British Journal of Research
ISSN: 2394-3718

Open Access Review Article

Institutional Failures and Institutional Innovations in the EU of Crisis

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ABSTRACT

The European Union (EU) has faced numerous crises in recent years, revealing both the vulnerabilities and strengths of its institutions. This paper explores the dual themes of institutional failures and innovations within the EU during times of crisis. It analyzes how the Union's institutional framework has struggled to effectively respond to challenges such as the Eurozone debt crisis, the refugee crisis, and the COVID-19 pandemic. At the same time, it examines the innovative adaptations, reforms, and policy shifts that have emerged in response to these crises, reflecting the EU's evolving capacity to address complex, multifaceted problems.

Keywords: Institutional failures; EU crisis response; Institutional innovation; Eurozone; EU reforms

INTRODUCTION

Although the global financial crisis first broke out in the US and then gave rise to the EU sovereign debt and banking crises, the outbreak and the colossal dimensions of the latter crises are largely connected with serious flaws in the institutional design and underpinnings of European economic and financial governance. The EU's grave democratic deficit exacerbates the principal agent problem and thus the legitimacy of its institutions, undermines efforts of deeper pluralistic integration and unification, and leaves much space for monolithic ideological compromises between EU countries in economic, financial, and sociopolitical matters [1,2]. However, we must make talk about such thinks honestly. France through President Macron has proposed that the EU becomes a Federal state, with one common budget and financial sovereignty. Germany and related affiliated member states like Austria, the Netherlands, the UK (until its Brexit) and some Scandinavian countries reject this perspective. In this vein the common characteristic example of such flaws is e.g., the institutional design for the ECB's legal and ideological capture by one-sided monetarist theories [3]. Until the Treaty of Maastricht and the "end of history" [4]. Europe had been a geographic area, where varieties of capitalism flourished. That variety allowed for much institutional flexibility, adaptability to varying socioeconomic conditions, national and local preferences, and wide theoretical and practical experimentation with the indeterminate conception of the market. After the "end of history" and until its recent "revival", the EU and its member states (irrespective of the traditional political orientation of their political actors) were steadily converging towards neo-liberalist orthodoxy and a particular version of market economy [5].

The EU was allegedly designed to become a more complete union (e.g., a political union in form of a federal state) but this goal has never been officially endorsed by all member states [6]. The creation and completion of the European internal market project was and still remains the only unanimous political decision of all EU member states. The common denominator and underlying or overarching ideological system that all have been sharing since the Treaty of

Received:	04-October-2024	**Manuscript No:**	IPBJR-24-21701
Editor assigned:	07-October-2024	**PreQC No:**	IPBJR-24-21701 (PQ)
Reviewed:	21-October-2024	**QC No:**	IPBJR-24-21701
Revised:	12-February-2025	**Manuscript No:**	IPBJR-24-21701 (R)
Published:	19-February-2025	**DOI:**	10.36648/2394-3718.12.2.139

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Citation: Hansen D (2025) Institutional Failures and Institutional Innovations in the EU of Crisis. Br J Res. 12:139.

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Maastricht in 1992 gave birth to the prescriptive conception of a particular version of internal market, which overshadowed all other political priorities, principles, and values [7]. All other sectors of socioeconomic and political interaction, convergence, and/or integration are even today ancillary and subsidiary to the aforementioned primary cause. Public statements and scholarly assertions about a continuously deepening or expanding union between European nations mask crucial and consequential differences in member states' interests in single policy areas and in the EU project as a whole [8]. Whereas up to the time of the Treaty of Maastricht these different interests were drawing to a larger extent on the member states' varieties of capitalism and their corresponding economic and political pluralism, which enabled fruitful deliberations and synthesis of varying interests, they nowadays rely on one version of rational interest-seeking prescribed more or less by a particular conception of market economy. When such one-way thinking becomes normative and belief systems promote economic winner-loser mentalities, compromises start to resemble capitulations, and clashes of interest seem to be inevitable. These problems can be exemplified in the phenomenon of the deepening of the crisis by the de facto economic/financial domination of EU institutions and of indebted peripheral member states by the lender member states [9].

