Governing EMU through Risk and Uncertainty: Governance in the aftermath of the Stability and Growth Pact crisis

Bartholomew Paudyn

Department of Political Science
Carleton University, 1125 Colonel By Drive
Ottawa, Ontario, Canada K1S 5B6
Email: bpaudyn@connect.carleton.ca

Paper presented at a meeting of the European Union Studies Association (Economics Section)
May 15- May16, 2008: Federal Reserve Bank of St. Louis
Work in Progress - please do not cite without permission

Abstract

New monetarist orthodoxy dictates that the European Monetary Union (EMU) should function in accordance with limits imposed by the fiscal framework, the Stability and Growth Pact (SGP). Fiscal profligacy poses a high risk to Europe's common monetary policy and its ultimate objective of price stability as unsound budgetary policies threaten to increase inflationary pressures. However, governments are prone to deficit spending and the "mutual surveillance" procedures aimed at encouraging the naming and shaming of offenders into compliance has failed in the process undermining EMU's neoliberal ideological foundation. Simultaneously, major institutional and conceptual inconsistencies were revealed, culminating in the November 2003 Ecofin crisis. Whereas the SGP was devised as the anchor for the euro it has come symbolize its weakness. The result is an antagonistic relationship between the programmatic and operational dimensions of monetary governance, which only heightens the politics of risk and uncertainty. Given their centrality in regulation, I posit that risk and uncertainty are dominant modes of governance as the problem of EMU management is framed and understood in these terms and ideas. Subsequently, EMU is rendered "real" by the technologies for handling risks and uncertainties. At our disposal are quantitative methods akin to risk and subjective creativity, which targets uncertainty. My paper will diagnose particular solutions and strategies designed to maintain fiscal discipline in the aftermath of the SGP crisis. I argue that with the 2005 reforms a greater emphasis is being placed on governing through uncertainty. Doing so I will ascertain how the uncertainty-centred discursive practices have obtained the power to define the parameters and subjects of EMU. It will draw attention to the "performativity" of both risk and uncertainty in the constitution of subjectivity. How we come to understand EMU categories and processes is often taken as self-evident or given in IR and seldom problematized. This neglects the contestability involved in defining the economy of power of Europe. Knowing how EMU is rendered "real" by these discursive practices designed to handle risk and uncertainty, allows for a more comprehensive understanding of monetary governance.

Introduction

Inexorably equated to the broader project of European integration, on January 1, 1999 Europe witnessed the irrevocable locking of the conversion rates of eleven national currencies as they became denominations of the euro.[1] This transition to "Stage Three" of the European Monetary Union (EMU) embodied the vision of Europe as an emerging, major player in international economic and monetary affairs.[2] Having no equivalent in history this is arguably the construction of a novel monetary space outside the auspices of the traditional nation-state, with its own set of articulations and practices of governance and valuation.[3] The euro involves a new "monetization of time-space, rendering the future calculable…and presupposes a particular rationalization of money and risk".[4] Amplified by tribulations, such as the November 2003 Economic and Financial Affairs Council (Ecofin) crisis, risk and uncertainty have become primary constructs that inform economic governance in this final stage of EMU. Understood as modalities of government, they make the production of this monetary space intelligible as a recognized form of knowledge. Thus, EMU "becomes real by harnessing itself to a practice of inscription, calculation and action" designed to minimize the negative externalities associated with the conduct and coordination of fiscal and monetary policy.[5]

"New monetarist" orthodoxy dictates that EMU should function in accordance with limits imposed by the fiscal framework, the Stability and Growth Pact (SGP). Fiscal

---

[1] By January 2002, Greece had satisfied the convergence criteria and the last remnants of national legal tender disappeared. Slovenia would adopt the euro on January 1, 2007; Cyprus and Malta would follow suit on January 1, 2008.
[2] Kenneth Dyson, *The Politics of the Euro-Zone* (New York: Oxford University Press, 2000); Amy Verdun, ed., *The Euro: European Integration Theory and Economic and Monetary Union* (Lanham, Md.: Rowman & Littlefield Publishers, 2002).
[3] Marieke de Goede, *Virtue, Fortune, and Faith* (Minneapolis: University of Minnesota Press 2005).
[4] Michael Pryke and John Allen, "Monetized time-space: derivative-money's 'new imaginary,'" *Economy and Society* 29 (May 2000): 264-84.
[5] Nikolas Rose, *Powers of Freedom* (New York: Cambridge University Press, 1999).

profligacy poses a high risk to Europe's common monetary policy and its ultimate objective of price stability as unsound budgetary policies threaten to increase inflationary pressures.[6] Hence, in a neoliberal political economy, such as EMU, there is considerable effort to transform a domain of insecure knowledge into quantifiable regularities that may be mitigated through programmes and technologies known as risk management. Whereas risk is defined as an aggregable and quantifiable frequency of an undesirable event, uncertainty may be understood as a singular, subjective estimation, as the "fluid art of the possible."[7] EMU is rendered "real" by the configuration of technologies designed to handle risks and uncertainties.

Governments, however, are prone to deficit spending and the "mutual surveillance" procedures aimed at encouraging the "naming and shaming" of offenders into compliance has failed, in the process undermining EMU's neoliberal ideological foundation. Simultaneously, there are major conceptual and institutional inconsistencies in how member states are regarded under the fiscal framework, as is exemplified by their differential treatment culminating in the November 2003 Ecofin crisis.

Little did the architects of EMU suspect that the profligacy problem was only going to be exacerbated by the very champion of fiscal prudence itself, namely Germany. Up to November 2003, the SGP had progressively come under attack from six states as they breached the rules prescribing government deficit (3% of GDP) and debt (60% of GDP) levels. Although an "early warning mechanism" (Article 99(4)) was issued by the Commission, it failed to be activated by the Council and ultimately proved ineffective in

---

[6] Paul De Grauwe, *Economics of Monetary Union* (New York: Oxford University Press, 2007), 82-83.
[7] Pat O'Malley, *Risk, Uncertainty and Government*, 5.

stymieing the excessive deficits. [8] Acknowledging that they were in violation, the Ecofin Council nevertheless rejected Commission recommendations to sanction France and Germany, arguably "sounding the death knell for the unloved Stability and Growth Pact."[9] What remains is a deficit bias of fiscal policies that is ultimately unsustainable and a behaviour that the SGP has apparently failed to eradicate.

Sparking an institutional crisis, the Ecofin debacle exposed the necessity to revamp a risk-centred regime of governance through aggregate futures as it proved unable to account for the heterogeneity underpinning the behaviour of member states.[10] Furthermore, the belief that member states would punish themselves at the expense of their domestic constituencies is simply conceptually unsound. Thus, whereas the SGP was devised as the anchor for the euro it has come symbolize its weakness. The result is an antagonistic relationship between the programmatic and operational dimensions of monetary governance, which only heightens the risk of disruption or potentially failure. EMU's policy model remains opaque as the different mandates assigned to the ECB (price stability) and member states (output stabilization) create a *de facto* policy conflict. As a "crude fiscal coordination mechanism," the SGP leaves substantial room for political manipulation.[11] In its original form, the SGP simply aggravated the problem of a single, centralized monetary policy operating against the backdrop of multiple and

[8] Martin Heipertz and Amy Verdun, "The Dog that Would Never Bite? Origins, Crisis and Reform of Europe's Stability and Growth Pact," in *EMU Rules: The Political and Economic Consequences of European Monetary Integration*, ed. Francisco Torres et al. (Munich: Nomos, 2006), 122.
[9] Ian Begg and Waltraud Schelkle, "The Pact is dead: Long live the Pact," *National Institute Economic Revi*ew 189 (2004): 86.
[10] The 2005 Reforms move from emphasizing a single indicator to a broader analysis of budgetary positions, including cyclical adjustments, a new methodology for establishing country-specific medium-term objectives (MTOs), and exceptions to the preventative measures.
[11] Patrick M. Crowley, "The Shape of Things to Come: The EU's Post-EMU Institutional Architecture," in *The Euro: European Integration Theory and Economic and Monetary Union,* ed. Amy Verdun (Lanham, Md.: Rowman & Littlefield Publishers, 2002), 166.

fragmented fiscal policies.

