasing the principle of rule from subordination to the divine order (Foucault 2008:4). Raison d’état, Foucault elaborates, “[I]s essentially identifying what is necessary and sufficient for the state to exist and maintain itself in its integrity” (Foucault cited in Rossi 2010:6). The emergence of the modern ‘art of government’ and the regime of raison d’état, demanded a thorough knowledge of the state in order to govern it. The state became according to Foucault, a “...specific and discontinuous reality”, existing “...only for itself and in relation to itself”, as a “...form of government”, organizing and embodying itself through internal management, upheld also by a military-diplomatic apparatus which kept the state free from imperial absorption (Foucault 2008:5). Mercantilism, Foucault argues, can be described as the first attempt at the ‘art of government’ and the first rationalization of the exercise of power as a practice of government, as it was more than an economic doctrine, but a particular organization according to a set of principles which prioritized economic strength, increasing its population, and exist itself in a state of permanent competition with foreign powers (ibid).

It was during the course of the eighteenth century that the art of government matured, with the emergence of a new object upon which power relations could operate, namely ‘the population’ which became a new field of knowledge and intervention (ibid). The ‘population’ allowed for the recasting of the concept ‘economy’, as it came to designate a field of intervention. This marked the transformation to ‘the governmental state’, Foucault continues, which was concerned with the matter of applying economy, devising an economy at the level of the entire state, which would imply the exercise of a surveillance and control towards its inhabitants, similarly attentive to that of the head of family over his household (ibid:194). The new domains of ‘population’ and ‘economy' were understood through political economy, which was a mode of knowledge which those who governed had to take into account (Foucault 2008:286).

With political economy, the art of government had entered a stage where its guiding principles revolved around the danger of governing too much or governing too little (ibid:17). The self-limitation of such governmental reason was called liberalism (ibid:20). Foucault borrows the term ‘frugal’ government to describe the conflict between governing too much or too little which was “...at the very heart of the reflection which has revolved around government” (ibid: 28-29). The question of the frugality of government is a question of liberalism or the connection of raison d’état and its “...calculation with a particular regime of truth that finds its theoretical expression and formulation in political economy” (ibid: 29). The connection between the practice of government and a regime of truth can be traced to past regimes as the privileged object of government vigilance and intervention. It is not economic theory,
Foucault argues, that from the eighteenth century became a site and a mechanism of the formation of truth, but a (market) place (ibid:30). Whereas the market had previously been a site of jurisdiction, regulated to protect the buyer from anything but the 'just price', a change according to Foucault, took place in the eighteenth century.

From the middle of the eighteenth century the market no longer appeared as a site of jurisdiction, but as something that had to be obeyed and had to obey natural, spontaneous mechanisms (ibid:31). Not only does the market allow natural mechanisms to appear, it also forms the natural price, which will adequately express the relationship between cost of production and demand (ibid). The importance of economic theory is that the natural mechanisms of the market constitutes a standard of truth, which enables the determination of which governmental practices are correct and which are erroneous. The market becomes a site of verification-falsification for governmental practice (ibid:32). Thereby Foucault argues that government must no longer intervene, as it no longer has a direct hold on things and people; “...it can only exert a hold, it is only legitimate(...)to intervene insofar as interest, or interests, the interplay of interests, make a particular individual, thing, good or process of interest for individuals faced with the interest of all” (ibid:45).

Liberal governmentality, Foucault argues, has freedom at the heart of its practice. Freedom is never anything other than an actual relation between governors and governed, "...a relation in which the measure of “too little” existing freedom is given by the “…even more freedom demanded” (Foucault 2008:63). The new governmental reason needs freedom; therefore it also consumes freedom, which necessitates further production of freedom. Liberal governmentality is management and organization of freedom in the extent that it produces what “...you need to be free” (ibid). The art of government therefore has a productive/destructive relationship with freedom as the production of freedom entails establishments of limitations, controls and forms of coercion (ibid:64). Even though Foucault only lived to see the first years of the rise in neoliberalism, he described what he thought could be a transformation in governmental rationality (Vestergaard 2009:202).

Addressing two specific forms of neoliberalism, German post-war liberalism and the Chicago School liberalism, Foucault identified two major ways in which the neoliberal rationality differed from classical liberalism. First, neoliberalism would redefine the relationship between the state and the economy, as neoliberalism inverted the early liberal model by allowing the market to control the state (ibid:208). Whereas classical liberalism naturalized that market as a system with its own rationality arguing for its
superior efficiency as a distributor of services and goods, neoliberalism extends the process of making economic activity a general matrix of social and political relations, with its focus on competition – not exchange. The shift from exchange to competition has altered the neutrality of exchange and transformed it into an artificial neo-liberal relation (Read 2009:4). Or in other words “[I]t is the market form which serves as the organizational principle for the state and society” (Lemke cited in Vestergaard 2009:208).

Second, whilst classical liberalism focused on the prevention of constraints on liberty of individuals, neoliberalism perceives the individual as a manipulable being.

In his analysis, Nikolas Rose argues that neoliberalism retains “…the presupposition that the real is programmable by authorities”, (Nikolas Rose cited in Vestergaard 2009:210), and that failure of government triggers attempts to innovate better strategies, rather than denouncing its capabilities (ibid). Competition (for better strategies) necessitates a constant intervention on behalf of the state, not on the market, “…but on the conditions of the market” (Read 2009:4). However both “liberalisms” share the idea of a ’homo economicus’, or that man is an economic subject at the basis of politics (ibid.). Thus, the neo-liberal ideal is, according to Foucault, a new regime of truth, a new mode of governmentality in which people are governed and govern themselves (ibid.).

As an integrated part of governmentality, the following section will outline Foucault's concept of disciplinary power to better identify and understand any alternations in policy structure, emphasis and mechanisms installed in global economic governance and how they have differed in their perception of the market.

**Disciplinary power**

Michel Foucault wrote his ‘Discipline and Punish’ as a generalization of disciplinary power. His description of the evolution in the penal systems is an analysis meant to encompass the history of the present- a description of the evolution of previous events that created the actual framework for modern society (ibid: 102). With society in transition from an ‘administrative state’ to the ‘governmental state’, Foucault noted a simultaneous emergence of both individual freedom and the government technologies invented to both condition and constrain such (ibid). Rather than being novel technologies, Foucault argues that such governmental technologies became solidified firstly through the human body, only to become a generalization upon society as a disciplinary power. The following sections will outline Foucault’s line of argument by describing the body as a target of power, the accomplishment of disciplinary power through
specific techniques and instruments, and the concept of panopticism as the architecture for predication of disciplinary power.

The Foucauldian body
The evolution of disciplinary power was to coincide with the increased mobility of people that potentially posed a threat to societal organization. It is with the military institutions, Foucault argues, that disciplinary power was created to manipulate the body in order to promote certain qualifications and reactions, whilst simultaneously achieving the much-needed improved performance through a very strict set of guidelines – discipline (Foucault 1991:135). The particular attention paid to soldiers' constitutions reflected the wider historical occupation with the human body, which had evolved into an art that included registers to obtain overview of its anatomical aspects, as well as its ‘technico-political’ position as a part of the governmental institutions. Such dual notifications of the human body represented an interest in both the body's submission and use, and its capable functions and explanation (ibid:136).

The occupation of the classical age in mapping the body and moulding it for control, led to the materialist reduction of the soul and a general theory of dressage, with its central notion of “docility” as a consolidation of the manipulable and analysable body. A docile body would allow for the subjection, usage, transformation and intended improvements of its domain (ibid). Docility as a governmental technology to control subjects, Foucault notes, promised a new scale of control which worked subjects ‘retail’ by exercising subtle coercion through the acquirement over the bodily mechanisms such as movements, gestures, attitudes etc.. Docility meant infinitesimal power over the active body, as the purpose of control had evolved onto the economy and efficiency of the body (ibid:137). Lastly, docility differed from previous technologies through modality by which it could practice an uninterrupted and constant coercion, supervising the process of the activity rather than the end result (ibid). The meticulous control, which assured the constant control of the operations of the body and subjection of its forces, imposed upon the bodies a relationship of docility-utility. This relationship was only made possible through the novelty of the methods or techniques Foucault termed ‘disciplines’.

‘Disciplines’ differed from other technologies of control through its elegant disposal of previous costly and violent relations by obtaining effects of utility equally effective. Disciplines came into force with the art of the human body, which had turned into a “…formation of a relation that in the mechanism itself makes it more obedient as it becomes more useful, and conversely” (ibid:138). Through such a relation it was possible to exercise what Foucault coined ‘mechanics of power’, which would define how one would have hold over others' bodies, not only so they could obey commands, but also operate according to “…what one
wishes, with the techniques, the speed and the efficiency that one determines” (ibid.). Discipline would produce ‘docile’ bodies, by increasing the forces of the body in economic terms of utility, simultaneously diminishing the same forces in political terms of utility (ibid.).

Methods for the control of activity
Discipline progresses from the distribution of individuals in a fabricated enclosure. Enclosures ensure the creation of functional sites which in turn allow for the codification of space which is interchangeable, since it is defined by the place it occupies in a series or classification (ibid: 145). Thereby discipline enables the efficiency of distribution and becomes the art of rank, which can be circulated in a network of relations rather than giving them a fixed position (ibid:146). In organizing ‘cells’, ‘places’ and ‘ranks’ the disciplines create complex spaces that are at once architectural, functional and hierarchical, transforming the confused, useless or dangerous multitudes into ordered multiplicities (ibid:48).

Disciplines also had principles and techniques for controlling activity, much like the distribution of individuals in space. As an extension of the monastic communities, the use of timetables and their enforcement would soon stretch beyond their intended use, into schools, hospitals and workshops. The quantitative measurements began to revolve also around quarters of hours, minutes and seconds. Such was evident with military control, but also increasingly with the wage-earning class that seemingly demanded a more detailed portioning of time (ibid:150). Through techniques aimed at controlling the activity of the body, a new object was being formed. According to Foucault, the new object is the natural body, “...susceptible to specified operations, which have their orders, their stages, their conditions, their constituent elements(...)It is a body of exercise, rather than speculative physics; a body manipulated by authority” (ibid.). The natural body was required “...to be docile in its minutest operations”, it “...opposes and shows the conditions of functioning proper to an organism”. “...Disciplinary power has its correlative and individuality” that was not “...only analytical and ‘cellular’, but also natural and ‘organic’” (ibid:156).

The success of disciplinary power is derived from three simple instruments: hierarchical observation, normalizing judgment, and examination (ibid.). “...The exercise of discipline presupposes a mechanism that coerces by the means of observation”, Foucault argues, which was an integral part of contemporary innovation. The observatories to conduct such disciplining observation would have an almost ideal model in the image of a military camp, which derived its power from the general visibility of its subjects, a principle later to be used in urban developments, housing estates, hospitals, asylums, prisons, schools, etc. (ibid:171). Power would be exercised solely through observation as disciplinary institutions created a
machinery of control with “...fine analytical divisions...formed around men an apparatus of observation, recording and training” (ibid:173).

“At the heart of all disciplinary systems”, Foucault notes, “...functions a small penal mechanism” (ibid). It enjoys judicial privilege “...with its own laws, its specific offences, its particular forms of judgment” (ibid:178). The indefinite domain of non-conforming is punishable, where punishment has the aim of reducing gaps essentially exercising a correction of non-conformance (ibid:179). In the regime of disciplinary power, the art of punishing, is “...neither aimed at expiation, nor repression” (ibid:182), but has five distinct operations: comparison, differentiation, hierarchization, homogenization and exclusion (Vestergaard 2009:112). These five operations constitute what Foucault terms ‘normalizing judgment’, constantly imposing on the bodies a power of the norm, since the “…norm introduces, as a useful imperative and as a result of measurement, all the shading of individual differences” (Foucault 1991:184). The shading of individual differences culminates and is combined into an examination. “It is the examination”, Foucault argues, which by the combination “…of hierarchical surveillance and normalizing judgment, assures the great disciplinary functions of distribution and classification” (ibid:192).

Panopticism and the Panopticon

Even though there was an elaborate machinery of discipline installed, Foucault noted that the derivation of power from (albeit minor) machinations would not be able to achieve the effects on the scope desired. The system of surveillance had to embody the supervision and solution to any malfunctioning in society (ibid:197). Behind “…the disciplinary mechanism can be read the haunting memory of ’contagions’” (ibid:198), in which authorities had to exercise individual control according to a double mode, that of binary division and branding (ibid: 199). Even in modern time there are mechanisms of power disposed around the abnormal individual, “…to brand and to alter him, are composed of those two forms which they distantly derive” (ibid:200).

Jeremy Bentham’s Panopticon, Foucault argues, is the architectural embodiment of the disciplines, as it induces a central-peripheral relationship, which can be accustomed to various institutional purposes. “The panoptic mechanism arranges spatial unities that make it possible to see constantly and to recognize immediately”, which ensures that the inmate is seen, but he does not see himself; “he is the object of information, never a subject in communication” (ibid). The arrangement of his cell opposite the central tower, Foucault argues, “…imposes on him an axial visibility; but the divisions of the ring, those separated cells, imply a lateral invisibility. And this invisibility is a guarantee of order” (ibid). The guardians could then
supervise multiplicities, and exercise their power through visibility, which to the inmate was always evident but unverifiable (ibid:201).

The mechanism of visible, yet unverifiable power is important since it achieves the disindividualization of power. Foucault stresses that the “...more numerous those anonymous and temporary observers are, the greater the risk for the inmate of being surprised and the greater his anxious awareness of being observed” (ibid 202). Whereas the plague presented a unique situation, the Panopticon “…must be understood as a generalizable model of functioning; a way of defining power relations in terms of everyday life of men” (ibid).

The detachment of any specific use and its strong exercise of power derive from three sources: “…it can reduce the number of those who exercise it, while increasing the number of those on whom it is exercised” (ibid:206). Secondly it wields a sporadic but yet constant pressure, “…even before the offences, mistakes or comes have been committed” (ibid.). And thirdly, it never intervenes, since power is exercised spontaneously and without noise (ibid). The efficiency of the Panopticon can be ascribed to its subjectification to a field of visibility, “…and he who knows it, assumes responsibility for the constraints of power(....) he inscribed in himself the power relation in which he simultaneously plays both roles; he becomes the principle of his own subjection” (ibid 202-203). With the application of panopticism through the architecture of the Panopticon, discipline “…may be identified neither with an institution nor with an apparatus; it is a type of power, a modality for its exercise” (ibid: 215).