In the first part of this essay, I will analyze the causes and effects of the EU sovereign debt and banking crises. In the second part, I will explain the failures of EU institutions that led and are further aggravating the debt and banking crises. In the third part I will explore the failures of EU institutions that are in charge of economic restructuring and sustainable growth stimulation. In the fourth part, I will map out the possible alternative outcomes of the crisis on the basis of the available future institutional arrangements of the Union. In the fifth (final) part I will briefly describe the necessary minimum requirements for successful institutional innovations in the EU and the corresponding policies that can potentially contribute to viable economic growth.

LITERATURE REVIEW

Causes and Effects of the EU Sovereign Debt and Banking Crisis

The 2007-9 global financial crisis and the related ongoing global recession were the direct results of two major anomalies of the prevailing economic system:

First, the implicit partnership between the surpluses in some countries and the deficits in others. Characteristic examples are those of China's surpluses and US deficits, which created the opportunity for evading structural changes in both countries. China evaded the need to bring about a vast redistribution that could facilitate domestic demand growth, while the US, instead of developing an inclusive production strategy in the frame of new economy forms of production, relied on credit and consumption led-growth made possible by these international imbalances.

Second, the crisis of public debt was the byproduct of the extensive detachment of finance from the real economy. Economies in the North Atlantic world relied heavily on financial institutions during the last three decades, with the fusion of retail and investment banking and the emergence of financial conglomerates resulting in the predominance of finance over production. Although large corporations did not rely on bank lending but were instead self-funding their operations and investments from their retained earnings, ordinary retail clients exposed themselves to the financial system's trappings through assets (pension and insurance) and liabilities (mortgage and unsecured debt). European banks had invested heavily in dubious US subprime asset-backed securities and began to face liquidity problems after the mortgage bubble burst, and the securities they owned lost their value. In 2007 and 2008, the banks of European core countries were still overoptimistic about the risk profile of peripheral countries and continued to lend heavily to peripheral borrowers. European banks' net exposure rose substantially in 2008. Liquidity became increasingly scarce, thus leading the ECB to the decision to provide extraordinary liquidity, in order to prevent the systemic collapse of several banks. ECB actions gave banks the opportunity to deleverage, adjust their balance sheets by reducing their lending to the private and public sectors. This effectually caused shortages in the supply of credit and gave rise to recession across the Eurozone. A vicious circle was set in motion because recession lowered the tax intake, caused the decline of public revenue and a further rising of state borrowing. Under these extraordinary circumstances Eurozone member states started seeking additional borrowing from financial markets but the banks were reluctant to lend. Thus the rising supply of state bonds put upward pressure on yields. Further speculative pressures in financial markets resulted in falling prices for public debt and gave rise to the concomitant sovereign debt crises in Greece and other EU peripheral countries. These crises were exacerbated by the structural weaknesses of the monetary union and had their real roots in the lack of competitiveness and real economic integration of peripheral countries in the Eurozone, as well as in the great imbalances between the EU core and peripheral countries as will be further explained below. This phenomenon has similarities with other developments on a global level.

Flawed Design of EU Monetary Union Institutions

The European common market (now European single market) was not endangered by the risk of monetary fluctuations in the framework of the Bretton woods system. That system provided significant monetary stability and prevented serious trade distortions originating from monetary revaluations in one-member state and devaluations in others. After the international monetary system faced its dramatic crisis in the 1970's, the entire EEC (now EU) system found itself on the verge of collapse. This development necessitated the creation of additional institutions to safeguard the economic achievements of the EEC. The main institutional innovation was the European monetary system, which established the European exchange mechanism, whereby the currencies of

EEC member states were allowed to fluctuate within limited margins in relation to each other and to the ECU, the unit of account of the EEC, which was a basket of the currencies of EEC member states, and whose value was determined as a weighted average of the participating currencies. This institutional arrangement evolved to include the European Monetary Union as its successor in the 1990's.