Being neither an optimal currency area (OAC) nor possessing "the necessary cultural and political foundations for stability," EMU entails managing an indeterminate future with various propensities to failure.[12] Members lack the necessary flexibility in wages and prices, labour mobility or regional fiscal transfers to offset the costs of a common European Central Bank (ECB) policy. Left at their disposal is a fiscal policy which is restricted by the SGP. Nevertheless, states cannot be trusted from seeking the short-term political gains that result from a relaxed fiscal stance and free-ride as more responsible members adhere to those rules and shoulder a greater adjustment burden. This risk is reflected in the renewed emphasis on the "preventative arm" of the Pact, which, for the first time, requires member states to include their Medium Term Objectives (MTO) in their Stability and Convergence Programmes (SCP).[13] Unfortunately, these MTOs have transformed into moving targets rather than definitive points of reference, in the process undermining fiscal surveillance.

Mitigating against such dangers has come to (re)occupy the EMU agenda. By acknowledging some of the deficiencies in the original SGP while trumpeting "differential treatment" together with conditional individual "exceptions" and "temporary deficits", the 2005 SGP reforms represent a shift to governing through uncertainty.[14] But now the myths of control embedded in EMU, which the SGP reinforced, no longer diminish the perception of hazard as originally intended. In light of this development,

---

[12] Alan W. Cafruny and J. Magnus Ryner, *Europe at Bay: In the Shadow of US Hegemony* (Boulder: Lynne Rienner Publishers, 2007), 33.
[13] European Commission: DG for Economic and Financial Affairs, *European Economy: Public finances in EMU 2006* (Brussels: DG EcFin, 2006), 31.
[14] European Commission: DG for Economic and Financial Affairs, *European Economy: Public finances in EMU 2006* (Brussels: DG EcFin, 2006).

particular questions surface regarding the construction and regulation of this monetary space.

First, how does the differentiated assessment of SGP statutes problematize the changing governmental perceptions of European monetary management? I submit that the politics of risk and uncertainty have become more pronounced because of the conceptual, ideological and institutional inconsistencies magnified by the SGP crisis. Given their centrality in regulation, risk and uncertainty are dominant modes of governance as the problem of EMU management is framed and understood in these terms and ideas. Regulators deploy a battery of discourses (e.g. new monetarism) and technologies (e.g. SCP, Excessive Deficit Procedure) to render this space real for the purposes of minimizing hazards and yielding politico-economic gains. Appreciating risk and uncertainty as leverages underpinning the constitution of EMU allows for a better diagnosis of how this emerging space becomes an object of inquiry and susceptible to diverse discourses and practices of governance.

Next, what is the regulatory capacity through which risk and uncertainty, as modes of governance, are delivered? How do the architects of EMU address the changing problems associated with fiscal profligacy? In answering this second question, I will map the various discourses and technologies that contribute to the quantification of risk and institutionalization of value. Such a genealogical approach will allow me to ascertain what constitutes as reasonable practice and how the notion of surveillance as regulation is embedded within the political economy of EMU. With the introduction of the March 2005 reforms, a greater reliance is now being placed on human expertise in interpreting this propensity and hedging against it. Such a move is akin to governing through uncertainty rather than risk as it grants authority to non-quantitative methods anchored in expertise and judgment. In light of the amended SGP, a genealogy provides the comparative normality that yields a better assessment of the shift in regulation that occurred. It is here that a reflexive and critical analysis will be most pronounced as the link between thought and government is problematized.

The following argument is developed in five stages. The first section will further develop the problematic. Continuing, the conceptual territory of risk and uncertainty as modes of governance, which underpin the development of a European monetary space, will be discussed. Since organizational risk is not indigenous to EMU, I will briefly map its migration from the corporate sector. Next, I will proceed to examine how risk acts as a buffered form of rule or leverage. The following section will explain how the Ecofin crisis triggered the transition to a reliance on governing through uncertainty or the second leverage. Attention will be devoted to problematizing how discursive practices, such as the clarified country-specific MTOs, act as a force in the production of monetary objects of knowledge. Here I will diagram how the deployment of the revised preventative and corrective budgetary surveillance mechanisms represents a shift to uncertainty-centred government in the promotion of sustainable public finances and fiscal convergence.

Fiscal Surveillance Problematic

During Stage III, the DG for Economic and Financial Affairs (DG EcFin) is mandated with the surveillance of cyclically adjusted budget balances. It deploys complex, econometric forecasting models to assess the Stability and Convergence Programmes (SCP) of member’s states in the hope of anticipating and stymieing the risk of fiscal indiscipline.[15] Recognizing the problems of monetary and fiscal governance through this prism of risk, policy-makers are inclined to privilege certain prescriptions, such as placing greater emphasis on the "preventative arm" of the Pact, rather than others (e.g. fiscal federalism). Economic cycles matter and expenditure-based (versus revenue-based) surveillance embedded in a culture of verification is thought to improve underlying budgetary positions. The success of fiscal governance depends on the strength and convergence of clear rules that favour discipline-oriented budgets.[16] However:

> if the problem is primarily one of adherence to the rules, the priority should be to ensure rigorous implementation of the existing rules rather than to change them. At the same time, it is widely recognized that simply attempting to apply the existing rules after the watershed of November 2003 is not a viable option. Reestablishing a sense of ownership of the fiscal rules by all parties would be the precondition for their effective enforcement.[17]

Indeed, a successful SGP cannot neglect that national fiscal ownership rests on the internalization of self-regulation. Convergence between national interests and EU objectives demands forecasts, analyses and recommendations that are specifically tailored to each individual member state rather than vague, generic ones. Moreover, rules and numbers need to be interpreted by humans. No quantitative apparatus can actually initiate the Excessive Deficit Procedure (EDP). That function belongs to the discretion of the Ecofin Council in collaboration with the Commission.[18]

Contributing to this is the problem of compliance is the fiscal framework itself. Critics contend that the SGP is overtly rigid, "forcing countries to restrain fiscal policies

[15] James D. Savage, *Making the EMU: The Politics of Budgetary Surveillance and the Enforcement of Maastricht* (New York: OUP, 2005), 160.
[16] European Commission: DG for Economic and Financial Affairs, *European Economy: Public finances in EMU 2006* (Brussels: DG EcFin, 2007), 6.
[17] Marco Buti, "Will the new Stability and Growth Pact succeed? An economic and political perspective," January 2006, available from http://europa.eu.int/comm/economfinance/publications/economic_papers/2006/ecp241en.pdf); Internet, Retrieved 09/01/06.
[18] Article 99 articulates the "early warning mechanism" and Article 104 sets out the procedure to identify and correct situations of excessive deficit.

in difficult times and exacerbate cyclical volatility" while "inhibiting growth by limiting useful public expenditures (e.g. on investment)."[19] Adhering to this hard law, states are denied the traditional tools that help stabilize their economies in the event of an economic downturn, which increases the probability of further SGP violations. Although initially the SGP was recognized as fulfilling the interests of the stronger economies, like Germany, such a pro-cyclical policy is critiqued as acting as a "straight-jacket", damaging the economic position of members at a time when expansionary measures are justified.[20] In effect, the SGP resembles a "contract" amongst countries that retain sovereignty over fiscal policy. Unlike a conventional contract, however, its politicized nature thwarts its enforcement by legal means. Thus, the "essence of the pact is not a mechanism of 'quasi-automatic sanctions' but the institutionalization of a *political* pledge to aim for low deficits."[21] The violation of this promise by member states and the asymmetric application of the SGP by Ecofin undermine the management of the common monetary space thereby further exacerbating the uncertainties facing this regulatory regime.