Therefore, “…one can speak of the formation of a disciplinary society...that stretches from the enclosed disciplines (....)to an indefinitely generalizable mechanism of ‘panopticism’” (ibid: 216). It is not that disciplinary modality of power has replaced all others, Foucault notes, but it has infiltrated others, sometimes undermining them, linking them together, and making it possible to bring the effects of power to the most minute and distant elements (ibid). The transformation of discipline has affected society to be one of surveillance, rather than spectacle. The schema of exceptional discipline becomes incorporated into generalized surveillance by the brilliant mechanism of panopticism. The movement to that of generalized surveillance marks the transformation to what Foucault denotes as the disciplinary society (Vestergaard 2009:120). Power has shed its historical negative meanings, and become a positive instrument in increasing the utility of individuals in any imaginable context (Foucault 1991:210).

The spread of disciplinary institutions was evidence of the increased dominant position of disciplinary generalization and methods, which allowed the extension of the disciplinary society (ibid: 209). Even though some might dismiss panopticism as a utopian idea it has received far too little attention, stating
that it is an “...abstract formula of a very real technology”, namely “...that of individuals” (ibid: 225). “The practice of placing individuals under ‘observation’ is a natural extension” Foucault adds, “...of a justice imbued with disciplinary methods and examination procedures” (ibid: 227). Is it then surprising, Foucault asks, “...that prisons resemble factories, schools, barracks, hospitals, which all resemble prisons?” (ibid: 227-228)

The following sections will briefly outline the historical circumstances that inspired the creation of the European Union, henceforth EU, and euro area attempting to map and describe the policy initiatives established during this development. This process will be traced up until the financial crisis, describing policy responses to the global economic events and its regional context.

A currency in crisis
The common currency project was arguably undertaken to strengthen the internal market, the European position globally, and cooperation amongst the euro area members eventually heading towards full economic integration (Pryce 2012:5). Even though critics early on questioned the durability of its governance, the euro had a smooth launch in 1999 before becoming the legal tender in 12 countries in 2002, with several more states joining the following years (Mayer 2012:79). However, stability was fragile as the European Central Bank, henceforth ECB, in 2006 issued warnings about the underestimation of risks in the euro area (ECB 2013c). Potential risks were discovered in the wake of the subprime mortgage crisis in the US after Greece in 2009 admitted to having counterfeited national statistics. What initially seemed to be a crisis of a minor Greek economy became an economic crisis in the euro area, Mayer argues, as confidence in the euro weakened. Investors began to scrutinize individual euro area members, deeming many of them risky investments as yields for various governments’ debt soared (Mayer 2012:109). Even though there were several political and economic efforts directed at reassuring the markets of the euro area’s integrity, this could not circumvent the economic crisis in several euro area countries, which according to the European Commission threatened to destabilize the entire EU. The current economic scenario requires, according to its regulatory bodies, ongoing efforts to reinvent a governance framework, which will accord to the EU’s vision of economic prosperity, rendering previous frameworks inadequate.

The Political Vision
Already towards the end of World War II, visionary politicians concluded that a defeated Germany had to be incorporated into a firm European structure that would avoid the repetition of experiences made after World War I. A union between previous enemies was to be forged at the economical level to achieve the
European Economic Community, the creation of the EU, the Single European Market and eventually the establishment of a European Monetary Union (Mayer 2012:14). The idea of an economic and monetary union did not seem alien for the European economies in the 1950s, as they mostly traded amongst each other (Coffey 2001:3). Since the European Economic Community became an internationally acknowledged trading block, its consistency and the sustention of post-war economic growth arguably became a priority for its members. Even though the common desire was economic growth, political differences within the respective European states caused friction in the process of continued integration. However, the idea of an European Monetary Union was to become a reality eventually, deemed necessary by contemporary politicians as an attempt to strengthen Europe’s position, entrenched by two dominant geopolitical enclaves in global politics (Mayer 2012:22).

**A desired European Monetary Union**

After the European Community was founded in 1968, the political climate warmed to the idea of actually materializing proposals for a monetary union. From the first consensual agreements in Der Haag in 1969 to 1970, no less than four plans were devised prior to the "Werner Plan", which was publicized as a blueprint for the European Monetary Union, henceforth EMU. The plan envisioned the creation of the EMU through several stages to be completed in 1980, advocating for a community system of central banks inspired by the US, relying heavily on the Bretton Woods system to dictate the relationship between currencies (ibid:21). However, the plan was abandoned with the definitive collapse of Bretton Woods in 1973, but had in hindsight succeeded in designing several mechanisms for the management of an EMU.

The introduction of the European Monetary System (EMS) in 1979 was one of such mechanisms, allowing for a grid of bilateral exchange rates with fluctuation margins and the nomination of currency against a common unit of account, securing exchange rate stability (ibid:24). Additionally, the fight against 'euro sclerosis', which coined the poor performance of European growth in the 1970's and 1980's coupled with weak productivity gains, persistently high unemployment and relatively high price and wage inflation, would arguably strengthen the political will to explore new initiatives (Temperton 1998:8). According to the European Commission, such initiatives consisted of the further promotion of trade with the creation of a single European market and a reduction of transaction costs by seriously undertaking the EMU project (European Commission 2013d). Jacques Delors and his committee were assigned the task of looking into the practical details of launching a single currency, and reported their recommendations in 1989. They were incorporated into the Treaty on European Union, popularly called the Maastricht Treaty (ibid: 10).
By 1992, the Maastricht Treaty introduced plans for the EMU based on Delors’ concrete steps towards an economic union (European Commission 2013d).

The treaty was built on three founding pillars, one of which consisted of the creation of an EMU and a European currency (Coffey 2001:36). For those countries wanting to join the EMU, convergence of economic performance was a central requirement of the treaty. The criteria, applicable to all member states, albeit most important for those wanting to join the euro, would specify the behaviour of inflation, budget deficits, stock of government debt, long-term interest rates and exchange rate stability (Temperton 1998:68). Specifically, the criteria are incorporated in Article 121(1) of the Treaty establishing the European Community, demanding the following:

1. Price stability: the inflation rate of a given Member State must not exceed by more than 1.5 point that of the three best performing Member States in terms of price stability
2. Government finance:
   a. The annual government deficit must not exceed 3% of GDP
   b. Government debt must not exceed 60% of GDP
3. Exchange rate: Applicant countries must not devaluate their currency (the criteria became obsolete with the introduction of the euro). Moreover, the Member State must have participated in the exchange-rate mechanism under the European Monetary System (EMS) for two consecutive years before the examination, without severe tensions.
4. Long-term interest rates: must not be more than 2% higher than those of the three best performing Member states in terms of price stability (European Union 2006a)

According to the treaty, each member state should adhere to all of the above in order to participate in the third and final stage of the EMU, irrevocably fixing exchange rates before the adoption of the currency (European Commission 2010). The Commission and the ECB are, in accordance with Article 122(2) of the treaty, responsible for monitoring the convergence progress. Should a member state fail to comply after accession, later frameworks with basis in the treaty were since formulated to secure corrective punitive mechanisms. These will be addressed and further elaborated in the following sections, as the frameworks have been, and continue to be, updated. Besides the specific convergence criteria, safeguards against possible political influence over the new ECB were also incorporated into law. As expressed in the Maastricht treaty, the ECB’s primary goal is to ensure price stability, stating that it was prohibited from influencing member states’ economic soundness through the direct purchase of debt instruments or overdraft facilities, which would aid the financing of government deficits (Williams & Reid 1998:143). Thus, only through its mandate to create price stability can the ECB guide the euro area’s economy.
With the completion of the basic framework for Europe's new currency, aspiring participants began their encouraged economic convergence. Economic speculation against the European Exchange Rate Mechanism (part of the EMS) would pave the way for monetary lenience for EMU candidates, Mayer argues, as several countries were unable to stay within the provided band of allowed exchange rate deviation (Mayer 2012:25). To enforce the Maastricht criteria, the Stability and Growth Pact (SGP) was approved in 1997 and intended as a rule-based framework for the coordination of national fiscal policies in the EU (European Commission 2013c). Established to safeguard sound public finances, the SGP was installed with preventive and corrective arms to secure compliance with the Maastricht Criteria, and punishment in the case of excessive deficits. Non-compliance will initially trigger Commission reports, and in cases of continued breach involve annual fines or possible suspension of Cohesion Fund financing. Such governance frameworks were, according to the Commission, created to underline that the Maastricht Treaty did not include any bailout clauses, meaning that the composition of sovereign economies would remain a national issue, thus further discouraging members to violate the criteria (ibid). The importance and scope of such framework for the current scenario in the euro area will be addressed later, alongside recent initiatives to strengthen the SGPs rewarding and penalizing mechanisms.

Convergence continued, as several EMU candidates could reap the benefits of the prospective new currency as interest rates began to harmonize. Interest rates would plunge across Europe to German levels, Mayer argues, allowing other EMU citizens to access unprecedented cheap credit (Mayer 2012:85). However, it became clear that not many candidates were going to meet, let alone remain within all the targets formulated in the Maastricht Treaty. By 1998, at the first planned stage of the euro, all members had met the budget deficit goal, but not all had managed to meet the debt target, inflation reduction target or similarly important interest rate reductions. However, some argue that there were ambiguities concerning the meaning or totality of the criteria (Gros 1995:3). As the treaty would allow countries to qualify if their debt-to-GDP ratio was ‘sufficiently diminishing and approaching the reference value at a satisfactory pace’, the unsuccessful convergence of some members, including Italy and Belgium, was ignored and both were could adopt the euro (McCormick 2008:159).

By 1999, the euro had experienced a smooth launch. As the final stage began in 2002, 12 Members States made an irrevocable step to adopt the euro as their legal tender, as did several others within the first decade of its functioning. Even though there had been a few economic and political glitches, the euro’s first decade was smooth, attaining political and economic support whilst also gaining the ECB vital trust both publically and in the financial markets (Mayer 2012:79). According to the Commission, the political and
economic support behind the project allowed the euro to become a strong contestant to the dollar (European Commission 2013). In 2005 the SGP was reformed, and no longer required that Member States converged “...on a uniform close-to-balance budgetary position in the medium term” (European Union 2006b). Rather, individual medium-term objective are set for each member state, “...taking into account the economic and budgetary circumstances in each country, so as to provide a sufficient safety margin with respect to the reference value of 3% of GDP and ensure convergence on prudent levels of debt” (ibid).

According to the Commission, the medium-term budgetary objectives (MTOs), defined in structural terms (i.e. in cyclically adjusted terms), would allow for the reflection of individual economic fundamentals and national strategies (European Commission 2013c). Table 5 will later illustrate the evolution of mechanisms in the SGP. However, Mayer argues that cheap and easy credit between the euro area members and from international capital markets would disguise cracks in the system safeguarding the euro area, as discrepancies between euro area members increased (Mayer 2012:100).

**The European Monetary Union in Crisis**

Concerns regarding the euro area’s financial stability were already being expressed by the ECB prior to the implosion of the subprime-market in the US. Nevertheless, warnings seemed to be overheard until the scope of economic entanglement unravelled. The American housing-bubble’s impact on market liquidity triggered the ECB to inject support for banks in August 2007, as the ECB’s concerns rose over euro-denominated money market funds, which were exposed to the subprime mortgage market through swaps (ibid:104). The ECB took action, and a crisis in the euro area seemed to have been averted, until markets were severely disrupted again by the collapse of several US investment banks, culminating in September 2008. The ECB’s response was to inject even more liquidity, replacing euro area banks’ market funding with easy accessible ECB support (ECB 2008).

The distrust in the markets spread from financial institutions and their especially architectured derivatives to other financial instruments (Mayer 2008: 107). As investors seemingly lost trust and altered their perception on the safety of national debt instruments, the exposure of manipulated national accounts put the Greek government in a difficult position (ibid). Furthermore, national statistics had been misreported throughout the political spectrums of government, thus exposing Greece as having entered the EMU on fraudulent terms, and subsequent false assumptions through most of the years 2001-2009. According to Pryce, investors no longer assumed that all sovereign debt was as safe as Germany’s and began to sternly assess each euro area member on their own merits. They did this especially since there
was no bailout clause incorporated in the Maastricht Treaty or readily available political solutions to the weakness in the governance framework aimed at preventing excessive deficits (Pryce 2012: 87).

By 2010 the spread in benchmark 10 year bond yields between Germany and troubled euro area members had diverged to an extent that forced Greece, Ireland and Portugal to seek financial assistance elsewhere, as the markets were reluctant to provide cheap financing (ibid: 88). American grading companies, who distributed valuations, opinions and various grades to keen investors, simultaneously executed assessments on government debt. As noted by the Financial Times, this would increase pressure on euro area economies, as some investors were constrained by certain grade criteria, and others would be inspired to demand higher yields for the increased risk (Financial Times 2011).

According to the European Commission, the financial crisis had several harmful consequences for member states’ economies, including the destabilization of financial markets, downturn in economic growth and the deterioration in the budget deficits and debt positions (European Commission 2012a). As the financial difficulties experienced by member states could present threats to the financial stability of the EU as a whole it was necessary to construct stabilization frameworks equipped to provide needed financial assistance (ibid). In May 2010, the EU and euro area member states created the European Financial Stabilization Mechanism (EFSM) and the European Financial Stability Facility (EFSF) “...to safeguard EU financial stability amid severe tensions” in euro area sovereign debt markets (ibid). The Commission advocated for a reinforced economic agenda with closer EU surveillance, also as part of the Europe 2020 strategy for ‘smart, sustainable and inclusive growth’, supplemented by the additional commitment taken by member states to participate in the Euro Plus Pact (European Commission 2011). Since all member states have committed to Europe 2020 through national targets and growth-enhancing policies, the European Commission has set up the European Semester to attain yearly economic policy coordination.