European monetary union was effectively established with the introduction of a single EU currency in all member states that entered it on the basis of a number of treaties and multilateral agreements, including the Maastricht treaty and the stability and growth pact. The central executive function in the monetary union is exercised by the ECB, which is in charge of monetary policy across the whole Eurozone. According to its institutional design and the monetarist rules prescribed by the EU treaty, other relevant EU legislation including the ECB statutes and the decisions of its board, the ECB exclusively focused on fighting inflation with a view at preserving the domestic value of money. It must be stressed that the ECB with its policies that focused entirely on price stability did not support the general economic policies in the union with a view to contributing to the achievement of the objectives of Art. 3 TEU (e.g., solidarity, social justice), which would presuppose systematic departures from monetarist orthodoxy. In the framework of policy considerations that favored the maximal expansion of the financial sector, the ECB systematically decided to apply low interest rates across the whole Eurozone, which led to increased levels of borrowing especially in peripheral countries for one main reason: Confronted with slowly growing but competitive EU core countries (Germany, France, Luxembourg, Austria, The Netherlands, Belgium, Finland etc.), peripheral countries opted for alternative, albeit illusionary growth strategies. Because of the ECB's straitjacket and the stability and growth pact's constraints on fiscal policy, peripheral countries were encouraged to improve competitiveness primarily through a reduction of the cost of labor. At the same time some core.

EU countries were squeezing labor costs and practically defeating all efforts of the EU periphery to gain a competitive advantage in this respect. Eurozone core countries' exported growth brought with it current account surpluses, which were further increased through bank lending to the peripheral countries' private and public sectors. The effects of such strategies were fatal for peripheral economies, which amassed entrenched current account deficits. Growth was consumption-led and was financed by ever-increasing household debt, or from investment bubbles resulting from excessive real estate speculation.

The European commission, the Euro group, and other EU institutions did not check whether consumer-led growth was yielding sustainable economic growth; nor did they properly monitor the evolution of public borrowing, although they were explicitly and legally bound to do so. To a great extent, the Eurozone debt crisis can be ascribed to the flaws of the institutional arrangements in the Union and the malfunction of its authorities. The ECB for example operated deficiently. It was an erroneous mistake to consider private banks 'too big to fail' in 2007–9. This misled the Central Bank to its decision to provide private banks with extraordinary liquidity after accepting dubious types of securities as collateral on the basis of the ratings of the same rating agencies that nourished the bubble of 2001-7. These actions in turn exacerbated the public debt crisis. Oddly enough the ECB did not actively oppose financial speculation against member states in the preliminary stages of the sovereign debt crisis, although its statutes and other EU legislation did not prohibit a drastic intervention to constrain speculation and prevent the destabilization of financial markets. According to its statutes, the ECB was only prohibited to directly acquire and manage state debt (Art. 123 I TEU). Instead of reacting promptly, the ECB started acquiring state bonds in 2010. Although this was a legitimate and legally sanctioned tactic to prevent further financial market derailments and increase liquidity, it was nevertheless belated and thus ineffective.

After the outbreak of the 2009 sovereign debt crisis the flawed institutional design of the European monetary union reproduced the restrictive properties and fatal effects of the "Gold standard monetary system" during the great depression: It prohibited member states' governments to provide significant fiscal stimuli in a bid to arrest the descent into deflationary chaos. In a monetary union, where currency devaluations were no longer possible to lessen the accumulating trade deficits, the strains on the euro inevitably grow and threaten the existence of the system. But this is after all the major institutional difference between the EU, which lacks a fiscal union, and a federation like the US, in which an important fiscal weapon since WWII has been the transfer union that was instituted by the New Deal in the late 1930's. This mechanism ensures that the debts of deficit states are paid for by the Federal Government, dipping into taxes raised in surplus states, e.g., New York.