All this culminates in the need for a revamped approach to governing the fiscal operations of EMU. Fuelling academic debate, certain thinkers, such as Jakob de Haan, advocate stricter enforcement mechanisms while others, the likes of Heipertz and Verdun, question whether rules could ever be "as effective as a political body."[22] Another strand of academic discourse, espoused by the likes of Arestis, Brown and Sawyer,

[19] Otmar Issing, "The Stability and Growth Pact: The appropriate fiscal framework for EMU," 9.
[20] Montserrat Ferre, "Should Fiscal Authorities Co-operate in a Monetary Union with Public Deficit Targets?" *Journal of Common Market Studies* 43 (2005): 539–50.
[21] Martin Heipertz and Amy Verdun, "The Dog that Would Never Bite? What we can learn from the origins of the Stability and Growth Pact," *Journal of European Public Policy* 11 (2004): 770.
[22] Jakob De Haan et al, "Why the Stability and Growth Pact Failed?" *International Finance* 7 (2004): 235–26; Martin Heipertz and Amy Verdun, "'The Stability and Growth Pact Theorizing a Case in European Integration," *Journal of Common Market Studies* 43 (2005): 998.

contends that irrespective of the “arbitrary reference values”, targets themselves are about sustainability and would still result in budgetary adjustments with 2% inflation and 3% real growth.[23] Sustainability is reinforced by transparency and mechanisms that help facilitate this process. This position alludes to the internalization of self-regulation as actors’ preferences converge. Acknowledging that fiscal sovereignty is a “sacred cow” of the state, this “emphasis on the steering of internal control” or “the conduct of conduct” may prove to be an attractive alternative approach to a problem that conventional means cannot manage.[24]

As a new analytical instrumentality, “governmentality” directs our attention to the diverse set of discourses and practices that define this novel element of monetary and fiscal governance. The idea of a government of economy introduces a self-regulating element to the organization of EMU. Through the internalization of self-regulation, members are envisioned as enterprising subjects entrusted with the responsibility of prudently managing their fiscal books. This will draw attention to the “performativity” of risk and uncertainty in the constitution of EMU subjectivity. It will also explain how this space called EMU becomes the site of its own economy.

Risk and Uncertainty as Modes of Governance

As modes of regulation risk and uncertainty help define EMU activity by producing and legitimating knowledge as a susceptibility to vulnerable fiscal conduct and as a register of accountability. To simply regard risk management as a technical analytical process is to neglect the values and norms it embodies. One of the most visible of these ideals in the context of EMU is the discourse of accountability. Although risk is

[23] Philip Arestis, Andrew Brown, and Michael C. Sawyer, *The Euro: Evolution and Prospects* (Northampton, MA: Edward Elgar, 2001).
[24] Rose, *Powers of Freedom,* 3.

not indigenous to this domain, having migrated from the corporate sector, as a rationality of government it informs a sleuth of technologies geared to producing accountable economic objects of government. Whether it is controlling inflation or fiscal policy in "good times," EMU has been, and continues to be, dissected and configured according to risk vectors. This is an enduring characteristic of the "preventative arm" of the SGP. It stirs an appetite to prove one's accountability as actors begin to internalize the notion of self-enforcement.

Itself a governmental construct, risk frames problems in terms of a statistically probable and therefore calculative estimation of some indeterminate future.[25] It transforms this common monetary space into a set of graphs, formulas and indexes, in the process "generating a variety of micro sovereignties, disciplinary regimes, and coercive forces."[26] Probabilistic outcomes may be tamed by quantifying and pooling them, ensuring an enhanced degree of control. Yet, simply advancing risk as an approach to rendering reality in order to govern is also lacking and requires further delineation, especially in the case of EMU. Risk has typically been defined in terms of calculable estimations. Here statistics "emerges as one of the key modalities for the production of knowledge necessary to govern, rendering the territory to be governed into thought as a domain with its own density and vitality."[27] For the purposes of government this calculative rationality offers the security afforded from living in a determinate world. A world where the adverse effects of conduct may be revealed as a probability statement is

[25] Richard V. Ericson and Aaron Doyle, *Uncertain Business: Risk, Insurance, and the Limits of Knowledge* (Toronto: U of T Press, 2004), 5).
[26] Timothy Mitchell, "The Properties of Markets," in *Do Economists Make Markets? On the Performativity of Economics*, p. 245.
[27] Nikolas Rose, "Governing by Numbers: Figuring out Democracy," *Accounting, Organizations and Society* 16 (1991): 676.

one that is conducive to being rendered more manageable.

At the same time, granting objectivity to "statistical correlations between series of phenomena" with the ambition of regularizing social activity neglects three vital aspects of governing through risk.[28] One, as I previously mentioned, risks are conditional because they fulfill a specific objective that is predefined. As such, they do not exist devoid of a particular context or problematic. Two, risks are reactive since future forecasts hinge on the circumstances which preceded them and their interpretation. For David Garland, "extrapolations from past experiences are always inferences from a limited data set using premises (about cause and effect, about factors involved, about *ceteris paribus*) that may be disproved by subsequent events."[29] Lastly, the degree to which individuals and institutions expose themselves to potential hazards varies as risks are "interactive."[30] How risk prone I am is depends on the perception of my capacity to tolerate the unwanted outcome. Knowledge of the environment and other agents factors into this decision. Adams refers to this as one's "risk thermostat."[31]

All of these criteria acknowledge the social dimension of risk, which does not readily lend itself to the quantifiable technologies of risk analysis. Simply attempting technocratic control of something as multifarious and fluid as socio-political conduct is virtually impossible. One cannot aggregate and pre-empt all the available combinations that factor into a decision-making process. Predictability is challenged by an "imprecisely foreseeable future," which is not repeating itself in any statistically measurable way.[32]

---

[28] Robert Castel, "From dangerousness to risk," in *The Foucault Effect: Studies in Governmentality*, 284.
[29] David Garland, "The Rise of Risk," in *Risk and Morality,* ed. Richard V. Ericson and Aaron Doyle (Toronto: U of T Press, 2003), 53.
[30] David Garland, "The Rise of Risk," in *Risk and Morality*, 55.
[31] John Adams, *Risk* (London: UCL Press, 1995).
[32] Pat O'Malley, "Moral Uncertainties: Contract Law and Distinctions between Speculation, Gambling, and Insurance," in *Risk and Morality*, 235.

Rather than defining this lack of secure knowledge as a type of incalculable risk, which is merely unknown, another analytical as well as governmental category is necessary. Here is where the value-added of uncertainty is most apparent in the problematization of European monetary management.

Employing the concept as Pat O'Malley operationalizes it, to govern through uncertainty is to do so:

> in non-quantitative ways, by reference to experienced judgment, shred guesswork, rules of thumb, analogies and so forth. By implication, uncertainty therefore is a way of governing futures that are imagined as singular, infrequently recurring or unique.[33]

To distinguish uncertainty from risk in this manner is not conventionally preferred by much of the existing literature.[34] Quite often uncertainty is defined as the incalculable risk, as is favoured by Ulrich Beck and most "risk society" theorists (i.e. Giddens, Lash).[35] Yet, what Beck and other social pessimists of his persuasion neglect is the political factor and how it thwarts the functionality of maintaining control. Beck is critiqued by thinkers, such as Bruno Latour, for divorcing technoscientific epistemology from its disorderly and uncertain socio-political context.[36] In the aftermath of the SGP debacle, one can appreciate how the task of identifying and defining threats to EMU demands an approach which is not ambivalent about political risks. This necessitates recognizing the logic of uncertainty, its formulation in rendering realities manageable and its status as a model of good governance.

I, on the other hand, prefer to adopt the distinction that Pat O'Malley makes. Risk

---

[33] Pat O'Malley, *Risk, Uncertainty and Government*, 13.
[34] Lash, Beck, Doyle and company operationalize the term as presented above (i.e. as a quantifiable and aggregable frequency)
[35] Ulrich Beck, *World Risk Society* (London: Polity, 1999); Anthony Giddens, *The Third Way and its Critics* (Cambridge: Polity, 2000).
[36] Bruno Latour, *We Have Never Been Modern* (Hemel Hempstead: Harvester Wheatsheaf, 1993).

may be considered as the quantifiable frequency of an indeterminate future but uncertainty is better understood as a subjective estimation.[37] Such a reading avoids a totalizing vision of risk. It also helps dispute Beck's notion of a post-Westphalian system where state failure is endemic. Arguably, risk "has become polysemic, a discursive shift that needs to be discussed as a phenomenon rather than eliminated by definitional fiat."[38] Yet, uncertainty does not simply displace risk as their relationship is not one of rigid binary opposition. A preferred understanding "regards them as related along multiple axes, with the effect that no single continuum (such as one running from statistical probability to vague hunches) will adequately represent their relationship."[39] Therefore, risk is not in the process of being displaced in as much as it is constantly "assembled into complex configurations with other technologies, particularly – if not only – with uncertainty."[40] My genealogy will diagnose these "assemblages" as solutions and strategies for maintaining fiscal discipline. Doing so I will ascertain how they have obtained the power to define the parameters and subjects of EMU.