Additionally, a “six-pack” consisting of regulations and a directive entered into force in 2011, to address the shortcomings of economic and fiscal governance in the EU and improve the economic and budgetary coordination as a whole. Within the “six-pack” an additional reform of the SGP was executed to strengthen the mechanisms with regards to its corrective arm, establish minimum requirements for national budgetary frameworks and ensure prevention and correction of macroeconomic and competitiveness imbalances through surveillance of macroeconomic trends (European Commission 2012b). Moreover, to safeguard the EU, the European Stability Mechanism (ESM) entered into force in 2012, issuing debt instruments “...in order to finance loans and other forms of financial assistance to euro area Members States”
(European Union 2013b). It would complement the new frameworks for economic surveillance in the euro area, as focus would be on debt sustainability and more effective enforcement measures, designed to reduce the probability of a future crisis. Alongside abovementioned mechanisms and frameworks, both the IMF and ECB are involved in stabilizing the euro area (European Commission 2012a). The scope and a more detailed description of some of these new governance frameworks and mechanisms will be provided later in relation to the issue of durability of global economic governance frameworks.

It was, as the Commission acknowledged, no longer just an ongoing crisis of a minor Greek economy but a crisis of confidence in the euro. The path for sustainable economic growth and job creation, according to the IMF, required extensive cooperation and structural readjustments (IMF 2012). Contagion is here understood as a phenomenon by which a financial crisis spreads to neighbouring countries (Vestergaard 2009:154). To better illustrate the political and economic activity during what was dubbed the euro area crisis, a limited timeline with the biggest headlines are provided in Figure 1. Evidently, the need to attain economic sustainability amongst euro area countries was recognized by the European Commission and other regulatory bodies, as rising yields reflected market cautiousness. The ECB would enforce its mandate to provide economic stability by announcing the launch of the Securities Markets Programme on May 10th 2010. The programme would intervene in the public and private debt securities markets in the euro area “...to ensure depth and liquidity in dysfunctional market segments” (ECB 2010a). However, despite the many initiatives and political willpower, the search for the next heavily indebted euro area economy began, as the spotlight shifted to two of Europe’s biggest economies, Spain and Italy. Even with the most sincere political intentions, they would be beyond saving should they default on their debt burdens. As Barosso pointed out in his State of the Union Speech, Italy is one of Europe’s biggest economies, and its economic and political stability will help ensure the stability of Europe as a whole (Europe Online Magazine 2013). To better understand the concerns for Italy’s economic health, the following sections will briefly outline Italy’s more recent economic and political developments.

<table>
<thead>
<tr>
<th>Figure 1</th>
<th>Limited Chronology</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2008</td>
<td>The global financial crisis hits. Many European banks experience difficulties</td>
</tr>
<tr>
<td>15 November 2008</td>
<td>First G20 Summit held in Washington to address the economic situation</td>
</tr>
<tr>
<td>22 February 2009</td>
<td>European members of the G20 Group agree to combat the financial crisis</td>
</tr>
<tr>
<td>Date</td>
<td>Event</td>
</tr>
<tr>
<td>--------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>5 November 2009</td>
<td>New Greek Prime Minister George Papandreou announces that Greece’s 2009 budget deficit will be 12.7% of GDP</td>
</tr>
<tr>
<td>26 March 2010</td>
<td>At a European Council meeting, EU leaders adopt Europe 2020 targets and all 16 euro area countries get behind the plan to help Greece deal with its deficit</td>
</tr>
<tr>
<td>2 May 2010</td>
<td>Greece agrees its first €110bn bailout with the EU, ECB and IMF in return for extra budget cuts</td>
</tr>
<tr>
<td>May 2010</td>
<td>The European Financial Stability Facility (EFSF), financed by euro area members and agreed by the 27 member states, is created to promote financial stability alongside the European Financial Stabilization Mechanism (EFSM), an emergency funding programme reliant upon funds raised on the financial markets using the budget of the EU as collateral</td>
</tr>
<tr>
<td>28 November 2010</td>
<td>Ireland secures a €85bn bailout</td>
</tr>
<tr>
<td>25 March 2011</td>
<td>A comprehensive package (the Euro Plus Pact) to strengthen the economy is finalized by the European Council</td>
</tr>
<tr>
<td>16 May 2011</td>
<td>€78bn bailout package for Portugal approved</td>
</tr>
<tr>
<td>11 July 2011</td>
<td>Euro area countries sign a treaty creating a European Stability Mechanism (ESM)</td>
</tr>
<tr>
<td>13 December 2011</td>
<td>“Six-pack” enters into force</td>
</tr>
<tr>
<td>2 February 2012</td>
<td>The EU establishes the European Stability Mechanism (ESM) to work alongside the European Financial Stabilisation Mechanism (EFSM)</td>
</tr>
<tr>
<td>21 February</td>
<td>Term on second Greek bailout agreed, including private creditor haircuts</td>
</tr>
<tr>
<td>9 June 2012</td>
<td>Euro area finance ministers agree a €100bn bank rescue package for Spain</td>
</tr>
<tr>
<td>25 June 2012</td>
<td>Cyprus becomes the fourth euro area country to ask for a bailout</td>
</tr>
<tr>
<td>29 June 2012</td>
<td>An EU summit decides on a new “Compact for Growth and Jobs”. It also proposes to turn the ECB into a single banking authority and allowing the ESM to inject funds into banks directly. EFSF and ESM funds could be used to buy countries’ bonds to keep yields down if country-specific budget guidelines are met</td>
</tr>
<tr>
<td>6 September 2012</td>
<td>ECB announces intention to engage in unlimited purchases of short-term bonds in secondary markets of crisis countries, but only if they formally ask for bailouts and adhere to conditions</td>
</tr>
<tr>
<td>12 September 2012</td>
<td>German Constitutional court approves the general principle of ESM</td>
</tr>
<tr>
<td>25 March 2013</td>
<td>Cyprus receives a €10 billion bailout loan</td>
</tr>
</tbody>
</table>

Source: Vicky Pryce 2012, the ECB
**Italy**

**Post-war Italy**

Since 1945, the Italian economy has transformed, steadily catching up with the rest of Europe. Liberalism, the market and the free enterprise system has had solid backing even from left-wing intellectuals, Sassoon argues, as Italians became consumers and producers of popular consumer goods (Sassoon:10). The foundations for modern Italy was designed by a somewhat continuous government which, from 1946 until 1994, mostly consisted of the Christian Democracy party as the largest party in parliament, governing in several consecutive coalitions with support from the Italian Democratic Socialist Party and occasional fractions of communists (ibid:48). Especially as the Communist Party and other left-wing parties had an increasing solid number of constituents, the inception of a pan-European project to regain political balance on the continent was seen as essential for future prosperity. Under political pressure from the US, Christian Democracy ousted the Communist Party from government, and became campaigners for the founding of closer European integration to ensure its American and Western-European allies of its commitment and loyalty (ibid:30).

Throughout the 1950’s and well into the 1960’s, the Italian economy entered a phase dubbed the “economic miracle”, which reflected the increased economic activity, production and prosperity in the country, as envisioned by their rather stable governments. Growth rates were unprecedentedly high, exports were booming due to the newly created European Economic Community, and employment was easily found in the northern regions (ibid:35). Even when Italy had entered the EEC with structural handicaps as constant emigration, scarcity of primary products, low productivity in agriculture and poor technology, the economy was arguably compensated by the ability of Italian entrepreneurs to contain costs (ibid:51).

The “economic miracle” ended in the 1960s and retracted further in the 1970s when economic growth slowed, as the expansion of the tertiary sector was echoed by a diminishing manufacturing sector. The gradual increase in wages during the 1960’s also led to increasing labour cost, causing inflationary tendencies. Alongside the oil crisis in 1973 and the collapse of the Bretton Woods, Italy’s devaluation of the lira to enhance competiveness further exacerbated the historical inflationary tendencies (ibid:72). The economic shock challenged Christian Democracy, which had to expand its electorate base in order to organize public spending. An extended invitation was given to the Italian Communist Party who had attracted voters due to the unsatisfactory growth and a “black market labour force” that drove a surge in economic growth towards the 1980’s, due to greater flexibility and lower wages, as a part of Christian
Democracy’s loosening of control exercised on the private sector (ibid:11). As the ruling parties became more moderate, the Communist Party grew as an alternative to the established political landscape, which was becoming increasingly volatile, especially due to the lack of reforms and engagement in combating corruption and the growing “black economy” dominated by the mafia.

**Modern Italy**

In the early 1990s, the ‘Mani Pulite’ investigation intended to undermine widespread illicit activities, resulted in the dissolution of Christian Democracy and the Socialist Party amongst others, leaving Italian politics in an unaccustomed competition for an increasingly unsatisfied electorate. The previous decades of political inertia were no longer tolerable as the state had arguably institutionalized inefficiency and allowed space for underground economics (Shin & Agnew 2008:15). Besides structural weaknesses Italy inherited a sluggish economy. Figure 2 provides data for the growth in GDP in percentages.

![Figure 2](image)

Huge public deficits and enormous public debt inherited from the 1980s was a burden for future administrations, which also had to deal with convergence towards the Maastricht Criteria (Mascitelli & Zucchi 2007:131). With constantly changing governments as depicted in Table 3, Italy converged towards the Maastricht Criteria throughout the 1990's (ibid: 132). The severity of convergence through economic budget cuts left Italy unable to compare itself to neighbouring countries, which, according to the IMF, experienced more economic growth. Additionally, Italy’s share of global production declined because of inflexible labour markets (IMF 1997). As the centre-left government priority until 2000 was to focus on
euro entry, structural changes were ‘reforms without reformism’, overlooking deeper societal reforms, including those necessary amongst the political elite (ibid: 132-133). Modern Italy, despite its EMU convergence guidelines and political ambition, had consistent and continuous high debt, as also illustrated in Figure 3, no matter which administration was elected.

Table 3

<table>
<thead>
<tr>
<th>Year in office</th>
<th>Prime Minister</th>
<th>Year in Office</th>
<th>Prime Minister</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>Arnaldo Forlani</td>
<td>1994</td>
<td>Silvio Berlusconi</td>
</tr>
<tr>
<td>1981</td>
<td>Giovanni Spaldolini</td>
<td>1995</td>
<td>Lamberto Dini</td>
</tr>
<tr>
<td>1982</td>
<td>Amintore Fanfani</td>
<td>1996</td>
<td>Romano Prodi</td>
</tr>
<tr>
<td>1983</td>
<td>Bettino Craxi</td>
<td>1998</td>
<td>Massimo D'Alma</td>
</tr>
<tr>
<td>1987</td>
<td>Amintore Fanfani</td>
<td>2000</td>
<td>Giuliano Amato</td>
</tr>
<tr>
<td>1987</td>
<td>Giovanni Goria</td>
<td>2001</td>
<td>Silvio Berlusconi</td>
</tr>
<tr>
<td>1988</td>
<td>Ciriaco De Mita</td>
<td>2006</td>
<td>Romano Prodi</td>
</tr>
<tr>
<td>1989</td>
<td>Giulio Andreotti</td>
<td>2008</td>
<td>Silvio Berlusconi</td>
</tr>
<tr>
<td>1992</td>
<td>Giuliano Amato</td>
<td>2011</td>
<td>Mario Monti</td>
</tr>
<tr>
<td>1993</td>
<td>Carlo Azeglio Ciampi</td>
<td>2013</td>
<td>Enrico Letta</td>
</tr>
</tbody>
</table>

At the 2001 elections, Silvio Berlusconi wrote a “Letter to the Italians” in which he listed the high level of public debt, poor economic growth, public administration inefficiency, high youth unemployment, low investment in research and development (R&D), declining levels of foreign investment, high company taxes and a declining level of competitiveness as challenges he would engage if re-elected. His recognition of the country’s difficulties earned him another term in office with a mandate addressed to combat what had become characteristically high debt and declining competitiveness (ibid:133). Although Berlusconi
inherited an economy that was healthier, albeit not healthy, the initial structural reforms imposed were enough to strengthen the tendencies inherited by sustaining business and household confidence (IMF 2000).

**Crisis Economy**

However, economic stability was not durable. According to the IMF, global economic actualities such as the dot-com bust and terrorist attacks on September 11 induced pessimism in the markets, which also diminished Italy’s economic growth during Berlusconi’s term (ibid:139). Blaming the euro for Italy’s faulting performance, Berlusconi lost his second term to Romano Prodi (The Guardian 2005). However, two years after his defeat, Berlusconi resumed his job as prime minister in 2008 as Prodi lost a vote of confidence in the senate. The introduction of party-lists representation in 2005 urged the formation of coalitions, increasing political volatility. Unruliness which had characterized Prodi’s Union, continued subdued under Berlusconi’s new term, as the increase in political bipolarity had, according to Shin & Agnew, caused a more rancorous style of politics (Shin & Agnew 2008: 15).

Internal clashes in Berlusconi’s new alliance were frequent. Even when the Italian economy did not experience a housing bubble, and had very conservative banks that did not need subsequent government funds, politicians did little to improve the country’s public finances. With the increasingly precarious situation in Greece, Portugal and Ireland, political inertia coupled with a rising debt and low growth rates to service it most likely shifted investor sentiments against Italian bonds (Donaido 2011). By the end of 2010, a tendency for higher yields for Italian 10 year bonds put Italy in the spotlight as the newest contestant to join the euro area crisis. Such tendencies are depicted in Figure 4.

With little political progress to manage the damage within the euro area, investors continued to demand higher yields for Italian and Spanish bonds, which in August 2011 forced the ECB to purchase national debt to lessen the burden on two of the largest euro area members (ECB 2011). The assistance from the ECB came with the price of austerity measures. Berlusconi’s government was forced to compile a range of immediate proposals to reduce the budget deficit and public debt levels, which were passed in parliament on September 14th (Wearden & Hawkes 2011). Despite ECB intervention and austerity measures, yields soared. Neither did the Italian government produce a uniform attitude to the new policies, as Berlusconi’s coalition would liberally criticize the requirements from Brussels and Frankfurt, even questioning the feasibility of Italy remaining within the euro.
By November the same year, Berlusconi had lost the parliamentary majority, and vowed to resign after the Lower House approved a package of austerity measures (O’Caroll 2011). Fears over political chaos were swiftly muted, as Italian President Giorgio Napolitano invited former EU Commissioner Mario Monti to form a new technocratic government until new elections could be held as planned for in 2013.