DISCUSSION

Flaws in the Design of Other EU Institutions of Economic and Financial Governance

The EU treaties provide for various mechanisms and types of industrial policy to reshape and restructure the non-competitive sectors of the economically retarded member states. However, the design and performance of the institutions in charge of such structural programs was poor and the effort to improve the competitiveness of the peripheral countries in the 80's, 90's and 00's failed.

To my mind one can discern two main kinds of institutional arrangements in charge of structural policy:

The EU structural and cohesion funds, which are subdivided into the European regional development fund, the European social fund, the European agricultural guidance and guarantee fund and the financial instrument for fisheries guidance. These institutions were all transferring money from the core to the periphery of the Union without controlling how this money was invested and if it increased the periphery's competitiveness on a sustainable basis. Moreover, there was

no specific goal-setting, no targeting concerning the stimulation of sustainable endogenous growth and no detailed checking and reevaluation were performed on a central level. No coordination of economic and public investment strategies between member states took place although this was explicitly prescribed by Art. 119 TEU, which introduced the principles of monetary union. The implementation of the funds' programs/actions was entrusted to the member states' public authorities and Brussels was in charge of abstract, highly programmatic an often ill-defined objective as well as legal compliance checks. As a result of mismanagement, capture by national interest groups and cronyism, these funds ended up serving the expansion of consumption in the periphery and the export needs of the union's core countries. To be sure these funds together with the European Investment Bank also supported growth projects like large infrastructure projects, which helped increase GDP growth rates. This is a policy proposed by many economists as a possible way of curbing the US economy today. However, there is a great difference between the EU periphery and the US economies, I argue: Infrastructure alone cannot guarantee sustainable growth–it certainly helps to create networks, reduce transaction costs, and achieve economies, but it is not a sufficient condition for such competitive advantages and efficiency gains. When other sectors of the economy, which can produce real added value goods/services, are inexistent or insignificant, infrastructure projects ultimately help to reduce export costs from other countries.

During the 1980's, 1990's, and 2000's other projects, which were subsidized by the European Funds, could induce only insignificant economic activity, because they either represented an imitation and local implementation of marginal economic activities in core countries, or merely revolved around the distribution level and served the export needs of EU core countries. No significant productivity gains were achieved.

The European research, innovation and technology programs, which were administered centrally in Brussels, primarily contributed to the realization of projects in member states, which already had capacities for continuous innovation and sophisticated systems for skill formation. The periphery was as a general rule not technologically advanced, and its firms could not compete with the firms of the EU core in wining EU grant competitions. At best, firms of the periphery were employed by multinational corporations of the EU core countries for outsourcing purposes, as secondary/subsidiary research units with no connection to the headquarters' central strategies, resources, patents, and know-how. The EU did not foster the pooling of resources or the creation of innovation clusters in the periphery.

Possible Outcomes of the EU Crisis: The EU's Trilemma

The EU's "trilemma" gives it and its member states three options:

- Deeper integration, which will include the establishment of a banking, budget, fiscal and soon enough of a political union.
- Eurozone's dissolution, the revival of national economic and fiscal autonomy with a parallel catalytic reform of EU treaties to rebalance the powers in favor of the European nation state.
- The empowerment of democratic institutions and the reinforcement of democratic deliberation, decision-making and accountability, which will either bring the EU a step closer to political union, thus embracing the vision of European democratic governance or force it to give way to nation state democracies.