It must be remembered that determining the tangibility of a specific threat is not the intention. Whether or not objective knowledge is acquired as a capacity for future behaviour is of little concern because risk and uncertainty are neither analytically real nor unreal. Rather than treating risk and uncertainty as monolithic technologies or some sort of underlying reality upon which everything happens, a more complete understanding of EMU governance entails moving away from the ontological categories of "real" and "unreal". Referring back to Van Loon, given their "permanent state of virtuality,"

[37] Pat O'Malley, *Risk, Uncertainty and Government*, 5.
[38] Lorna Weir, "Recent developments in the government of pregnancy," *Economy and Society* 25 (1996): 383.
[39] Pat O'Malley, *Risk, Uncertainty and Government*, 21.
[40] Pat O'Malley, *Risk, Uncertainty and Government*, 27.

ontological questions are rendered peripheral. Instead, attention is devoted to understanding how the governmental rationalities underpinning EMU are framed and articulated in these terms. EMU is rendered "real" by a regulatory governance capacity composed of the discourses and mechanisms designed to handle the increasing extensity and intensity of fiscal and monetary conduct across Europe. This calls for a re-imaged spatial-temporal explanation of governance to adequately capture how the political economy of EMU comes to exist through the diffuse technologies through which control happens.

Analytically, I am arguing the case that risk is one of the central organizing principles that helps define the parameters of EMU as a recognizable and governable space. Through the accumulation of knowledge, risk strategies instill stability by ordering reality according to a discernable managerial approach based on the regulation, if not elimination, of potential variables threatening price stability or the value of the currency itself, along with the credibility of its monetary policy. The Ecofin crisis exposed the necessity to revamp this mode of governing through aggregate futures.[41] Unable to account for the heterogeneity underpinning the behaviour of member states, risk "entails making calculable the uncalculable or the monitoring of contingency."[42] Here the scientific knowledge of probabilities is of little utility as it cannot forecast individual propensities to act with any degree of precision. Quite often, these decisions are influenced by values and discursive factors that readily change and do not lend themselves to being assigned a concrete numerical quadrant that remains constant over

[41] The 2005 Reforms move from emphasizing a single indicator to a broader analysis of budgetary positions, including cyclical adjustments, a new methodology for establishing country-specific medium-term objectives (MTOs), and exceptions to the preventative measures.
[42] Scott Lash, "Reflexive Modernization: The Aesthetics Dimension," *Theory, Culture and Society* 10(1993):6

time. Although Van Loon is correct to assert that "risks exist in a permanent state of virtuality and are only actualized through anticipation," the composition of that virtual state of being is never static since political culture is fluid.[43] What we do not know may simply reflect the implicit diversity in the temporality of human conduct instead of some inescapable logic of reflexive modernity. Rather than seeking direction from models that neglect conditionality, a better mode of governance should take into account the often random character of uncertainty.

For the moment, it is sufficient to understand that uncertainty represents a shift to government of singular futures. In this case "protagonists of uncertainty use it as a term explicitly and pivotally denoting something they set against risk."[44] However, this does not discount the considerable overlap that exists with risk in the context of EMU. As the 2003 Ecofin debacle demonstrates, fiscal activity is infused with a quantum of uncertainty. One that is conditional on a social dimension being (re)introduced into the imagination of how this emerging spatial-temporal order is governed. Calling into question what is legitimate highlights the dual nature of leverage implicit in establishing claims of accountability underlying monetary politics in Europe. Accountability is intimately related to fiscal ownership, which needs to be bolstered if uncertainty is to be mitigated. Furthermore, it recognizes that member states are prone to deviating from the prescribed course at any time, as the SGP crisis demonstrates. Predicting and therefore regulating this behaviour does not readily lend itself to any statistical probability or formula. Rather it demands that regulators exercise foresight by appreciating the contingency of the situation.

---

[43] Joost Van Loon, *Risk and Technological Culture: Towards a sociology of virulence*, (New York: Routledge: 2002), 2.
[44] Pat O'Malley, *Risk, Uncertainty and Government*, 15.

Migration of Risk

Risk and uncertainty have come to define EMU according to particular logics of control and accountability. To understand how these shape "the conduct of conduct" and introduce parsimony into the management of European monetary affairs requires a diagnosis of this very technocratic landscape. Deciphering what kind of economy of power Europe is implicated in reveals not a uniform and *a priori* entity labelled "risk" or "uncertainty" but an historical emergence of specific discursive practices aimed that stymieing profligacy. Through the processes of signification, these produce the meanings that are attributed to various EMU categories and subjectivities.[45] Contestable in nature these methods regulate which articulation of subjectivity is validated.

"Reality," Spike Peterson observes:

> is an unavoidable and irresolvable tension between the stabilization/fixing/ bounding process and the inexorably disruptive (destabilizing) effects of political consequences of the surplus/incongruities/marginalizations of meanings and differences that are and cannot be 'contained.'"[46]

Continuing she echoes Foucault's preoccupation with "cultural economy" as embedded within power relations, submitting that:

> *The objective of political analysis is then not to abolish power but to expose how it operates to produce and privilege particular stabilizations at the expense of others;* to render visible and critically evaluate – to politicize – the specific effects and trade-offs of stabilizations, dominant orderings, and especially, what becomes normalized (depoliticized) as 'common sense' (original italics).[47]

A genealogical approach reveals the lineages where such inscription takes place. Genealogies help ascertain how truth claims are constituted by dissecting the very

[45] Colin Gordon, "Governmental Rationality: an introduction," in *The Foucault Effect: Studies in Governmentality,* ed. Graham Burchell et al. (Chicago: University of Chicago Press, 1991), 48.
[46] V. Spike Peterson, "Getting Real: The Necessity of Critical Poststructuralism in Global Political Economy," in *International Political Economy and Poststructural Politics*, 121.
[47] Ibid. 121.

discourses, institutions and technologies employed in their actualization. Rather than treating risk and uncertainty as self-evident and timeless, a better method anchors them within a specific historical epoch. Attune to and underscoring contingency, mapping risk and uncertainty demonstrates the temporality of EMU. For all its supposed statistical intelligibility and congruence this public monetary space is an artifact derived from diverse influences. The migration of risk from the corporate sector illustrates this point.

The origins of the risk mode of governance are unique neither to EMU nor politics for that matter. They have migrated into the EMU domain from the private sector where risk analysis has been a powerful tool for the purpose of minimizing costs and maximizing profits.[48] Given its contentiousness and highly variable form, according to Michael Power, adopting a corporate sector blueprint usually entails introducing (at least) three primary elements of risk into public sector management. The first concerns the emergence of risk-based "internal control" in redefining organizational governance. Early warning systems, such as those employed by Ecofin, externalize institutional control arrangements as they monitor for budgetary positions that "are not consistent with the broad guidelines or risk jeopardizing the proper functioning of EMU" (Article 99(4) of the TEU). Internal controls are vital for this purpose. Simultaneously embodying and constituting the object of governance, these systems "translate primary risks into systems risks" thereby allowing firms to standardize their approach to potential dangers.[49] Codified in Council Regulation 1466/97 as part of the "preventative arm," this procedure connects various bodies which would otherwise be fragmented.[50] Order is established

[48] Frank Knight, *Risk, Uncertainty and Profit* (New York: A.M. Kelley, 1921/1964).
[49] Michael Power, *The Risk Management of Everything* (London: Demos, 2004), 24.
[50] European Commission: DG for Economic and Financial Affairs, *European Economy: Public finances in EMU 2006*, 43.

across multiple sites within an institution through the coordination of resources in the identification and monitoring of risks. Such is the case as quanta of economic value are actualized through the standardization of the organization's infrastructure.

Next is "operational risk", whose variable form makes providing a precise and uncontestable definition problematic; something which is characteristic of risk in general. But perhaps a broad definition offered by the Basel Committee includes "the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events."[51] What is striking about this component of risk is that it is actually devoted to regulating through uncertainty more so than risk. There is no sound measure indicating when the next Nick Leeson (Barings Bank, 1995) or Jerome Kerviel (Société Générale, 2008) will surface to exploit an organizational system. Rogue traders, as politicians, do not lend themselves to being readily managed as a numerical probability. The same applies to natural disasters. Operational risk is indeed operational uncertainty.