Monti’s government was put in place to deal with the mounting pressure of Italy’s public debt and the costs of refinancing it, which had neared the same levels as Portugal just before it requested a bailout. An emergency budget containing further austerity measures was rushed through in December 2011, and it aimed at restoring the credibility of Italian debt and the prospects of a sustainable debt burden, which by the end of 2011 had reached new heights as also indicated by Figure 3 (Hooper 2011). However, even with austerity measures, markets did not settle, the IMF noted, as specific euro area difficulties were easily being projected onto member states that had high debt or could be candidates for reforms and fiscal consolidation (IMF 2012).

Running a primary surplus, Italy’s economic fundamentals were better than many of its peers. However, deficits were influenced by high interest payments, which kept on fluctuating with and against news from other crisis candidates, alongside pressure from scrutinizing investors (ibid). With politicians and the ECB realizing the scope of what has been coined “unsustainable debt”, albeit the term has not been defined explicitly, policy initiatives and political reassurance of the unlimited defence of the euro during the summer 2012 calmed the markets as yields consolidated. However, the technocratic government had
become increasingly unpopular due to the imposed austerity measures, which would make the elections in 2013 important. As the pro-European government called for elections, anti-European rhetoric from Berlusconi and his former alliance, coupled with Beppe Grillo’s “Five Star Movement”, increased the pressure on Italy yet again. Fitch Ratings, amongst others, expressed concern that the uncertainty of political direction would be reflected in the cost of issuing debt, as political uncertainty would influence Italy’s investment rating (Frye 2013). Table 4 presents an overview of Italy’s investment ratings given by Fitch Ratings assigned on an alphabetic scale from ‘AAA’ to ’D’ with intermediate +/- modifiers for each category between AA and CCC (Fitch Ratings 2013).

### Table 4

<table>
<thead>
<tr>
<th>Country</th>
<th>Date</th>
<th>Foreign currency rating</th>
<th>Local currency rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>8 Mar 2013</td>
<td>BBB+ F2 negative</td>
<td>BBB+ negative</td>
</tr>
<tr>
<td>Italy</td>
<td>27 Jan 2012</td>
<td>A- F2 negative</td>
<td>A- negative</td>
</tr>
<tr>
<td>Italy</td>
<td>16 Dec 2011</td>
<td>A+ F1 Rating Watch negative</td>
<td>A+ Rating Watch negative</td>
</tr>
<tr>
<td>Italy</td>
<td>7 Oct 2011</td>
<td>A+ F1 negative</td>
<td>A+ negative</td>
</tr>
<tr>
<td>Italy</td>
<td>29 Jun 2006</td>
<td>AA- F1+ stable</td>
<td>AA- stable</td>
</tr>
<tr>
<td>Italy</td>
<td>25 May 2006</td>
<td>AA F1+ Rating Watch negative</td>
<td>AA Rating Watch negative</td>
</tr>
<tr>
<td>Italy</td>
<td>29 Jun 2005</td>
<td>AA F1+ negative</td>
<td>AA negative</td>
</tr>
<tr>
<td>Italy</td>
<td>17 Jun 2002</td>
<td>AA F1+ stable</td>
<td>AA stable</td>
</tr>
<tr>
<td>Italy</td>
<td>21 Sep 2000</td>
<td>AA- F1+ stable</td>
<td>AA- stable</td>
</tr>
<tr>
<td>Italy</td>
<td>14 July 1998</td>
<td>AA- F1+ -</td>
<td>AA- -</td>
</tr>
<tr>
<td>Italy</td>
<td>26 Oct 1995</td>
<td>AA- F1+ -</td>
<td>AAA -</td>
</tr>
<tr>
<td>Italy</td>
<td>23 Feb 1995</td>
<td>AA- - -</td>
<td>- -</td>
</tr>
<tr>
<td>Italy</td>
<td>10 Aug 1994</td>
<td>AA - -</td>
<td>- -</td>
</tr>
</tbody>
</table>

Source: Fitch Ratings

The election on February 24-25 gave Pier Luigi Bersani and his coalition a majority in Italy’s Lower House of Parliament, while leaving the Senate divided into three blocks, split by the victorious and unconventional Five Star Movement (Ministero Dell’Interno 2013). At the time of writing Bersani had not been able to form a government. Instead, Enrico Letta has formed a broad coalition, which is still urged by the European Commission to continue its reform programs (European Union 2013c).

**Analysis**

In order to investigate whether the euro area crisis had altered the perception of the market in global economic governance, it seems necessary to address the global economic frameworks installed prior to the financial crisis, as well as the initiatives launched since 2008. The following will try to make a comparison between governance regimes by applying the Foucauldian concepts of governmentality and discipline to better identify differences in structure, emphasis and mechanisms. The frameworks will not
be described in technical details, which could encompass legal technicalities, but will be investigating the overall policy proposals, their intentions and mechanisms installed to enforce discipline. Due to various constraints, the analysis will only manage to address few mechanisms, as the course of action and implementation of policies addressing the financial and euro crisis in global economic governance, and in regional contexts, remains ongoing. Consequently, the analysis cannot present final results, but merely attempt to unveil patterns or tendencies which may or may not indicate a shift in the perception of the market in global economic governance. The following sections will present Foucault’s governmentality and disciplinary power applied to global economic frameworks prior to and after the financial crisis; the euro area’s regional governance past and present; and the implications that governance has had on Italy.

**Governmentality in global regimes**

Foucault’s concept of governmentality had been established through historical movements, which he claimed, had not yet been dissolved. Each movement had enacted a specific type of governmentality, or in other words, a rationalization of power as a practice of government (Foucault 2008:5). As governmentality is a theoretical device specifically intended to expose the numerous dimensions of government, it will become the guiding framework in the following sections (Rossi 2010:5). It is through the lenses of historical movements and transformation of rationalities that changes in global economic governance will be addressed, in order to investigate whether global economic governance has changed its perception of the market with the occurrence of the euro area crisis currently or in the near future. Even though Foucault only lived to see the emergence of neoliberalism, it will be argued that his analysis remains insightful on the patterns of a possible transformation in governmental rationalities (Vestergaard 2009:203). As global economic governance can embody various understandings, the following section will only address the economic debates, discourses and frameworks that influenced economies and institutions on a global scale, and simultaneously assume, much like Foucault’s observance of a transformation of governmental rationalities, that some dominant practices were enacted globally through the instruments or institutions of global economic governance.

Although it was never intended to contain the entire character of global governance, various scholars have argued “...governmentality has assumed global proportions” (Kelly 2010:2). Global economic governance can also be analysed as a type of governmentality in its intentions, design and mechanisms, which constructs rationalities for governments. Not only does it construct rationalities, it also has a profound impact on governmentality practiced by states, which will have to accommodate both the proposals on the global level and the enforcement of such on a national level. As Foucault also notes,
there was a need for a “...double expansion of the analytical apparatus, in order to appropriately account for both processes of subjectification and state formation” (Bröckling, Krasmnd, Lemke 2010:2).

Mercantilism was the first attempt at the ‘art of government’ and the first rationalization of the exercise of power as a practice of government (Foucault 2008:5). However, a rise in human population put strain on the sovereign’s art of government. Within the same historical context, Adam Smith conceptualized the ‘invisible hand’ mechanism through which the ‘population’ would criticize the state’s rationality for enrichment (Vestergaard 2009:187). The rise of ‘the population’ was the emergence of a new object upon which power relations could operate, argues Foucault, as the recasting of the concept ‘economy’ created a science in which the provision of Adam Smith’s individual motivation allowed for a field of intervention (ibid: 195). This marked the transformation to the ‘governmental state’ where ‘laissez-faire’ represented a shift in governmentality, in which the guiding principles of the liberal ‘art of governing’ revolved around the danger of either governing too much or too little, to ensure freedom from regulation.

Measurement of the self-limitation of government is calculated by the market which becomes the site of verification/falsification or a site of truth, to which government had to go to find the principle of truth of its own practice (Foucault 2008:32).

As the purpose of the ‘governmental state’ was still enrichment, the market became the central authority of judgment. The market mechanism as a site of truth for the liberal art of government, coupled with the principle of self-limitation, would provide the plateau for a governmentality, which focused on the market mechanism whilst retaining an awareness of its self-limitations. Such governmentality arguably became global with the establishment of institutions such as the IMF and World Bank and began thereafter to emerge as governmentality applicable to all states though the dictation provided by global economic governance frameworks and endorsing institutions. As Frances Stewart argues, the foundation for the Bretton Woods institutions rested on Keynesian principles which would promote the effectiveness of the market as a mechanism of enrichment, but also be cautious about the state’s possibilities for intervention as much as limitations of its practice (Stewart 1987:465).

The guiding principles of the Bretton Woods institutions, she argues, rested on the reliance of the markets to judge the practice of government, with minor roles for state interference in accordance with Keynesian theory, and an acceptance that the right policies also would lead to economic growth, or in Foucauldian terms, verification by the market allowing further enrichment (ibid.). Although the IMF and the World
Bank, according to Stewart, functioned quite differently from Keynes’s own plans, and the simplification of their functions and policies could have led to a misrepresentation of their impact in global economic governance, they have nevertheless supported a liberal governmentality on a global scale through their design and mechanisms.

As stated in the IMF's Articles of Agreement from 1944, its purpose was to “...facilitate the expansion of balanced growth in international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy” (IMF 2011a). The intended purpose for the World Bank was, Keynes argues, was "...to develop the resources and productive capacity of the world with special attention to the less developed countries, to raise the standard of life and the conditions of labour everywhere, and so to promote and maintain equilibrium in the international balance of payments of all member countries" (Keynes cited in Stewart 1987:466). In the post-war years, the IMF's main priority was to oversee the system of exchange rates and international payments, leaving countries to manage their exchange rate policies, without intervening too much. This could reflect the preferred practice of liberal governmentality concerned with global enrichment through the market mechanism coupled with governmental issues of self-limitation, as Keynes himself did not dispute the efficiency of the market but merely recognized a role for governmental action to compensate for any economic shortcomings (Dowd 2000:131).

As Stewart notes, there has been many changes in the international economy since Bretton Woods, of which the most significant have been the displacement of colonialism, the collapse of the Bretton Woods system, the emergence of new economic powers, and the development of international capital markets. The later was also reflected in a change in the institutions concerned with global economic governance (Stewart 1987:466). Stiglitz would refer to the ‘purge’ of all Keynesian influences from the IMF in 1982 with the set of policies recommended for Mexico after it was driven to a default in 1982-4, which, Harvey argues, became standard policies afterwards (Harvey 2005:29). The IMF and World Bank became the centres for dissemination and enforcement of 'free market fundamentalism', which in return for debt rescheduling would require the implementation of institutional reforms (ibid.). Such was the promotion of neoliberal inspired policies that John Williamson could present the “Washington Consensus” in 1989,

\[2\] The design of the international monetary system, and especially the IMF, is largely the product of negotiations during World War II between U.S. and U.K. officials. Negotiations led by Harry Dexter White and John Maynard Keynes reflected the U.S. plan more than the British.
which he thought represented a consensus for policies that were needed in Latin America (Williamson 2004:14).

Although Williamson has criticized the various adaptations of his policy reform list as neoliberal policies, critics have argued that whatever its original contents and intentions, the term “Washington Consensus” has through “...the oversimplified rendition of policies recommended by international financial institutions and the US treasury” during the period of the 1980s and early 1990s has come to refer to “...development strategies that focus on privatization, liberalization and macro stability” (Stiglitz 2008:41). With the implementation of such strategies countries that experienced economic problems could be sure to attain desired growth or enrichment (ibid). With implementation of the specific policies, the Washington Consensus would succeed in disciplining economies. Whereas global economic governance prior to the Washington Consensus set ‘conditionalities’ requiring alternations in either domestic money supply, budget deficits, international reserves, external debt or exchange rates etc., the Washington Consensus could encroach on more social aspects of an economy.

The Washington Consensus, with its ‘purge’ of Keynesianism and its increased focus on privatization, liberalization and macro stability, would represent a change in global economic governance. It was arguably novel in its application of more encroaching policies demanding specific actions as deregulation and privatization, though this novelty would not translate into a shift in governmentality. Using Foucauldian terms, discipline has always been the intention of economic governance, Vestergaard argues, also on a global scale (Vestergaard 2009:174). The introduction of the Washington Consensus is therefore not the first occurrence of international economic governance that subscribes to the notions of discipline attached to a specific governmentality, but rather another enforcement of what resembles a liberal governmentality, which still regards the market as a site for verification/falsification, despite arguments for ‘market fundamentalism’. As its Keynesian predecessor, the application of the Washington Consensus was only done through ‘exceptional’ discipline, and was only intended for the economies that were severely distressed. The application of ‘exceptional’ discipline in Foucauldian terms does not represent a rupture with previous global governmentality. The Washington Consensus continues to specify acts according to a number of general categories as deregulation and privatization, arguably comparable to the prior focus on general categories of stable exchange rates and balance-of-payments (Stewart 1987:466).

Additionally, the use of Foucauldian binary division and branding was present both prior and during the period influenced by the Washington Consensus, which enacted a scale of permitted and forbidden
policies. Policies would either promote stable exchange rates or later liberalized growth. It did not completely transform the relationship between state and the market on a global scale, as would be necessary for a transformation towards a Foucauldian neoliberal governmentality. However, it did increasingly rely on the market as an organizing and regulative principle underlying the state, through its increasing denunciation of governmental interference, as also evident by Williamson’s original suggestions for reforms. As Stiglitz argues, the Washington Consensus was a set of policies employed as strategies for development, where the simple-minded belief in the magic of the market was more than an economic agenda. The employment of the simple-minded belief, he continues, did not necessarily have to entail others than the institutional clients (Stiglitz 2008:45).