The EU can combine any two of the three options to find a viable way out of the crisis:

A combination of the second and third options: The EU can preserve the "golden straitjacket" of the European and monetary union and keep the stability and growth pact intact. The EU periphery's member states shall have to implement all austerity measures imposed on them by the EU lender states (and the Troika): Wage cuts, labor market deregulation, downsizing of the public sector with parallel privatization of all remaining public enterprises, public spending cuts including welfare-social and public health insurance, public education programs, public pension systems etc. The aim of such reforms is allegedly the reduction of public borrowing needs, of the level of public debt and the simultaneous raising of labor productivity and of competitiveness. The downturn of such reforms is that such measures can theoretically bring about changes only in the long term and rest on the strong assumption that they will contemporaneously attract large sums of direct or indirect investment to boost the economy. This assumption is not very realistic as the example of so many Latin American and other developing countries has aptly demonstrated in the past. In the meantime, aggravated recession will be counteracting all efforts to reduce public debt and the burden of economic adjustment will almost entirely shift on working classes. Poverty, inequality and weak institutions can lead to political unrest and social turmoil. The democratic legitimacy of the EU will be further undermined and the advantages of Eurozone membership will be seriously questioned. In the long run, these policies will backfire on EU core countries. Some politician will not be surprised at such a development. On the contrary, they will use it in their rhetoric for further shrinking the welfare state after the disaster of EU peripheral countries will have scared people off and will have increased the acceptance rates for Europe-wide austerity measures and unpopular reforms. At the same time, the probability of Europe-wide and/or local political unrest will rise.

The crisis is and will be reinforced by the obstinate defense of national prerogatives in politics and finance and by the lack of commitment to shared supranational governance. Already now, head of states, prime ministers and ministers–the member states' executive branch–are setting the agenda for the EU on intergovernmental level and have completely departed from traditional supranational EU decision-making

based on the institutional balance between the European Council/the Council of Ministers and the EU Parliament as legislative bodies and the EU Commission as executive body. Severe dissonance and conflicts about the Eurozone's benefits and the legitimacy of the EU will deepen the gap between European peoples and their governments. The nation state will regain much of the powers that have been delegated to the EU, and national democracies will be reshaped/reconfigured.

A combination of the first and second options: A deeper integration including a banking, fiscal, and political union initiated and completed by European nation states. This option, which would bring about a top-down fundamental reform of EU and member states' institutions, presupposes a radical rethinking of European integration, of the role of the nation state, a rebalancing of powers between institutional actors in member states, in the EU and elsewhere, a relocation of internal political struggles on European level, and a subsequent radical change of game rules in the competition between nation states. A kind of new deal would be necessary but such colossal changes in power and politics usually presuppose the complete weakening or diminishing of older political arrangements and institutions. Today there is wide consensus that the monetary union was a flawed project and must be drastically reformed. However, the failures have almost entirely to do with national opportunism and games of power between nation states, which hinder optimal institutional redesign and real economic integration.

Until the outbreak of the crisis EU core countries, which are exerting great influence on the EU institutions, did not have real incentives to create more competitors in the periphery than the already existing ones in Central/Northern Europe and outside of the EU. This has been empirically verified by the example of member states own internal economic strategies. After the unification of West and East Germany West German corporations were allowed to acquire their potential East German rivals without prior antitrust scrutiny. Although East German companies needed new investment to modernize their plants to compete on equal terms with their West German counterparts, some of them could either alone or in collaboration with other firms pose a threat to West German corporations' clear dominance. After they were either shut down or dissolved into small dysfunctional units by their new West German owners there was no danger that East German firms could either alone or in combination with the acquiring West German firms' assets build up "excessive" capacities that could eventually suppress market prices and reduce profit margins. This policy of West German governments, which turned their back to all alternative structural programs, and instead yielded to particular West German firm interests, has had disastrous implications for East German economic, employment, and social prospects up to this day.

Political and economic elites in the EU periphery were most probably also satisfied with the status quo: The former because unleashing the creativity of their countries was a daunting task requiring political innovations and managerial talent as well as the courage to defy their Northern.

European colleague's visions about the establishment of a certain EU economic order. Additionally, there was always the fear of painful spending cuts in the EU budget affecting Regional Development and other programs, whose net beneficiaries allegedly were EU peripheral countries. Economic elites were most probably content, because they were afraid of new competition in their own and other business sectors in their home economies. In addition, they did not want to lose their influence and bargaining advantages *vis-a-vis* North European partners in connection with their role as intermediaries for imports and marketing in the EU periphery. The profile of most economic elites in the periphery was that of merchants-intermediaries-importers and not that of entrepreneurs or vanguards. There seemed to be not only class but also intra-class immobility with respect to the division of entrepreneurship, industry and innovation inside the EU since the 1980's based on an implicitly endorsed hierarchy of competitive advantage and presumed comparative industrial strengths of one-member state in relation to the other.