Finally, the category of "reputational risk" connects the question of legitimacy and power with organizational identity.[52] Connecting reputation with notions of accountability opens up new contested spaces where governance may be imagined, constructed and eventually legitimated. Simultaneously, the "logic of consequences" anchored in rational expectations confronts and overlaps a "logic of appropriateness," which articulates norms of proper behaviour. Risk centered "technologies of government" simply entrench these mentalities within calculative persons and organizations. Together they produce the growing leverage of "reputational capital" and

---

[51] Basel Committee on Banking Supervision, "Working Paper on the Regulatory Treatment of Operational Risk: 2001," Basel, http://www.bis.org/publ/bcbs_wp8.pdf.
[52] Michael Power, *The Risk Management of Everything,* 24-36.

the devolution of legitimate forms of power.[53] Ambiguity is regarded as dangerous as it hampers the capacity for proper calculation and increases the perception of "being at risk". Therefore, organizations and individuals submit to these kinds of measures as they welcome being evaluated. Doing so, however, simply means that they further implicate themselves in power relations that steer them according to specific risk vectors.

Against the backdrop of the extremely volatile financial markets of the 1980s and the fear triggered by the collapses of Barings, Matellgesellschaft, and Long-Term Capital Management the following decade, to name but a few, risk began to dominate the agenda of policy-makers.[54] With a calculus of probabilities at their disposal, officials came to understand EMU as a problem rooted in the language, ideas and methods of commercial risk management. Hedging against the possibility of failure was significant given the magnitude of coupling the monetary affairs of twelve member states. Too much was at stake to permit any foreseeable variance from sabotaging the project. So much so that risk began to displace other forms of understanding EMU governance.[55]

Borrowing techniques from what was considered a more prudent and efficient private sector became more popular as "supply-side" economics infiltrated the continent from the Anglo-American world.[56] As methodological individualism and the rational choice model gained traction so did strategies of risk management. Technical risk analysis is central to this movement. It is a powerful tool that firms employ to minimize costs and maximize profits. Hinging on the requirement:

---

[53] Michael R. MacLeod, "Financial actors and instruments in the construction of global corporate social responsibility," in *Global Accountabilities: Participation, Pluralism, and Public Ethics*, ed. Alnoor Ebrahim and Edward Weisband (New York: Cambridge University Press, 2007), 246.
[54] David Shirreff, *Dealing with Financial Risk* (Princeton, New Jersey: Bloomberg Press, 2004), 3.
[55] Through the lens of national economic security or in terms of socio-economic classes or Keynesian demand management.
[56] Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton: Princeton University Press, 2001), 252-254.

> that expected gains and losses can be transformed into an objective measure… risk can be understood as an objective entity (risk is understood to equal the probability of an occurrence multiplied by the extent of damage) which can be calculated with the help of probability theory.[57]

New models of organizational discipline intimately connected to these values of accountability and performance migrated from private banks as well as from the insurance, accounting and auditing sectors into the EMU domain. Their purpose was to buttress the already visible capital market aversion to default risk.

First Leverage of Organizational Discipline: Risk

In his analysis of the episteme of modern thought, Foucault observed a rupture of thinking in terms of "classification" towards one of "causation".[58] Especially pronounced in the economics discipline, the discursive and technological risk apparatus donated to pre-empting the cause and effect relationship nevertheless proved insufficient in either predicting the unravelling of the SGP or explaining the event in its own language. What it may have done is amplify the resonance of "qualculation" by expanding its reach to cover even more functions in light of the aforementioned crisis. "Qualculation" is a term Nigel Thrift employs to denote the "activity arising out of the construction of new generative microworlds which allow many millions of calculations continually to be made in the background of any encounter."[59] Being especially ubiquitous these vast computing systems are often present in highly specialized domains like monetary economics. Their reach virtually transforms their activity into "qualitative" judgments, further depoliticizing governance.

---

[57] Jens O. Zinn and Peter Taylor-Gooby, "Risk as an Interdisciplinary Research Area," in *Risk in Social Science,* ed. Peter Taylor-Gooby and Jens Zinn (New York: Oxford University Press, 2006), 22.
[58] Michel Foucault, *The Order of Things: An Archaeology of the Human Science* (New York: Vintage, 1970).
[59] Nigel Thrift, "Movement-space: the changing domain of thinking resulting from the development of new kinds of spatial awareness," *Economy and Society* 33 (November 2004): 584.

Power as calculation is revealed and institutionalized through these processes of identification and prioritization that are implicit in the preventative arm of the Pact. These routine micro-practices monitor a vast array of components contributing to the national fiscal position in the effort to determine budgetary liability. Judged against pre-established reference values (deficit and debt rations), power is exercised through constant surveillance. It targets those who deviate from the statistical norm by connecting decision-making with risk management. Attention is drawn to how technologies of risk engender the "calculated manipulation" of the actor in accordance with the aforementioned averages. Detaching "the substantive authority of expertise from the apparatuses of political rule," as qualculation accomplishes, risk re-inscribes "government-at-a-distance."[60] Autonomous of central control it is "a system which aims to transform its participants into 'calculative individuals' within a specific 'calculative space', namely the notion of a European economy."[61] This performative character of risk enables it to create responsible actors and organizations.

Whether disciplinary power with its current punitive measures (i.e. fines) is sufficient is very much in doubt. Without credible threats it has proved ineffective in producing obedience. David Lyon wrestles with this "conundrum," observing that:

> the more stringent and rigorous the panoptic regime, the more it generates active resistance, whereas the more soft and subtle the panoptic strategies, the more it produces the desired docile bodies.[62]

Certainly, calculative forms of power associated with risk management exhibit some of

---

[60] Nikolas Rose, "Governing 'advanced' liberal democracies," in *Foucault and Political Reason: Liberalism, neo-liberalism and rationalities of government,* 41.
[61] William Walters and Jens Henrik Haahr, *Governing Europe: Discourse, Governmentality and European Integration* (New York: Routledge, 2005), 125.
[62] David Lyon, "The Search for Surveillance Theories," in *Theorizing Surveillance,* ed. David Lyon (Portland: William Publishing, 2006), 4.

this subtlety as they lack the more "juridical-political" character of "sovereign" power. Here "power comes from below, that it, there is no binary and all-encompassing opposition between rulers and ruled at the root of power relations."[63] Conduct is supposedly shaped by regulatory practices "premised on an epistemology that privileges 'facts' established through measurement" as opposed to "capricious" human behaviour.[64]

But this is not a benign occurrence in the slightest. Qualculation undermines accountability rooted the democratic process (stakeholders) and public debate or markets (shareholders). According to Marieke de Goede, the "increasingly mathematical and depoliticized nature of risk models displaces responsibility for financial decision-making."[65] She draws on Niklas Luhmann who argues that understanding "misfortune in the form of risk…immunizes decision-making against failure" as it is justified by a battery of instrumentally rational and supposedly "objective" criteria.[66] Granting authority to such risk management models reinforces a tendency to accept these instruments without problematizing their legitimacy. Subsequently, this immunity magnifies the power of the neoliberal paradigm as it provides a buffered form of rule not subject to traditional channels of accountability. This is the first form of leverage, which is associated with risk-centred governance.

Deeply variable in both content and form, risk is dominantly embedded within the first leverage. The frequency and intensity of probable perils facing Europe have only increased with the degree of integration and interdependence. However, "the problem is that when everyone is responsible for delivering on a particular coordinating challenge, in

---

[63] Michel Foucault, *The History of Sexuality, Vol. 1* (New York: Vintage, 1990), 94-95.
[64] Robert Deuchars, *The International Political Economy of Risk: rationalism, calculation and power* (Burlington: Ashgate Publishing Company, 2004): 113.
[65] Marieke de Goede, "Repoliticizing financial risk," *Economy and Society* 33 (November 2004): 213.
[66] Niklas Luhmann, *Risk: A Sociological Theory* (Berlin: de Gruyter, 1993), 13.

practice no one is."[67] So although government through risk is by no means uniform across problems, it works to stymie the tendency towards regulatory stagnation by "displacing valuable - but vulnerable – professional judgment in favour of a defendable process" thereby "substituting risk management for political argument."[68]

The first leverage relieves some political unknowns as well as the pressure to either defer or decide, and thus assume direct responsibility, for a multifaceted project that is highly specialized. Hence, it maintains the functional need to preserve myths of control by granting authority to mathematical and technical modeling as opposed to moral and individualized approaches. SGP "reference values" exemplify this strategy of risk management as they locate and define risk at particular instances of fiscal behaviour (3 % of GDP deficit ratio and 60% of GDP debt ratio). Although critiqued as imposing an artificially uniformity on EMU, they are significant in the "development of a causal knowledge of deviance and normalization."[69] Normative claims are based upon this knowledge, which informs governmental rationalities and subsequent modalities of institutional practice.