**New initiatives**

However, the Asian crisis revealed the depth of financial interconnectedness, which according to the IMF had not received proper attention. As consequences unfolded, the IMF noted that attention had to be paid to weaknesses in national banking sectors, along with the inadequacy of previous institutional prerequisites for successful liberalization of international capital accounts (IMF 2013c). The IFA initiative was vigorously promoted by the IMF and World Bank, and was to extend economic governance into the organization and regulation of economies, which were encouraged to comply with the policies to reap the benefits of increased global transparency, financial stability and cheap international capital (Vestergaard 2009:5). While the World Bank admits that there is no agreed definition on what constitutes international financial architecture, it supposedly refers loosely to the framework and set of measures which could help prevent crises and manage them better in an integrated international system (World Bank). As illustrated in Table 2, such framework included the (voluntary) commitment to upgrade financial regulation through the supervision of individual countries and financial institutions. The correct implementation would thereby introduce discipline in the global economy (Vestergaard 2009:89). New governance frameworks would rely on the disciplinary effects of Financial Sector Assessment Programmes and Reports on the Observance of Standards and Codes for the “…convenience of financial markets and other users” (ibid: 125)

The IFA initiative would not rely on ‘exceptional’ discipline as its predecessors, but was through the adaptation of standards and codes encouraged globally to minimize the significant harm and disruption caused by financial instability, as has been evident during various crises in the 1980s and 1990s (IMF 2005:1). In Foucauldian terms, the IFA would represent a shift from ‘exceptional’ to ‘generalized’ discipline over a Foucauldian ‘population’, as the incorporation of its standards was to benefit all
economies through increased global transparency and financial stability, which would supposedly strengthen the operation of the market mechanism by producing less instability. The construct of an international regulatory apparatus through standards and codes, Vestergaard argues, breaks with the codes of conduct characterizing its predecessors by shedding the negative nature of structural adjustment programs as a modality of power. Instead it replaces them with a disciplinary power wanting to shape and reshape the ‘properness’ of economies as a mode of regulating them (Vestergaard 2009:175).

A Post-Washington Consensus
The critique of the Washington Consensus, many argued, forced the IMF and World Bank to reinvent themselves, especially through their conduct of policies which evolved into the promotion of what Stiglitz calls the Washington Consensus Plus and Washington Consensus Plus Plus (Stiglitz 2008:50). The creation of the IFA initiative was a part of this promotion which extended its predecessors’ involvement by addressing the necessity to reform institutions, he argues, as ‘institutions now mattered’ to provide a part of the foundation for well-functioning markets (Vestergaard 2009:172).

Through Foucauldian lenses, the further subjugation of institutions and states to disciplinary mechanisms, such as the Financial Sector Assessment Programme and Reports on the Observance of Standards and Codes, could imply a break with liberal governmentality. Focus was no longer on the self-limitation of global or national economic governance, but increasingly on how to strengthen the market mechanism not only as a site of falsification/verification but also by allowing it to organize and regulate the state and its internal institutions. As Vestergaard argues, global economic governance no longer seems to favour the functioning of a liberal governmentality, but this does not mean that a shift has occurred, as the disciplinary mechanisms of the IFA initiative were also about striking a balance of intervention.

Through his analysis of emerging neoliberalism, Foucault addressed two schools of thought, namely the Ordo-liberals and the Chicago School neoliberals (Vestergaard 2009:208). Whilst the Ordo-liberals according to Lemke (2011) wanted “...to redefine economic rationality in order to prevent the social irrationality of capitalism from unfolding”, the Chicago School neoliberals wanted to discount any difference between the economy and social sphere (Vestergaard 2009:206). Whereas classical liberalism, or liberal governmentality, defined and monitored market freedom in addition to its own rationalization, the neoliberal governmentality conceived the market as the “...organizing and regulative principle underlying the state” (Lemke 2001:200 cited in Vestergaard 2009:208).
Additionally, whereas classical liberalism focused on the management and organization of freedom by producing what ‘you need to be free’, neoliberalism perceives the individual as ‘manipulable’ (Vestergaard 2009:208).

The IFA initiative, as a global governance framework, seems to enact disciplinary manipulation of ‘individuals’ or ‘economies’, in contrast to its predecessors, which relied on ‘exceptional’ discipline. Through the publications of Reports on the Observance of Standards and Codes and Financial Sector Assessment Programmes, the IFA initiative intends to shape and reshape the economies from within, and through a “...lighter, more rapid, more effective, subtle coercion” (ibid:175). However, the ‘manipulation’ through such mechanisms could not translate into a change in governmentality, as states are arguably not organized by markets but merely await a verification/falsification of their governmental practices in a system which assumes that a mechanism of market discipline will reward or punish economies according to their degree of compliance with regulations (ibid:7). Additionally, whereas Foucauldian neoliberalism governs mostly through conditions, the IFA initiative relies on disciplinary mechanisms to mark the economy directly (Read 2009:6).

Moreover, addressing the discontinuity between the Post-Washington Consensus and past regimes, Vestergaard and Chang argue that the shift in the object and mode of governmental intervention, also through the IFA initiative, is more about getting the “institutions right” with focus on microeconomic management, and less on the macroeconomic management which preoccupied its predecessors (Vestergaard 2009:177). In Foucauldian terms, they could be highlighting the increasing lack of an articulation and enforcement of the liberal governmentality itself, as its absence might curtail a still more homogenizing and totalitarian type of governance, that Vestergaard proposes we might be witnessing (ibid:221).

However, the recent financial crisis and following euro area crisis has seemingly caused problems for the IFA initiative, and the ‘institutions matter’ approach. Disciplinary power wanting to shape and reshape the ‘propersness’ of economies as a mode of regulating them through policy implementation and encouragement, have not been able to circumvent or efficiently combat the financial instability that followed (Vestergaard 2009:1). In spite of forceful criticism aimed at its predecessor, and to some extent the scope of the IFA initiative itself, an emerging Post-Washington Consensus willing to address the shortcomings in global economic governance has yet to crystallize in popular debate at the time of
writing. Arguably, there are too many perceptions and ongoing discussions in relation to initial policy response to the crisis. Even though the concept of a Post-Washington Consensus has been discussed since the late 1990’s, it has yet to materialize into a concrete set of policies like its predecessor, and has therefore occasionally been denoted as ‘emerging’ in popular debate, and in the following sections.

Neoliberal conceptions seem influential in discussions attempting to explain causes for the recent financial crisis and economic crisis in the euro area, with some blaming the lack of transparency and regulation, others blaming too much regulation, market fundamentalism, and socialism for the rich. However, as Stiglitz notes ex post, it is easy to find something wrong, and add that something to “…the increasing long laundry list of what countries should do” (Stiglitz 2008:50). The following section will address parts of that laundry list created in the wake of the crisis, which arguably affects the euro area. It addresses the issue of whether the conduct of global economic governance is simply new wine in old bottles, or whether it could be the occurrence of what Foucault observed as a possible shift towards a new governmentality, breaking with its liberalist past.

Governmentality and governance of the euro area
In order to identify any alternation in global economic governance in the wake of the euro area crisis, it seems important to revisit the initial structures created to govern the euro area, simultaneously tracing their development up until and during the ongoing euro area crisis. Whereas the previous sections applied Foucault’s concept of governmentality to global economic governance initiatives, the following section will try to illustrate how global economic governmentality has affected regional governance of the EU and euro area, and the local governmentality of states within the EU. As Barosso pointed out in his State of the Union Speech in 2012, the work on new frameworks is still ongoing, which means the analysis will be limited by the progress at the period of writing.

Regulatory intentions
Initiatives to create a single European currency were, according to the European Commission, complementary efforts to ensure a successful single market, which would ensure economic growth within the community. Several plans were drafted for the execution of the initiative, but were all abandoned until Jacques Delors presented the committee report he chaired in 1989, consisting of various recommendations on the practical details on how to launch a single currency (European Commission 2013d). In the report, it is noted that until the end of the 1960s there existed a remarkable consensus on policymaking. Referring to the popularity of Keynesian economics, Gunter D. Baer and Tommaso Padoa-
Schioppahe observe that by the 1970s, experience with stagflation destroyed this consensus and was replaced by a new consensus with attention shifted “...towards medium-term financial stability, the supply side of the economy and structural policies” (Baer & Schioppahe 1989:58). According to the Delors report, the previous consensus had generated a legacy of large budget deficits and high government debt, which had to be incorporated into the structure of any framework for the launch of the single currency in the near future (ibid). Additionally, whereas government debt across the community at the beginning of the 1970s was averaging less than 40% of GDP, in 1989 at the time of investigating practical details, it averaged over 70%, presenting a problem for the implementation of a currency framework in accordance with accepted currency theory (ibid).

In terms of Foucauldian governmentality, the new economic consensus addressed by Delors’ committee can be linked to the alteration in global economic governance and the simultaneously emerging Washington Consensus, which arguably presented the preferences of many OECD countries at the time. The distrust in economic growth through state interference and its incorporation into the discussions creating a framework for a future single European currency, arguably mirrors some of the prescriptions provided by the Washington Consensus and its later association with ‘market fundamentalism’. The emergence of the Washington Consensus with its novel emphasis on deregulation, fiscal discipline etc. could as previously argued, in comparison to its Keynesian predecessor’s emphasis on exchange rate stability, represent a shift in global economic governance, but not in governmentality. Policies in the Washington Consensus are not subjected to the market, but merely rearrange what power relations could operate upon, and still functions in disciplinary terms like its predecessor through the application of ‘exceptional’ discipline. Also, the rationalization of power was still to a large extent concerned with its own self-limitations, but now through certain measures as liberalized, privatized etc. (Williamson 2004:16).

The Maastricht Criteria were based on the various observations and proposals in the “Report on Economic and Monetary Union in the European Community”, presented by Delors’ “Committee for the Study of Economic and Monetary Union”. According to Bukowski, the committee had taken into account the possible effects and limitations that the economic status quo could present for the framework of managing a European single currency (Bukowski 2006:2). Additionally, the criteria were designed to incorporate the importance of medium-term financial stability and the impact of structural policies in accordance with the new economic consensus, which through its initiatives should only create further competitive and economic advantages for member states (ibid). Therefore, the introduction of the reference values
presented in the Maastricht Treaty are arbitrary and are not justified by any specific economic theory or practice (ibid). Also, the Maastricht criteria, Afxentiou argues, have very little to do with real convergence. They reflect the desires of the architects of the EMU who wanted to incorporate necessary policies to accommodate theories of optimum currency areas, alongside other economic criteria emphasizing growth through price stability (Afxentiou 2000:248).

In the report, arguments for fiscal stability were drawn partly on theoretical considerations and on lessons from the experience of federal states and their comparable currency unions (Lamfalussy 1989:93). The degree of macro-fiscal coordination had after the establishment of an EMU two objectives in mind: “...to allow the determination of global fiscal policy that is sufficiently responsive to evolving domestic and international requirement; and to avoid tensions arising from excessive differences between the public sector borrowing requirements of individual member countries” (ibid.). With these objectives in mind, arguments for macro-fiscal coordination in the EMU concentrated on addressing the following: “...the need for an appropriate fiscal policy for the union as a whole; the need to avoid disproportionate use of Community savings by one country” and the possible bias towards lack of fiscal restraint (ibid). The need for fiscal policy for the union as a whole, Alexandre Lamfalussy argues, could not be achieved without impinging on the autonomy of national budgetary positions. Similarly, the need to avoid disproportionate use of Community savings by one country could not be done through disciplinary market forces alone, but needed explicit no-bail-out provisions to encourage fiscal discipline or “...greater prudence on the part of both borrowers and lenders” (ibid: 97).

It is through the judicial incorporation of a no-bail-out-clause that discipline on both borrowers and lenders would be exercised initially. Also, though it had been argued that constraints on national budgets would be needed to avoid an excessively lax fiscal stance for the Community as a whole, the report based on its chosen comparative cases, could not find evidence for a bias towards lack of fiscal restraint (ibid:98). It is tempting to compare the considerations implemented in the recommendations as an acknowledgement and exercise of liberal governmentality, where aspiring member states are reminded to acknowledge their production and consumption of freedom within the new framework, to be judged by the market for their rationalization (Foucault 2008:63). The Maastricht Criteria were based on the assumptions that macro-fiscal coordination was necessary to be responsive to domestic and international requirements, with certain impingements on autonomy requisite, as the disciplinary market mechanism alone was not deemed sufficient or “competent” enough to asses risk within the forthcoming euro area. In Foucauldian terms, this is about more than being judged by a market mechanism; it is also about the
balance of the production and consumption of freedom, the "...establishment of limitations, controls, forms of coercion, and obligations relying on threats, etcetera" (Foucault 2008:64).

The Treaty of Amsterdam in 1997 enshrined the reference values into the Stability and Growth Pact (SGP), which was to become an integral part of the operation of the EMU (Kohler 2007:99). Whilst the reference values constitute a requirement for all aspiring entrants, the debt criteria loses relevance upon entry (ibid: 100). In addition to the 3% reference value, Kohler notes, the SGP requires each member state to aim for a medium term budgetary position close to balance or surplus (CBP). Furthermore, a surveillance procedure within the SGP is meant to ensure the consistency of each government’s fiscal policies, as any country exceeding the 3% reference value would set an Excessive Deficit Procedure (EDP) in motion, involving corrective and disciplinary actions which could result in fines and suspension from Cohesion Fund financing (ibid:101).

Besides the surveillance mechanism installed to make economies ‘visible’, the EDP functions through its preventive and corrective arms like a Foucauldian penal system to ensure discipline over its ‘inmates’. However, the rationale behind the SGP was increasingly criticized, according to Kohler, as the intended allowance for diverse compositions of sovereign economies would become constrained by the reference values. By 2004, political pressure, coupled with a ruling of the European Court of Justice on the ECOFIN³ decision to suspend the Commission’s recommendation to initiate an EDP against France and Germany, resulted in the European Commission’s issuance of a Communication to reform the SGP (ibid.).

The reformed SGP which came into force in 2005, would remove what some called the ‘excessive uniformity’ in the EDP and increase transparency to avoid abuse of any procedural flexibility (ibid:102). This would allow for differences in economic situations by assigning greater attention to debt developments and the implementation of structural policies that could enhance growth potential and long-term sustainability (European Union 2006b). Or in Foucauldian terms, a rearrangement of the consumption and production of freedom in the SGP had to occur as “…the art of liberal government freedom of behavior is entailed, called for, needed, and serves as a regulator, but it also has to be produced and organized” (Foucault 2008:65). Even though many would argue that the reform was mainly about political leverage, it can also be viewed as a rearrangement of the liberal governmentality practiced by states, needing to produce more freedom in order to consume it through the implementation of structural policies for growth potential, indicating the survival of a regional liberal governmentality.

³The Economic and Financial Affairs Council composed of Economics and Finance Ministers of the Member States
The reformed SGP required member states to strengthen budgetary consolidation efforts during a favourable economic climate, whilst medium term objectives, created for each member state as a part of the EDP, reinforced structural policies and country-specific situations (European Union 2006b). Additionally, the Commission notes that flexibility through benchmark structural adjustment of 0.5% of GDP complements an increased focus on long-term sustainability and economic rationale (ibid). Table 5 below depicts the main changes in the SGP throughout its duration. The preventive and corrective arms of the SGP were still operational, commanding discipline through their penal functions and ‘visibilization’ of the economies. Arguably, global economic governance, and an emerging Post-Washington Consensus, would inspire certain elements in the SGP. Its commitments to specific (economic) criteria to increase stability and prudence on behalf of lender and borrower are comparable to the intention and efforts of the IFA initiative, alongside similarities in disciplinary mechanisms. Both were concerned with the ‘visibilization’, and both would produce reports for the “...convenience of financial markets and other users” (Vestergaard 2009:125).

Table 5

<table>
<thead>
<tr>
<th>1997 SGP</th>
<th>2005 SGP</th>
<th>2011 SGP</th>
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<tbody>
<tr>
<td>Maastricht Reference Values</td>
<td>Maastricht Reference Values</td>
<td>Maastricht Reference Values</td>
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<tr>
<td>Close to Balance or Surplus</td>
<td>Medium-term Objectives</td>
<td>Medium-term Objectives</td>
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<tr>
<td>Preventive &amp; Corrective arms</td>
<td>Strengthened Preventive and Corrective arms</td>
<td>&quot;Six-pack&quot;</td>
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<tr>
<td>Excessive Deficit Procedure</td>
<td>Excessive Deficit Procedure in a broader socio-political context</td>
<td>Reverse Qualified Majority Voting</td>
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<tr>
<td></td>
<td>Annual Structural Adjustment of 0.5% of GDP</td>
<td>Increased Focus on Debt</td>
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<td>Treaty on Stability, Coordination and Convergence</td>
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It is not surprising, Kohler argues, that the reformed SGP met harsh criticism from ardent supporters who argue that flexibility is “…fundamentally at odds with the principal orientation and very purpose of the SGP” (Kohler in Fritz 2007:102). Also, an IMF discussion paper notes that even though reforms were to be undertaken, the fiscal rules governing the EMU prior to the reform were sufficient, albeit the framework contained minor kinks which could be sorted. Such kinks consisted mostly of promoting transparency and strengthening domestic accountability through national institutional involvement, inspired by the policies promoted by the IFA initiative (Annett, Decressin, Deppler 2005:13). As they note, even though shortcomings remained prior to the reform, they were rooted in the policies rather than the rules to which
few changes seemed necessary (ibid: 1). The reforms concerning the governance of the euro area, including the mechanism installed to command discipline, can, in Foucauldian terms, not exemplify a change in governmentality on the global, regional or national scale as it is more likely that they are rearranging the rationalization of the practiced liberal governmentality.

According to Holler and Reiss, the reformed SGP was to safeguard the practical operation of the EMU, but continued to be criticized for its leniency. While the deficit ratio requirement, which could not exceed 3%, was broadly fulfilled in the pre-crisis years, many euro area members failed to achieve the medium-term objectives (Holler & Reiss 2011:87). Additionally, no financial sanctions were imposed in the corrective arm of the pact despite repeated instances of noncompliance, further compromising the effectiveness of the SGP. As Holler and Reiss note, prior to the financial crisis and at the onset of the euro area crisis, many countries had failed to create sufficient fiscal room for an economic downturn, let alone converged to the reference values established to create a sustainable economic climate within the euro area. This ultimately made a new reform of the SGP inevitable (ibid: 86). Interestingly, the lack of enforceability of the regional governance framework on sovereign economies did not trigger punishments by the market or encourage prudence on behalf of both lender and borrower, further strengthening the argument for a continuum of a liberal governmentality, even though it was influenced and constrained by ‘generalized’ discipline imposed by the IFA initiative.

**Crises Policies**

Not long after the collapse of Lehman Brothers and what was later dubbed a financial crisis, efforts were set in motion to address the shortcomings of previous regulatory frameworks and cooperation in global economic governance. One of the most popular forums to address such shortcomings was the G20. Albeit the G20 cannot enforce policies, observation of its initiatives and declarations can reflect agreements that are enforceable through other international platforms, such as the IMF. This is evident in the continued support for the Financial Sector Assessment Programme and various standard setting bodies, alongside the requested Mutual Assessment Process, which is to be conducted by the IMF to make economies more ‘visible’ (IMF 2011b). In late 2008 and 2009, the G20 addressed actions to stimulate economies, provide liquidity, protect savings and deposits, and address regulatory deficiencies, and to ensure that international financial institutions could provide critical support for the global economy (G20 2008:1). Many of these related to the mechanisms enforced through the IFA, addressing the need for enhanced guidance from key global standards setters as the IOSCO, AIS and the BCBS among others (G20 2009c).

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4 See table 2 for abbreviations
The further development and enforcement of standards of practice was to provide authorities and their institutions with adequate instructions to accommodate and help withstand further crises (ibid). Additionally, the coming summits in 2009 would evaluate the progress of the initiatives to further strengthen stabilization and recovery in the global economy, based on initiatives that favoured “...market principles, effective regulation, and strong global institutions” (G20 2009b:1).

Actions deemed necessary at the London Declaration were the continued instalment of confidence in the markets, reparation of the financial system through strengthened regulation, the reform of international financial institutions, and to underpin prosperity through green and sustainable recovery (ibid). Also noted in the IMF’s World Economic Outlook in April 2009, the policy priority would be restoring the financial sector to health through various actions, most importantly by attributing increased focus to Financial Sector Assessment Programmes and Bank Solvency Stress Testing (IMF 2009). However, at the Pittsburgh Summit in September 2009 and in the IMF’s World Economic Outlook report from October 2009, it was agreed that the initial initiatives had been successful and that a framework of policies that aimed at generating strong, sustainable and balanced global growth was needed (G20 2009a:1). Besides continuing the focus on institutional progress through the IFA initiative and the Financial Stability Board to coordinate and monitor progress in strengthening financial regulation, the summit launched the “Framework for Strong, Sustainable and Balanced Growth” to collectively attain “…more sustainable and balanced growth” (ibid:2). The specific policies designed to achieve such growth are not specifically defined or disclosed, but mention vaguely that policies are needed to expand domestic demand, ensure a strong recovery by making adjustments across the global economy through macroeconomic policies that could attain sustainable and balanced growth, whilst also taking into account the social and environmental developments (ibid:5).

The implementation of policies from the “Framework for Strong, Sustainable and Balanced Growth” would be assisted by the IMF and World Bank, who would assess how regional frameworks fitted together and how to further alleviate poverty as a part of the rebalancing of global growth (ibid:6). The proposals at the G20 Summits would then be executed by the IMF, the World Bank and other international bodies, who through mechanisms designed in relation to the IFA initiative and others, would enforce discipline upon

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5 The Financial Stability Forum was created in 1999 as a part of the IFA initiative, but was at the G-20 London Summit in 2009, replaced by its successor the Financial Stability Board. The FSB includes members of the G20 who were not members of FSF.
economies by 'visibilization' through Financial Sector Assessment Programmes and Bank Solvency Stress Testing amongst others.

At the Toronto Summit in June 2010 initial efforts were still deemed successful, albeit it was agreed that recovery was uneven and fragile due to the re-established importance of sustainable public finances and fiscal sustainability (G20 2010b:1). Countries with serious fiscal challenges were urged to accelerate consolidation, as it would “...help ensure global growth continues on a sustainable path” (ibid). Besides increased cooperation in bolstering the strength of institutions, the Declarations began to urge for regular consultations and strengthened cooperation of macroeconomic policies that would secure a healthy global economy (G20 2010a:1). The Mutual Assessment Process was to be part of the strengthened cooperation, simultaneously acting as disciplining mechanisms by making the economies more ‘visible’, allowing for better comparison and ranking between economies (IMF 2011b). Especially the euro area members of the G20 were to take all necessary policy measures to safeguard the integrity and stability of the area, by breaking the feedback loop between sovereigns and banks, and strengthening their public finances with “...sound and sustainable policies that take into account evolving economic conditions” (G20 2012:1).

It is not unreasonable to claim that policies proposed and action plans devised by the G20 reflects and affects regional European governance as the forum includes several individual members amongst European countries, and the EU as a separate member. As previously argued, observation of G20 initiatives and declarations can reflect agreements that are enforceable through other international platforms, as was arguably the case with the EU’s regional governance in the aftermath to the crisis. To stabilize the markets as discussed in 2008-2009, the EU constructed the European Financial Stability Facility (EFSF) and the European Financial Stabilization Mechanism (EFSM) as emergency funding programmes, to be activated when either a euro area country or a member state experienced difficulties or was seriously threatened with regards to its balance of payments (European Commission 2012c). Additionally, the Europe 2020 targets resemble elements from the “Strong, Sustainable and Balanced Growth Pact” by addressing previous shortcomings in growth models by “...creating the conditions for a different type of growth that is smarter, more sustainable and more inclusive” (European Commission 2013e). Such sustainability and inclusiveness is to be incorporated into reformed regulatory frameworks, such as the Europe 2020, governing the euro area and EU as a whole.

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6 The Mutual Assessment Process contains an analysis of members’ medium-term macroeconomic and policy frameworks, alongside sustainability reports for seven members (China, France, Germany, India, Japan, United Kingdom, and United States) and an integrated summary and accountability report on members’ progress.
Additionally, economic and fiscal governance in the EU and the euro area has, according to the Commission, been fundamentally strengthened throughout the past years with the implementation of the “six-pack” to strengthen the SGP, and the Treaty on Stability, Coordination and Governance (TSCG). The “six-pack”, which entered into force December 2011, strengthens the SGP by further macroeconomic surveillance under the Macroeconomic Procedure, also addressing the issue of public debt, whilst focusing more on the enforcement of penalizing financial sanctions to ensure broader discipline. For the EU, the enforcement of the SGP means preparing convergence programmes to ensure rigorous budgetary discipline within the entire EU. To complement the reformed SGP, the TSCG, or “Fiscal Compact”, requires contracting parties to ensure convergence towards the country-specific medium-term objective with corrective mechanisms to ensure automatic action to be undertaken in case of deviation, with escape clauses only for exceptional circumstances (European Commission 2012b). Compliance will also be monitored by independent institutions on the national level, making it more stringent but complimentary to the SGP, and ensuring better coordination, surveillance and compliance. Also, to accommodate the extra focus on fiscal consolidation whilst achieving sustainable global growth, the European Semester coordinates and analyses the individual country members’ commitment to the Europe 2020 targets, and provides recommendations to better attain a coordinated effort, or ‘hierarchical observation, normalizing judgment, and examination’ which can result in policy sanctions if not passed.

The Post-Washington Consensus, which seems to have emerged in the aftermath of the financial crisis, has, in comparison to its namesake predecessor, allowed for a larger role for developing countries in global economic governance, differentiation in policies tailored to national circumstances, and a broader focus beyond the measurement of GDP. However, it did not seem to encourage the room to experiment and explore what might work best for countries individually, or relinquish its ‘one-size-fits-all type of policies’ even though the G20 Summits seemed to have broadened the scope of policies (Stiglitz 2008:54). It therefore does not seem comparable to previous global economic governance regimes in which countries could experiment and explore only bound by the stability of their exchange rates. Nor does it compare to the exceptional discipline applied by the Washington Consensus, which specified acts according to a general number of categories through Foucauldian binary division and branding. In addition, though it attempts to enact ‘generalized’ discipline, it has included a larger ‘population’ by including sovereign states, in addition to the ‘institutions’ which were central to the IFA initiative.

However, through the subjugation to markets and a now consensual agreement on “Strong, Sustainable and Balanced Growth”, economies can be comparable to Foucauldian docile bodies as the modality of
power practices an uninterrupted, constant coercion supervising the process of activity (Foucault 1991:137). There is a shading of individual differences, as the process of the activity becomes more important than the result. Even though the Declarations and IMF emphasize the policies “...tailored to national circumstances”, it seems difficult to combine rapid fiscal consolidation with policies allowing for economic expansion, at least within the near future. Through the uninterrupted, constant coercion and supervision enacted by IFA initiatives such as the Financial Sector Assessment Programme and Reports on the Observance of Standards and Codes, coupled with the renewed international focus on sovereign economies and the SGP with its Excessive Deficit Procedure and the European Semester, economies have become increasingly visible and docile, making it easier to obtain effects of utility. However, economies seem to have accepted the state of docility, as also expressed by Spanish Prime Minister Mariano Rajoy assuring Spain’s commitment to economic restructuring albeit obvious difficulties (Benoit and Sills 2012). States should only navigate within the conditions of their docile role, by finding it necessary to adhere to the disciplinary mechanisms incorporated in global economic governance, as it will be exemplified by Italian circumstances.