In a spatially vast entity, as EMU, qualculation allows European economic and monetary government to be taken for granted and distinct from discursive practices of representation. It fails to address the contingency inherent in the political character of the project; namely "how men govern by the production of truth."[70] Instead, what is offered is a pre-packaged notion of how organizational life is to develop. To remedy this is to

---

[67] Andrew Jordan and Adriaan Schout, *The Coordination of the European Union: Exploring the Capacities of Networked Governance* (New York: Oxford University Press, 2006), xi.
[68] Michael Power, *The Risk Management of Everything*, 11.
[69] Pat O'Malley, "Risk and Responsibility," in *Foucault and Political Reason: Liberalism, neo-liberalism and rationalities of government,* ed. Andrew Barry, Thomas Osborne, and Nikolas Rose (Chicago: The University of Chicago Press, 1996), 189.
[70] Michel Foucault, "Questions of Method," in *The Foucault Effect: Studies in Governmentality,* 79.

recognize uncertainty and deploy alternative, largely non-quantitative forms of knowledge that "make demands on entities to exercise their foresight in enterprising ways."[71] Not only is this more consistent with the actual operational dimension of EMU but it also explores how truth claims are conditioned by changing articulations and forms of power; thus accounting for their contingency. This mode of governance is connected to the second leverage; namely governing through uncertainty.

Second Leverage of Organizational Discipline: Uncertainty

The first leverage fails to problematize the legitimacy of these mathematical computations and models. Removing them from traditional channels of scrutiny and accountability rooted in national sovereignty only magnifies the power of the new monetarist paradigm. At first glance, this should not be surprising as the corporations that are the original target of this form of regulation do not adhere to nation-state principles. Their profit margins grant them legitimacy, albeit a narrow economic one. The first leverage actually promotes this practice. Human discretion and political manipulation are minimized, if not outright eliminated, by an assemblage of qualculative techniques. As a mode of governance, risk is apparent in "the managerial form of standards and guidance" and "as a continuation of control via the indirect technology of self-audit."[72] Predetermined reference values coupled with identifiable medium-term budgetary objectives (MTOs) are codified in the effort to secure fiscal discipline and the sustainability of public finances.

Intent on "avoiding mistakes of the past, the challenge ahead is to ensure an

[71] Richard Ericson, "Governing through risk and uncertainty," *Economy and Society* 34 (2005): 660.
[72] Michael Power, *Organized Uncertainty: Designing a World of Risk Management*, 196.

effective functioning of the preventative arm of the Stability and Growth Pact."[73] In order for this general EMU ambition to be realized the preventative arm of the SGP needs to be more effective. This entails a twofold approach. First, as is stated in the March 2005 Council report, "domestic governance arrangements should complement the EU framework."[74] Coordination of national fiscal policies in the eurozone must be enhanced. Country-specific MTOs, notably those pertaining to the sustainability of government finances, are a primary hallmark of the 2005 reforms and the transition to uncertainty-centred regulation. Next, favourable cyclical conditions (neglected in favour of "total" deficits in the original SGP) must be exploited to bolster sustainable fiscal positions. The consensus is that member states should "take active steps to reach the MTO and make larger structural efforts in good times."[75] Here successful budgetary surveillance demands that appropriate economic measurements be employed to indicate the particular fiscal conditions of individual states.

In addition to the cyclical adjustment of budget deficits, "one-off" and "temporary measures" were introduced.[76] Coupled with an expanded room for judgment in setting deadlines and considering what factors may influence the EDP on the "corrective arm," the 2005 reforms represent a shift to governing through uncertainty. Full of "discretionary clauses, inviting ad hoc, arbitrary, and discretionary interpretations," legitimization and power in the amended SGP are increasingly in the province of more

[73] European Commission: DG for Economic and Financial Affairs, *European Economy: Public finances in EMU 2007* (Brussels: DG EcFin, 2007), 3.
[74] Council of the EU, *Improving the Implementation of the Stability and Growth Pact* (Report to the European Council, 7423/05, 2005).
[75] European Commission: DG for Economic and Financial Affairs, *European Economy: Public finances in EMU 2006*, 91.
[76] Alan W. Cafruny and J. Magnus Ryner, *Europe at Bay: In the Shadow of US Hegemony,* 34.

qualitative practices.[77] An analytics of government alerts us to the complexities and nuances of organizational life in such a spatial-temporal order. Furthermore, it allows us to understand the power relations involved in its construction. What kind of economy of power is Europe implicated in hinges on the form of its regulatory capacity and its effectiveness in minimizing both the risk and uncertainty of EMU politics.

As an "empirical phenomenon whose specific features are determined by contingency and context" an analytics of government allows us to appreciate how uncertainty-based rule is articulated through programmes and political rationalities.[78] Focusing on the actual practice of fiscal politics reveals the performative dimension of the assorted technologies of power that render EMU visible and corresponding uncertainties manageable. Yet, claiming that there is a movement to uncertainty-based discourses and technologies does not eliminate those rooted in calculative and probabilistic power. The new methodology for computing "minimum benchmarks" is one example where statistical methods are still useful tools in the provision of a structural budgetary position consistent the 3 percent reference value. However, even these techniques are observant of "budgetary sensitivity," which addresses cyclical fluctuations.[79] It is through this production and accumulation of knowledge that the parameters of EMU as a recognizable and governable space come to be defined.

Analyzing the public finances of the eurozone for 2006 a significant improvement is noticeable since the 2005 reforms were instituted. Down from 2.5 percent of GDP in

[77] Alan W. Cafruny and J. Magnus Ryner, *Europe at Bay: In the Shadow of US Hegemony,* 34.
[78] Ronnie D. Lipschutz with James Rowe, *Globalization, Governmentality and Global Politics: Regulation for the rest of us?* (New York: Routledge, 2005), 15.
[79] European Commission: DG for Economic and Financial Affairs, *European Economy: Public finances in EMU 2007,* 93.

2005, the headline deficit fell to 1.6 percent.[80] DG EcFin attributes some of these gains to the new fiscal surveillance apparatus. Among these is the change in economic rationale that replaced the uniform requirement of "close-to-balance or in surplus" with new methodologically clarified MTOs. For the first time these differentiated MTOs must be included in the SCPs.[81] This is geared to enhancing the role SCPs play in the national budgetary process by fostering coordination among the various departments and agencies involved in drawing up budgets together with their respective national legislatures. Promoting national fiscal ownership is the objective.[82]

Aside from the 3 percent deficit ceiling safety margin and a path towards sustainability, the revised SGP states that MTOs should also permit room for budgetary manoeuvre, especially in regards to the needs for public investment.[83] With the impending expenditure increase resulting from an ageing population, governments need to incorporate qualitative elements on top of quantitative ones. Such broader implicit liabilities complement an uncertain environment and more subjective estimations of how to govern. Furthermore, this change also addresses the charge that SCPs were purely passive by subjecting them to democratic debate and accountability. Obviously, the consequence of such a move is that it may induce further conflict over the budget. Together with the corrective arm modifications mentioned above and clauses that read:

> due consideration will be given to any other factors, which in the opinion of the nation state concerned are relevant in order to comprehensively assess in

[80] Core inflation in March 2008 was 2.7%, up from 2.4% in February. Acceleration in oil, commodity and food prices constitute the main elements behind the current record-high level of headline inflation. http://ec.europa.eu/economy_finance/publications/publication12486_en.pdf
[81] MTOs are differentiated on the basis of debt rations and potential growth.
[82] Sylvester Eijffinger, "On a Reformed Stability and Growth Pact," *Intereconomics* (2005): 142.
[83] European Commission: DG for Economic and Financial Affairs, *European Economy: Public finances in EMU 2006*, 65.

qualitative terms the excess over the reference value…[84]

it is foreseeable that the process may be held hostage by certain elements within the national political landscape. Expenses associated with Germany's reunification come to mind. Yet, who ever said that democratic government was easy and without challenges? It is difficult and daunting at times but the task of forging ahead lies with national leaders and representatives. EMU regulations need to recognize these sorts of dynamics.