In Foucauldian terms, systems of disciplinary power derive their success from three simple instruments: hierarchical observation, normalizing judgment, and examination. It can be argued that these Foucauldian techniques, are currently still in function through mechanisms installed in the IFA initiative and the many policies proposed and inspired by Summit Declarations, albeit their feasibility is yet to be proven. The Financial Sector Assessment Programme, Mutual Assessment Process, Reports on the Observance of Standards and Codes and increased focus on the EU's safeguards such as the SGP and European Semester, incorporate disciplinary techniques based upon ‘visibilization’ for hierarchical observation and the normalizing of judgment. The techniques meet in the marketplace, where compliance with the governance frameworks could constitute a Foucauldian examination. Integration with global financial markets and global convergence initiatives towards particular macroeconomic policies facilitate infinite examinations by the market place and international organizations, which situate economies in positions of observance and comparability (Foucault 1991:126). It is within the position of observance and comparability that economies can assume full responsibility for their own conduct and manage their risk, and govern through the actual conditions, in line with their "own unique projects" (Binkley 2009b:69).

In the aftermath of the financial crisis, it no longer seems a question of ‘making the institutions’ work, but also about ‘making the economies work’. Whereas the previous understanding of the market was characterized by observation and assessment followed by either reward or punishment of governmental...
practices (Vestergaard 2009), an emergent Post-Washington Consensus addressing the first major crisis in the 21st century, seems to want to assign a new function to the market. In order to ensure further economic growth, global economic governance frameworks have installed disciplinary mechanisms to attain a platform from which economies could prosper or become ‘viable for growth’. But unlike its predecessors which either focused on ‘exceptional’ discipline or partial generalized governance of institutions, new governance frameworks and their enforcement seem to allow for constant intervention on the part of the state, not on the market, but “…on the conditions of the market” (Read 2009:4). Albeit such new governmentality would, according to Foucault, operate less on actions curtailed through discipline. The shift to a practiced neoliberal governmentality would only be relevant if economies according to global economic governance frameworks and their requirements and criteria, eventually became ‘viable for growth’, after which they would govern through ‘conditions’.

**An Italian Scenario**
As illustrated by the historical data provided in Figures 2 and 3, Italy’s economy has long been haunted by public debt and at times double figured costs of servicing public debt as visible in Figure 4. Modern Italy has, according to Shin and Agnew, increasingly been characterized by corruptive disturbances in political and economic life, alongside decades of political inertia institutionalizing inefficiency (Shin & Agnew 2008:15). Given its historical ties to the pan-European project, Italy intended to join the EMU and begin its process of economic convergence to fulfil the Maastricht Criteria. Modern Italy, despite its EMU convergence guidelines and political ambitions, had consistent and continuous high debt regardless of changing administrations.

In 2005, policymaking became increasingly volatile due to the introduction of party-list representations, making it more difficult to carry out reforms which, according to the IMF, were long overdue. As previously mentioned, even though Italy’s economy has been criticized for various faults concerning competitiveness and inefficiency, it did not experience a housing bubble, and had very conservative banks that did not need government funds after the financial crisis began in 2008. As the Maastricht Treaty specifically emphasizes that there are no bail-out clauses, the verification/falsification on Italy’s economic soundness should, as implied by the Delors Committee, reflect its national situation thereby encouraging “…greater prudence on the part both of borrowers and lenders” (Lamfalussy 1989:97). The enforcement of the SGP and its reform in 2005 which set further focus on the disciplinary nature of its architecture, did not alter the prudence of borrowers and lenders, as Italy’s economic situation was deemed acceptable, theoretically reflected in its costs of borrowing. In Foucauldian terms, alongside the EU’s commitment to
the IFA initiative, its regional governance frameworks also intended to function through ‘generalized discipline’, albeit the markets did not seem, prior to the euro area crisis, to punish or reward countries for compliance to regional standards enforced through the SGP. Global economic governance at the time being was arguably still preoccupied with how ‘institutions matter’.

However, with investor pressure on several euro area countries, the ECB became involved in 2011 to lessen the burden on Italy and Spain (ECB 2011). As Pryce noted, investors and officials became worried about the sustainability of Italy’s debt, as spreads in bond yields had already forced both Greece, Ireland and Portugal to seek financial assistance (Pryce 2012:88). According to the IMF, the enforcement of the “six-pack” in December 2011, and increased focus on debt levels and composition of debt could further have exacerbated the effects on the Italian economy. The assistance from the ECB came with the price of austerity measures or Foucauldian economic discipline, as Berlusconi’s government compiled a range of immediate proposals to reduce the budget deficit and public debt levels (The Guardian September 2011). However, yields continued to soar. When Mario Monti was invited to form a new technocratic government, his most urgent task was to deal with the mounting pressure of Italy’s public debt and the costs of refinancing it. As reforms were promised and austerity measures were passed in parliament, yields slowly began to consolidate towards pre-crisis levels, as also visible in Figure 4. Even though yields are only one aspect of many when assessing the health of an economy, it has nevertheless been the focus of much policymaking globally as well as in the EU and especially the euro area, and is therefore similarly emphasized as a contributing factor in this analysis.

Some would argue that contagion was to blame for Italy’s sudden troubles, as reasons for austerity measures across the euro area, according to the IMF, were easily being projected onto member states that had high debt or could be candidates for reforms and fiscal consolidation (IMF Survey 2012). Also, as Avinash Persaud explains, “...fund managers sell off assets in places that resemble in any way the trigger spot” (Persaud cited in Vestergaard 2009:154). Even in periods of stability with no strong economic cycles of ‘mania’ and ‘panic’, financial markets are, Vestergaard argues, more interested in traditional macroeconomic policy indicators than in compliance with standards data (Vestergaard 2009:154). Especially when evidence in support of an effectively operating market mechanism rewarding or punishing countries in accordance to their degree of compliance with standards, has not been overwhelming. However, such standards revolved around institutions and not the composition of governmental practices, which with the development of the financial crisis increasingly seemed to matter just as much, if not more than compliance with institutional standards. Not only for places that resembled
in any way the trigger spot, but also for the composition of governmental policies across the entire euro area.

The interest in macroeconomic policy indicators seemed to have increased since Greece first admitted to counterfeiting economic data. Credit rating agencies, according to Gavras, have through their signal value contributed to the reward or punishment of economies with their assessment of governmental practices through their distribution of ratings. As a rule, he continues, entities possessing a better credit rating enjoy greater access to financing at lower cost, because they are more likely to repay the borrowed amount and interest in full and hence are perceived as less risky (Gavras 2010:478). Credit rating agencies, he argues, are ‘hardwired’ into the financial system and have become a substitute for due diligence, rather than a supplementary factor to a process of informed decision-making (ibid: 477). What was initially dubbed the sovereign debt crisis in 2010 in peripheral euro area countries raised the issue of hardwiring, as summarised in an editorial in the Financial Times: “This week, credit rating agencies filled their traditional crisis role: making matters worse for troubled borrowers without introducing any useful new information…” (Financial Times editorial cited in Gavras 2010: 477).

The cost of borrowing might thereby be influenced by rating agencies, whether or not the ratings are based on new information to render the investments risky or safe, as some rating agencies also take into account the political situation. Fitch Ratings cited two of Italy’s downgrades in recent years to political inertia to act upon its debt composition and yet again political turmoil, which would burden the process of consolidation as required by the new regulatory frameworks set in action after the financial crisis (Reuters 2012). This though, should hardly come as a surprise given Italy’s modern political history, which has boasted dissolution, corruptive practices and a recurring change of leaders. Only once policies to fight tax-evasion, raise the VAT, encourage greater employment flexibility, raise the standard retirement age and propose deep welfare cuts were suggested, did yields start to consolidate. Nevertheless, Italy’s credit rating, most notably at Fitch Ratings, plummeted to a historically low level, only averting a bigger cut, they argued, due to the pre-emptive efforts done by the Monti-administration (ibid.). Additionally, amid continuing bad economic data, yields climbed again in 2012 but seemed to have stabilized somewhat even with a politically challenging election in March 2013.

In a Foucauldian system of disciplinary power, self-discipline is important. It is important to avoid, Vestergaard argues, the interpretation of disciplinary power as an imposition on unwilling subjects (Vestergaard 2009:155). Disciplinary power instead mobilizes power so that the inmates or subjects are
themselves the bearer or the principle of his/its own subjection (Foucault 1991:203). For this to be feasible, a double system of reward and punishment, according to Foucault, must be effective. In what seems to be an emergent Post-Washington Consensus, centred on many of Stiglitz’s points amid an increased emphasis on somewhat standardized yet undefined “sustainable” growth initiatives, rewards will be given if the economies accommodate guidelines to achieve “sustainable” economic growth. Even though a ‘sustainable’ economy is yet to be defined, it seems to involve debt sustainability, alongside reforms that will ensure ‘economic’ growth, as inclined by documents published by the IMF, EU and G20. Likewise, punishments will occur should the economies ignore the implementation of necessary policies for the sake of global economic stability. This is also accomplished through international corporations such as the rating agencies, which verifies that market themselves have a disciplinary effect of self-discipline.

Are the rewards in the disciplinary system of the IFA and the emergent Post-Washington Consensus enough to ensure that subjects become the bearers? The rewards for complying with the IFA initiative were intentionally foreign capital flows and lower costs of obtaining them. Vestergaard argues, though, that there has been little evidence to support the envisioned reward and penal system (Vestergaard 2009:158). However, any new framework installed with disciplinary mechanisms might be effective in promoting compliance, at least in the short-run until power relations are recast due to the aspect of self-discipline (ibid:155). It is likewise very difficult to see coherence between the political and economic situation in Italy and its rating or cost of financing debt, even with economic contagion aside. This is arguable because the market no longer seems only to verify or falsify governmental practice, as some elements in the case of Italy illustrates, but rather increasingly becomes the “...organizing and regulative principle underlying the state”.

Policies designed after the financial crisis, in response to the increased focus on sovereign debt, seem to already incorporate policies and actions rewarded by the market. Actions that make economies more ‘visible’ simultaneously make it possible to hierarchically observe them, normalize judgement, whilst executing infinite examinations against implemented frameworks and their respective disciplinary mechanisms. Even when the Maastricht Criteria did not rest on specific economic assumptions, the continued and enforced convergence toward the initial design now seems important to become a ‘proper economy’. It is not just about economic contagion and the according punishment of Italian circumstances, as all euro area countries, including other EU members, similarly have to be organized in accordance to the same “sustainable and strong” model for growth through the SGP, Europe 2020 and European
Semester. It is apparently through the application of newly constructed governance frameworks, emphasizing “sustainable economies”, that economies become ‘proper’, which will promote global economic stability.

**Insightfulness**

It has been argued that the Foucauldian concept of governmentality remains applicable and insightful on the patterns of transformation of governmental rationalities, which occur with innovations of new spaces that power relations can operate upon. A transformation or at least an implication of a transformation has seemed to occur recently. The emerging consensus in the wake of the financial crisis and the euro area crisis seems to emphasize that not only do ‘institutions’ matter, but economies matter just as much. From the initial response to the financial crisis, emphasizing the need for strengthening stabilization mainly through regulation of financial institutions, the international community were by the end of 2009 contemplating the need for strong, sustainable and balanced growth through macroeconomic policies to strengthen demand (G20 2009a:1). Emphasizing the need for a global solution, focus however shifted onto fiscal challenges that could hinder economic recovery. Coordination and consultations on macroeconomic policies were deemed necessary, as the G20 summits and IMF by 2012 continuously would highlight that the euro area especially needed to strengthen their public finances with sound and sustainable policies (G20 2012:1).

Global initiatives to secure sound practices in governmental debt management is however not a novel practice, or a consequence of economic instability in the euro area. Both the IMF and World Bank have in the past decade repeatedly argued for the importance of sound public debt management “...to ensure that the government’s financing needs and its payment obligations are met at the lowest possible cost” (Wheeler 2004:4). There is a need for adaptation of “...a credible fiscal strategy to ensure that current and projected levels of public sector indebtedness remain on a sustainable path” (Ibid: 6). The purpose, the World Bank and IMF claim, is to lower the government’s debt-servicing cost and reduce risk in the portfolio to attain stability for the private sector by precluding financial risk and contagion (IMF 2001b:2). They developed guidelines to assist countries in their efforts to reduce financial vulnerability by identifying areas “...in which there is broad agreement on what generally constitutes sound practices in public debt management” (IMF 2004). Some of these areas address market risk, rollover risk, liquidity risk etc.
Sound macroeconomic policies are, according to the IMF and World Bank, a precondition for high-quality government debt management (Wheeler 2004:29). It can be argued that the novelty of globally governing fiscal strategies is not about its feasibility or reasoning, but its enforced importance and heightened priority in the wake of the events occurring in the euro area. In addition, the modality of its enforcement seems to have changed through ever more encroaching governance frameworks intended to ensure stable economic growth. It seems that there has to be constant intervention on the part of the state “...on the conditions of the market” (Read 2009:4). In a speech by previous president of the ECB Jean-Claude Trichet, he emphasized that there had occurred a “…very significant transformation of global governance” and that “…extremely bold changes that seemed unthinkable have been triggered by the intensification of the crisis in mid-September 2008” (ECB 2010b). Naturally, crisis responses in the euro area could be a consequence of more than initiatives discussed at the global level. However, as discussed in previous sections, the formation of global initiatives seems to influence the course of action in the EU and for the EMU. The application of Foucauldian governmentality has “…seemed necessary to analyze the states’ strategic role in the historical organization of power relationships and the establishment of global structures of domination” (Bröckling, Krasmnd, Lemke 2010:2).

The power relationships and establishment of global structures of domination are arguably also embodied in the cooperation between the EU, ECB and IMF in program countries, aimed at ensuring coherence “…and efficiency in staff-level program discussions with governments on the policies that are needed to put their economies back on the path of sustainable economic growth and job creation” (IMF 2013b). Such programmes have included supervision and regulation of financial systems but also structural reforms, which have necessitated budget cuts to address fiscal and debt sustainability (IMF 2011e). Such ‘necessity’ or ‘specific criteria’ have been argued to be Foucauldian discipline in camouflage, a discipline that is currently necessary to accommodate the possible transformation of governmentality. Fiscal consolidation guided by the Maastricht Criteria and the SGP, have necessitated restructuring of public debt management across many EU countries. As Barosso emphasized, the EU especially had to restore confidence in its citizens, markets and international partners. Consequently, he continued, it had increasingly done so by creating and reforming its regulatory frameworks and mechanisms for their enforcement (European Union 2012). By adhering to new regulatory frameworks, member states would restore confidence in the EU as an institution, its citizens, markets and international partners. However, even though some stability in the markets was achieved by the
euro area’s commitment to consolidation, as also exemplified by Italian circumstances, stability in the global economy remains fragile (IMF 2013d).