Arguably, it is the SCPs that influence budgets and not vice versa. Therefore, to draft an annual budget in a sustainable policy plan, which is embedded in a broader EMU framework, the Mid-Term Budgetary Review (MTBR) is performed before the summer. In its revamped form the MTBR corresponds more to national fiscal calendars and invites member states to forward their policy intentions for the forthcoming year in order to foster a dialogue about budgetary projections. Such an initiative is thought to reduce the uncertainty surrounding the coordination of national fiscal policies in the eurozone. It allows the Commission a better opportunity to structure the ensuing MTBR discussion.[85] This can result in a more in depth strategic policy discussion that focuses on areas in need of improvement. Although statistical calculations are visible, they often complement uncertainty-based procedures. These practices attempt to regulate national idiosyncrasies and the discretionary temperament of politicians and officials. Together they hope to provide "an infrastructure of referentiality" that helps mitigate the risk and uncertainty of fiscal conduct within this emerging monetary space.[86]

Another collective surveillance practice concentrates on the short-term and the

---

[84] Council of the EU, *Improving the Implementation of the Stability and Growth Pact*, 15.
[85] European Commission: DG for Economic and Financial Affairs, *European Economy: Public finances in EMU 2007*, 73.
[86] Michael Power, *Organized Uncertainty: Designing a World of Risk Management*, 197.

semi-annual observation of national budgetary data. Every March 1 and September 1, the Commission and DG EcFin determine whether an excessive budget deficit exists.[87] Should either the deficit or debt ratios be breached then the EDP is triggered according to Article 104 of the Treaty establishing the European Community (TEU). If the charge is deemed legitimate by Ecofin, the country is provided with recommendations on how to remedy the problem. Failure to comply may generate sanctions (e.g. non-interest bearing deposits to the EU, fines).[88] Hence, the EDP is considered a dissuasive tactic. That being said, these punitive measures may be avoided because of the "exceptional" and "temporary" exemptions written into the amended SGP. Negative economic growth also factors into the decision. Critics submit that these reforms are not the best method of inducing fiscal discipline and may even make default risk more salient for markets. Governments incurring higher deficits and debts will have their sovereign credit ratings downgraded, making borrowing capital more costly. [89]

Conclusion

The above preventative and corrective measures of the SGP are all calculable practices that have a programmatic ambition. Even uncertainty-centred techniques, which are not uniform and statistically probabilistic, are ways of calculating the future. They are devises that act upon agents in the attempt to constitute them as economic objects of government. Price stability is the principal component of the EMU rationality longed to be maintained. "Government is a *problematizing* activity" that seeks to address this issue

---

[87] Ralph Rotte, "Political Economy of EMU and EU Stability Pact," in *Fiscal Federalism and European Economic Integration,* ed. Mark Baimbridge and Philip Whyman (New York: Routledge, 2004), p.55.
[88] European Commission Economic and Financial Affairs, "Stability and Growth Pact," EC. http://ec.europa.eu/economy_finance/sg_pact_fiscal_policy/fiscal_policy554_en.htm
[89] Layna Mosley, "New Currencies, New Constraints?" in Robert M. Fishman and Anthony M. Messina, ed., *The Year of the Euro* (Notre Dame: University of Notre Dame Press, 2006), 204.

of controlling inflation while ensuring sustainable growth in the long run.[90] Although contestation abounds whether this is the best avenue to pursue as various political factions emphasize competing interests and priorities, one general observation may be extracted. In the construction of a particular monetary economic space there is a tension between the programmatic and operational dimensions of EMU governance. I began this paper by presenting this argument and I will conclude with it as well.

The enterprising logic of risk rests on statistical-probabilistic calculations of how to transform future unknowns into potential gains and avoid losses. Technical analysis is instrumental in this endeavour as its rigorous computations scrutinize virtually every foreseeable variable. Without leaving much to chance these "machineries of knowing" minimize the margin of error to such a perceived extent that risk is understood as an objective entity.[91] This echoes the sentiment expressed by Nikolas Luhmann in preceding sections. But were the input factors to change then the risk coordinates would do so as well. Persistent variability, however, is better explained and operationalized through the rationality of uncertainty.

Depending on how numbers are deployed and for what purposes, risk is simply one method for problematizing an indeterminate future. Its performative properties derive from its incorporation into the monetary economic infrastructure as it helps frame the terms of debate and makes EMU future intelligible according to a specific mentality. This is the "performativity of markets" that Donald MacKenzie refers to.[92] Inspired by Michel Callon, "economics, in the broadest sense of the term, performs, shapes and formats the

---

[90] Nikolas Rose and Peter Miller, "Political Power Beyond the State," 181.
[91] Karin Knorr Cetina, *Epistemic Cultures. How the Sciences Make Knowledge* (Cambridge: Harvard University Press, 1999), 5.
[92] Donald MacKenzie, *An Engine, Not a Camera* (Cambridge, MT: The MIT Press, 2006), p. 16.

economy, rather than observing how it functions."[93] It asks how agencies are constituted rather than assuming a rational homo economicus, how interests are constructed rather than understanding them as *a priori* and how socio-technical practices are organized rather than what reality they represents. To reduce social complexities to static calculations neglects what Callon labels as "framing" and "disentangling". Markets and polities are continually renegotiated. Without the potential to "exclude things" and "leave certain costs or claims out of the calculations, and deny responsibility for certain consequences," markets would not work.[94] Risk is itself a method of framing that discriminates amongst various factor inputs in the production of politico-economic spaces. It is a "boundary object" that has emerged from the corporate sector and functions to unite dispersed sites across the spatial-temporal terrain of EMU.

Whereas the programmatic dimension complements the logic of enterprise embedded within risk, it may conflict with the operational side of monetary affairs. The latter encompasses not only the execution of policy programmes but:

> anticipates the realization of these values of enterprise with demands for accountability and transparency of due process, demands which build on cultural ideals of precision, proof, and calculability.[95]

Social idiosyncrasies and compulsions do not readily lend themselves to statistical-probabilistic calculations. Agents often act on impulse and no risk management framework can entirely capture all possible contingencies. Hence, what is witnessed is a dialectic between the two competing logics of enterprise and accountability or the

[93] Michel Callon, "Introduction: The embeddedness of economic markets in economics," in *The Laws of Markets*, ed. Michel Callon (Oxford: Blackwell Publishing, 1998).
[94] Timothy Mitchell, "The Properties of Markets," in *Do Economists Make Markets? On the Performativity of Economics*, p. 244.
[95] Michael Power, *Organized Uncertainty: Designing a World of Risk Management*, 197.

programmatic and operational elements of organizational life. The Stability and Growth Pact crisis reflects this tension. In order to preserve a semblance of control new modes of governance are required that are sensitive to the uncertainty implicit in monetary economic affairs within the European space as well as beyond.

My paper appeals to one arrangement that is becoming more visible in the aftermath of 2003. Governing through uncertainty is the attempt to reorder the regulatory capacity of EMU to anticipate and respond to fiscal profligacy. Country-specific MTOs in SCPs and MTBRs exemplify how the preventative arm of the pact is reflective of uncertainty-centred governance. In conjunction with a more discretionary corrective arm, uncertainty is a governmental rationality that informs many of the 2005 SGP reforms. Knowing how EMU is rendered "real" by these discursive practices designed to handle risk and uncertainty, allows for a more comprehensive understanding of monetary governance.

Bibliography:

Adams, J. (1995). *Risk.* London: UCL Press.

Arestis, P., Brown, A.N. & Sawyer, M.C. (2001). *The Euro: Evolution and Prospects*.

Barry, A , Osborne, T. & Rose, N. (1996). *Foucault and political reason.* Chicago: University of Chicago Press.

Basel Committee on Banking Supervision, "Working Paper on the Regulatory Treatment of Operational Risk: 2001," Basel, http://www.bis.org/publ/bcbs_wp8.pdf.

Beck, U. (1999). *The World Risk Society.* Malden: Blackwell Publishers.

Begg, I. & Schelkle, W. (2004). The Pact is dead: Long live the Pact. *National Institute Economic Revi*ew. 189, 86-98.

Burchell, G., Gordon, C. & Miller, P. (1991). *The Foucault Effect.* Chicago: Chicago

University Press.

Buti, M. (2006). Will the new Stability and Growth Pact succeed? An economic and political perspective. Retrieved 09/01/06 from http://europa.eu.int/comm/economy_finance/publications/economic_papers/2006/ecp241en.pdf).

Cafruny, A.W. & Ryner, M. (2007). *Europe at Bay: In the Shadow of US Hegemony*. Boulder: Lynne Rienner Publishers.

Callon, M. (1998). Introduction: The embeddedness of economic markets in economics. In Callon, M. (Ed.) (1998). *The Laws of Markets.* Oxford: Blackwell Publishing.

Castel, R. (1991). From dangerousness to risk. In Burchell, G., Gordon, C. & Miller, P. (Ed.) (1991). *The Foucault Effect.* Chicago: Chicago University Press.

Cetina, K.K. (1999). *Epistemic Cultures. How the Sciences Make Knowledge.* Cambridge: Harvard University Press.

Crowley, P.M. (2002). The shape of things to come: The EU's post-EMU institutional\ architecture. In Verdun, A. (Ed.) (2002). *The euro: European Integration Theory and Economic and Monetary Union.* Lanham, Md.: Rowman & Littlefield Publishers.

Deuchars, R. (2004). *The International Political Economy of Risk.* Burlington: Ashgate Publishing Company.

Dyson, K. (2000). *The Politics of the Euro-Zone.* New York: Oxford University Press.

Eijffinger, S. (2005). On a Reformed Stability and Growth Pact. *Intereconomics*.

Ericson, R., Doyle, A. & Barry, D. (2003). *Insurance as Governance.* Toronto: U of T Press.

Ericson, R. (2005). Governing through risk and uncertainty. *Economy and Society* 34 (4), 659-672 .

European Commission: DG for Economic and Financial Affairs, *European Economy: Public finances in EMU 2006* (Brussels: DG EcFin, 2006-2007)

Ferre, M. (2005). Should Fiscal Authorities Co-operate in a Monetary Union with Public Deficit Targets? *Journal of Common Market Studies, 43*(3), 539–50.

Foucault, M. (1970). *The Order of Things: An Archaeology of the Human Science*. New York: Vintage.

Foucault, M. (1990). *The History of Sexuality, Vol.1.* New York: Vintage.

Foucault, M. (1991). Questions of Method. In Burchell, G., Gordon, C. & Miller, P. (Ed.) (1991). *The Foucault Effect.* Chicago: Chicago University Press.

Garland, D. (2003). The Rise of Risk. In Ericson, R., Doyle, A. & Barry, D. (Ed.) (2003). *Insurance as Governance.* Toronto: U of T Press.

Giddens, A. (2000). *The Third Way and its Critics.* Cambridge: Polity.

Gilpin, R. (2001). *Global Political Economy.* Princeton: Princeton University Press.

de Goede, M. (2004). Repoliticizing financial risk. *Economy and Society* 33(2), 197–217.

de Goede, M. (2005). *Virtue, Fortune, and Faith.* Minneapolis: University of Minnesota Press.

de Goede, M. (Ed.). (2006).*International political economy and poststructuralist politics.* New York: Palgrave MacMillan.

Gordon, C. (1991).Governmental Rationality: an introduction. In Burchell, G., Gordon, C. & Miller, P. (Ed.) (1991). *The Foucault effect.* Chicago: Chicago University Press.

de Grauwe, P. (2007). *Economics of Monetary Union.* New York: Oxford University Press.

de Hann, J, Berger, H. & Hansen, D.H. (2004). Why the Stability and Growth Pact Failed? *International Finance, 7*(2), 235–260.

Heipertz, M. & Verdun, A. (2004). The dog that would never bite? What we can learn from the origins of the Stability and Growth Pact. *Journal of European Public Policy, 11*(5), 773-88.

Issing, O. (2004).The Stability and Growth Pact: The appropriate fiscal framework for EMU. *International Economics and Economic Policy, 1*, 9-13.

Jordan, A. & Schout, A. (2006). *The Coordination of the European Union: Exploring the Capacities of Networked Governance.* New York: Oxford University Press.

Knight, F. (1964). *Risk, Uncertainty and Profit.* New York: A.M. Kelley.

Lash, S. (1993). Reflexive Modernization: The Aesthetics Dimension. *Theory, Culture and Society* 10(1), 1-23.

Latour, B. (1993). *We Have Never Been Modern.* Hemel Hempstead: Harvester

Wheatsheaf.

Lipschutz, R.D. & Rowe, J. (2005). *Globalization, Governmentality and Global Politics: Regulation for the rest of us?* New York: Routledge.

Luhmann, N. (1993). *Risk: A Sociological Theory*. Berlin: de Gruyter.

Lyon, D. (2006). The Search for Surveillance Theories. In Lyon, D. (Ed.) (2006). *Theorizing Surveillance.* Portland: William Publishing.

MacKenzie, D. (2006). *An Engine, Not a Camera.* Cambridge, MT: MIT Press.

MacKenzie, D. et al. (2007). *Do Economists Make Markets? On the Performativity of Economics.* Princeton: Princeton University Press.

MacLeod, M. (2007). Financial actors and instruments in the construction of global corporate social responsibility. In Ebrahim, A. and Weisband, E. (Ed.) (2007). *Global Accountabilities: Participation, Pluralism, and Public Ethics.* New York: Cambridge University Press.

Mitchell, T. (2007). “The Properties of Markets,” In MacKenzie, D. et al. (Ed.) (2007). *Do Economists Make Markets? On the Performativity of Economics.* Princeton: Princeton University Press.

Mosley, L. (2006). New Currencies, New Constraints? In Fishman, R.M. & Messina, A.M. (Ed.) (2006). *The Year of the Euro*. Notre Dame: University of Notre Dame Press.

O’Malley, P. (1996). Risk and Responsibility. In Barry, A , Osborne, T. & Rose, N. (Ed.) (1996). *Foucault and political reason.* Chicago: University of Chicago Press.

O’Malley, P. (2003). Moral Uncertainties: Contract Law and Distinctions between Speculation, Gambling, and Insurance. In Ericson, R., Doyle, A. & Barry, D. (Ed.) (2003). *Insurance as Governance.* Toronto: U of T Press.

O’Malley, P. (2004). *Risk, Uncertainty and Government.* London: Glasshouse Press.

Peterson, V.S. (2006). Getting Real: The Necessity of Critical Poststructuralism in Global Political Economy. In De Goede, M. (Ed.). (2006). *International political economy and poststructuralist politics.* New York: Palgrave MacMillan.

Power, M. (2004). *The Risk Management of Everything: rethinking the politics of uncertainty.* London: Demos.

Power, M. (2007). *Organized Uncertainty: Designing a World of Risk Management.* New York: Oxford University Press.

Pryke, M & Allen, J. (2000). Monetized time-space: derivative-money's 'new imaginary'. *Economy and Society, 29*(2), 264-84.

Rose, N. (1991). Governing by Numbers: Figuring out Democracy. *Accounting, Organizations and Society* 16(7), 673-92.

Rose, N. (1996). Governing 'advanced' liberal democracies. In Barry, A , Osborne, T. & Rose, N. (Ed.) (1996). *Foucault and political reason.* Chicago: University of Chicago Press.

Rose, N. (1999). *Powers of Freedom.* Cambridge: Cambridge University Press.

Rose, N. & Miller, P. (1992). Political power beyond the state: problematics of government. *British Journal of Sociology, 43*(2), 173-205.

Rotte, R. (2004). Political Economy of EMU and EU Stability Pact. In Baimbridge, M. & Whyman, P. (Ed.) (2004). *Fiscal Federalism and European Economic Integration.* New York: Routledge.

Savage, J.D. (2005). *Making the EMU: The Politics of Budgetary Surveillance and the Enforcement of Maastricht*. New York: OUP.

Shirreff, D. (2004). *Dealing with Financial Risk.* Princeton, New Jersey: Bloomberg Press.

Thrift, N. (2004). Movement-space: the changing domain of thinking resulting from the development of new kinds of spatial awareness. *Economy and Society* 33(4), 582-604.

Van Loon, J. (2002). *Risk and Technological Culture: Towards a sociology of virulence.* New York: Routledge.

Verdun, A. (Ed.) (2002). *The euro: European Integration Theory and Economic and Monetary Union.* Lanham, Md.: Rowman & Littlefield Publishers.

Walters, W. & Haahr, J.H. (2005). *Governing Europe: Discourse, Governmentality and European Integration*. New York: Routledge.

Weir, L. (1996). Recent developments in the government of pregnancy. *Economy and Society* 25(3), 372-392.

Zinn, Z & Taylor-Gooby, P. (2006). Risk as an Interdisciplinary Research Area. In Zinn, Z & Taylor-Gooby, P. (Ed.) (2006). *Risk in Social Science*. New York: Oxford University.