Very early on in the consolidation process, however, some politicians argued for leniency and more time to consolidate their public finances. It seemed difficult to combine rapid fiscal consolidation with policies allowing for economic expansion, they argued, to attain economic growth as encouraged both at the global and regional level. Newly elected French president Francois Hollande claimed in late 2012 that "...the time has come to offer a perspective beyond austerity" (Chrisafis 2012), complemented by Spanish Prime Minister Mariano Rajoy who states that there is a case for easing the budget-deficit target set by the EU, as recession undermines tax revenue. However, he continues, it does not seem possible to give up on Spain’s commitments to restructure its economy (Benoit & Sills 2012), with Hollande adding that he already felt sorry for both the Spanish and Portuguese "...who had paid dearly for others’ excesses" (Chrisafis 2012). They do not dispute that the disciplinary mechanisms which have dictated austerity are unnecessary in re-establishing confidence, but rather that the penal system offers too many punishments and not enough rewards, which in Foucauldian terms is not feasible in conjunction with liberal governmentality.

Recently, the IMF has argued that the EU was quick to make fiscal adjustments, with other industrialized countries emphasizing fiscal stimulus. Both the US and Japan, as a part of the G20, have despite increasing deficits and public debt introduced fiscal stimulus programmes to strengthen growth. The IMF noted in both cases that “...fiscal consolidation to restore soundness to public finances” (IMF 2011d) and that to “...reduce risk to domestic stability and the global economy, growth-enhancing structural reforms and fiscal consolidation are urgently needed” (IMF 2011c). In terms of financing their government debts and attaining investment grades, the current deviation from the global focus on sustainable economic policies has not triggered severe ‘punishments’ by the markets, and that the US and Japan have yet to pay “for others’ excesses”. Inconsistencies seem plenty with regards to ‘properness’ of economies and the disciplining towards such, though some attribute the differential treatment of the euro area and other G20 counterparts to specific reasons, briefly addressed below.

One of the most coveted arguments is attributed to the unique structure of the EU and euro zone, which consists of many sovereigns who have given up some of their economic sovereignty and many economic tools to sustain adverse economic shocks. However, this structure has not seemed to bother
investors or markets prior to the financial and euro area crisis, as also investigated by Delors’ committee. It had to be a question of prudence on behalf of both borrower and lender. The unique structure of the EU and euro area, arguably, does not make the initiatives at the global level less important or influential, as policies are indeed intended to be global through the continued support for the Financial Sector Assessment Programme and new initiatives such as the Mutual Assessment Process. Additionally, both the G20 and IMF continue to encourage the EU to strengthen its regulatory frameworks through economic discipline to attain the rewards of a stable and sustainable global economy. Initiatives are therefore still being launched in the euro area promoting more supervisory mechanisms to ensure financial and economic stability, namely through proposals to create a common banking union, as also supported by the IMF. Seemingly, it has become more than addressing the kinks in the regional governance framework to ensure global economic stability. It is a question of addressing kinks in any governance framework that does not promote institutional efficiency or sustainable economic growth, as also emphasized by the IMF in its country reports on other ‘improper’ economies such as Japan and the US.

However, the effectiveness of the seemingly new direction in global economic governance has yet to materialize. As previously mentioned, the intended purpose of additionally managing ‘economies’, was to stabilize the global economy. However, some initiatives incorporated in the euro area seem to work against the purpose, as expected stability has yet to materialize in spite of austerity measures and restructuring. In Foucauldian terms, the enforcement of the new global economic governance will depend on the effectiveness of the mobilization of power and whether the subjects are themselves the bearers of subjection (Foucault 1991:203). Any governmentality, even in the occurrence of a shift, is a framework that tries to illustrate power and subjectivity. The success of the argued new governance regimes will depend on whether the economies themselves believe in becoming the bearers of subjection, convinced by the claim that economies per definition are always in crisis, but that it is possible to ‘govern what is ungovernable’ (Rossi 2010:16) and that by intervening “...on the conditions of the market”, they will become further enriched (Read 2009:4).

Even when the relationship between state and the market on a global scale has arguably changed, with initiatives launched to regulate economies to an arguably unprecedented scale, the changes are not about coercive power. Simply arguing that markets are dominant and states increasingly powerless against market forces would be missing the point. To better understand the initiatives encouraged on a
global scale, one has to couple the Foucauldian concepts of governmentality and discipline, and allow for insightfulness on the patterns of transformation of governmental rationalities. Subjectification to the market as an organizing and regulative principle underlying the state, can be interpreted as an increasing denunciation of governmental interference, but does not necessarily imply the retreat of the state. In fact, it can correspond to an extension of government. The success and enforcement of newly minted global initiatives remains arguable, and their rate of success at the time being is difficult to document and to actually research. The survival of the EMU, some claim, is at stake if the initiatives do not succeed in promoting stability. In addition, the increasing dissonance between the world’s biggest economies and the intention of the frameworks might prove to be an additional hindrance. Whatever the course, Foucauldian insightfulness will probably allow us to assume that unless subjects themselves become bearers, and the governmentality practiced establishes coherence, the disciplinary mechanisms installed will not be able to promote efficiency - at least until another object on which power relations can operate upon emerges.

**Conclusion**

From the application of divine mandates to economic doctrines, modern economics was arguably founded in the midst of heavily regulated markets, in which Adam Smith would advocate for greater liberty for commercial activities (Vestergaard 2009:187). The creation of a new economic science soon required quantification, which through calculus could prove the benefits of an unregulated market mechanism, accredited to a historical period of undisputed growth. However, when that period came to an end, new applications had to be invented with Keynes proposing that in the absence of effective demand, governments would have to compensate for the lack of economic activity (Dowd 2000:131). The dominance of Keynesian economics also seemed traceable in the creation and purpose of international institutions such as the World Bank and the IMF. In addition to the emphasis on the World Bank and IMF as the most influential international economic governance institutions, only post-war economic governance regimes have been taken into account in the analysis regarding the recent crises. The Keynesian economic regime would allow for liberal governmentality revolving around the danger of governing too much or governing too little (Foucault 2008:17), accounted for by limiting interference to exchange and interest rates.

The evolution of economic understanding, according to economist José Antonio Ocampo, later tested the Keynesian emphasis on real economic activity, as the popularity of economic neoliberalism brought about
a fixation on fiscal balance, price stability and deregulation (Ocampo 2008:63). In relation to another economic downturn, residual schools in economics would challenge the application of economic theory. The residual schools advocated yet again for liberalism and the effectiveness of the market, which would allocate resources to their most efficient usage. Their influences could be observed in both Britain and the US, which encouraged the application of neoliberal policies on a global level. With a new economic direction, the Washington Consensus was as an initiative originally intended to address policies needed in South America and came, according to some, to represent policies with a global span guided by ‘market fundamentalism’ (Stiglitz 2008:41). Even though the Washington Consensus incorporated some neoliberal assumptions, its popularity with international economic governance institutions did not seem to amount to a change in either global or sovereign governmentality, as its application of discipline was apparently ‘exceptional’. A crisis in 1997, however, led to the conception of the ‘international financial architecture,’ which was to extend global economic governance into the organization and regulation of institutions within economies. Endorsed by the IMF and the World Bank, standards were promoted to increase global transparency and financial stability in order to equip investors in the market with better information through assumed market discipline (IMF Factsheet 2010).

The IFA initiative was a part of a wider critique aimed at the Washington Consensus, which according to many economists needed to entail broader features. It was no longer about getting the economy right with ‘exceptional discipline’, but about getting the ‘institutions’ right through a ‘generalized’ disciplinary regime, which, unlike its predecessors, had incorporated mechanisms for hierarchical observation, normalizing judgment and examination. However, even a ‘generalized’ disciplinary regime, which according to some seemed to have become increasingly totalitarian, did not seem to have altered the erstwhile governmentality. Although many have argued that ‘government’ had been increasingly subjected to the market and the economy, global economic governance regimes did not appear to have altered the states’ relationship to the market as a site of falsification/verification for its policies. However, as Stiglitz observed, even the emergence of a Post-Washington Consensus could not circumvent the following crises, which would possibly require a new global economic governance regime in its aftermath (Stiglitz 2008:58). The recent financial crisis and following euro area (debt) crisis have apparently created the need for a new application of global economic governance. As the scope of the financial crisis unraveled, the focus was initially on restoring liquidity and assisting the financial markets. While the interconnectedness became clearer, the focus of global economic governance seemed to shift in response to economic developments within the euro area.
The creation of the EU was both a political and economic process. As history evolved, a single economic market was to be followed by a monetary union, which at its creation had to take into account the developing economic circumstances. It has been argued that such circumstances were the product of a globally promoted liberal governmentality and Keynesian economics, due to the verification/falsification role attributed to the market mechanism that would help steer national governance. Though, according to Delors’ committee and residual economic schools, Keynesian mechanisms had by the 1970’s failed to safeguard economic interest, a conception that was increasingly supported on a global level. The Maastricht Criteria, and eventually the Stability and Growth Pact would become the rule-based framework for the coordination of national fiscal policies in the EU, based on the assumption that its framework would encourage prudence or discipline on behalf of both borrowers and lenders. After minor glitches, the establishment of a European Monetary Union attracted many member states that began their economic convergence. Although not all member states met the criteria in the last stage of the European Monetary Union, they were nonetheless accepted into the union (Mayer 2010:79).

An increasing amount of critique aimed at the preventive and corrective disciplinary arms of the Stability and Growth Pact, resulted in a 2005 reform that incorporated customized solutions for member states. Even though violations continued, it arguably had little consequence for the violating member states. It was not until the aftermath of the American housing-bubble and a subsequent liquidity freeze that violations seemed to matter to the market. The initial response to the financial crisis from the global economic forums revolved around policies to deal with liquidity shortages and the financial markets. Even though assumptions installed in the European Monetary Union’s governance framework advocating prudence and discipline from borrower and lender had functioned previously, a new economic scenario seemed to threaten that basis. Despite proclaimed global success in combating problems within the financial markets, problems started to escalate for the global economy as Greece admitted to have provided fraudulent economic data. Even though Greece was a minor economy in the euro area, investors started to doubt the economic health of the euro area as a whole. Markets became increasingly occupied with verifying/falsifying governmental operations according to new priorities and economic conditions.

Arguably, sovereign debt now became a global economic governance priority. At G20 Summits and further enacted by the IMF, the need to bolster and regulate financial markets remained important, albeit not as urgent as the fiscal imbalances that threatened global recovery. Greece and several other euro area members had to make lending arrangements with the IMF, whilst some euro area countries began to rely on ECB funds to protect their debt burdens. Investors and rating agencies began to assess sovereign debt
more sternly (Pryce 2012:87). As participating parties in the G20, the biggest euro area economies and the EU (as a separate member) were both the creators and enforcers of an increased focus on sustainable and balanced growth through various disciplinary mechanisms such as the Financial Sector Assessment Programme, Mutual Assessment Process, Stability and Growth Pact and European Semester. The European Commission stated that the financial crisis had harmful consequences bringing about the destabilization of financial markets, downturn in economic growth and the deterioration in the budget deficits and debt positions (European Commission 2012a).

A reinforced economic agenda in the EU, with increased surveillance and a stronger penal system, was therefore deemed necessary to command discipline, improve the economic and budgetary coordination, and reinstall confidence in the markets and international partners (European Union 2012). A renewed emphasis on the Maastricht Criteria was enacted, as member states had to become ‘proper’, arguably docile, economies. Most notably, Italy and Spain were increasingly scrutinized. With a long tradition of government debt, corruption and political inertia, Italy had to revise its governmental rationalities. It had to become ‘proper’ rapidly, as the market deemed its economic credentials unsound and demanded higher premiums for its debt. To discipline Italy, the ECB alongside the Commission required strict austerity measures from which deviation was not feasible if Italy wanted to access cheaper sources of capital. Not only did markets deem Italy improper, but they also continued to examine sovereign policies brought about by austerity measures, which similarly to Foucauldian mechanisms arguably turned Italy into a docile economy.

Such changes can arguably not be attributed to economic contagion alone, since both the IMF and Commission noted that ‘good governance’ could have prevented such contagion. Most importantly, the new frameworks would subject all member states to ‘good governance’, making the Italian case evidence for an increased role for markets as the organizational principle (Vestergaard 2009:208). It was no longer the case that simply ‘institutions’ mattered, as the governance of ‘economies’ seem to have made a comeback- but this time governance of economies was conducted through a ‘generalized’ system of discipline relying increasingly on the market as an organizational principle. Even though both the G20, the IMF and the EU have emphasized tailoring for national purposes, the tendencies displayed in Italy, and undoubtedly many euro countries that ‘resemble in any way the trigger spot’, seem to indicate a system of ‘generalized’ discipline which still abides, at least in the euro area, to one-size-fits-all policies. The market and its mechanism are not only judges, but also the dominant facilitators of discipline or regulation over a ‘population’ of global economies, echoing a notable transformation towards neoliberal governmentality. A
governmentality, which through crisis responses seems to favour constant intervention on the states, and by the states, not on the market, but "...on the conditions of the market" (Read 2009:4). Not only have states seemingly become docile, but they seem to also have accepted their docility by acknowledging their circumstances, abiding to policy reforms, and acting on the conditions available. It nevertheless remains beyond the scope of this thesis to see the extent of the enforcement and success of disciplinary mechanisms in global economic governance through what appears to be an encouragement and application of neoliberal governmentality. Whether or not there has been a transformation, some scholars still stress the increasing dominance and ever expansion of global economic governance. However, the ongoing process seems to abide by Foucauldian insightfulness.
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‘Table 2’: IFA, Table 8.2 in Vestergaard 2009, *Overview of Standards or ‘Best Practice’*, p. 92, in Discipline in the Global Economy?, Routledge, New York, US