The realization of EU fiscal and political union presupposes a rebalancing of power among economic and political actors in all EU member states, a reconsideration of the long-term allocative efficiency of coordinated growth strategies in all EU members with the future EU government focusing on special development programs for the periphery.

A combination of the first and third options: Deeper European integration including a banking, fiscal and political union initiated and enforced by European democratic institutions and ultimately European peoples in referenda or similar expressions of democratic deliberation: This option presupposes a very active and dynamic civil society, a perception of European community, in which all European democratic institutions partake, the conceptualization of national state competitions as detrimental to European democracy, and the realization that national states are insufficiently equipped in today's world to safeguard and promote the common good of European peoples.

However, significant differences in the perceptions of European identity, culture, community and the lack of common educational and cultural backgrounds are obvious among the citizens of different member states today. These differences cannot be ascribed to the phenomena of national identity, national culture and self-determination. They are usually remnants of obscure nationalist thinking drawing on unclear, misaligned and contradictory political and socioeconomic systems. The member states' and the EU's institutional failures to promote education and cultural formation promoting flexible, multidimensional, experimental and analytical thinking, the values of plurality, solidarity, and social justice are the other side of the same coin of one-dimensional conceptualization of and focus on a particular variant of a certain institution, be it the market economy or European integration.

An Idealist Perspective: Deeper European Integration and New Institutional Design

Irrespective of whether deeper European integration will finally be accomplished after far-reaching interventions on the part of nation states' representatives or as part of local, national and supranational democratic reform processes, the EU crisis cannot be truly overcome, unless new market arrangements have been put in place. However, this is the point at which new institutional arrangements in the economy are inextricably linked to arrangements in the social and political domain.

Market arrangements go hand in hand with a polity's (here the EU's) political, social, and other arrangements. The emergence of preferences about market-creating and market-regulating institutions has to be the product of a democratic, deliberative process. Political institutions are therefore crucial to any reform and experimentation with economic institutions. Moreover, the freedom to reform political institutions is a prerequisite for any kind of economic experimentation and the reshaping of economic institutional arrangements. However, the political arrangements of a polity (here the EU) are nurtured and shaped by ideologies, which supersede any market or social arrangement. The course of history has shown that ideologies are usually formulated and disseminated top-down. An open and inclusive educational system is a necessary precondition for the conception, formulation, spreading, and reception of ideas, which will foster democracy, institutional change, and experimentation. I will refrain from referring to possible necessary political reforms in the EU since this is not the topic of interest here. Instead I will assume that all EU political institutions will be embedded in a system of democratic governance, deliberation and accountability, which will rely on supranational power sharing and prevent the mismanagement, flaws, cronyism, and nationalistic competition of the past. It will instead promote continuous and dynamic interaction of European civil societies and public administrations and experimentation with new forms of governance. I will present my further analysis as a layout of the main features that new economic institutional arrangements should have in order for the EU to return to the path of sustainable growth, development, and prosperity

First step: Fiscal union and fiscal stimulus of great dimension: The EU should adopt and implement a banking, budgetary and fiscal union. This necessitates the revision of Art. 122–126 TEU among many others. Central banking supervision by the ECB, which shall include further components such as a single rulebook, common deposit protection, and a single bank resolution mechanism is, however, an institutional change of only supportive nature. It strengthens the banking system and provides for safeguards against systemic bankruptcies but cannot alone enforce the well-functioning of prudential/risk management mechanisms and the stable reconnection of banks with the real economy. More radical institutional reforms are necessary. The European Investment Bank e.g., could form networks with private banks and public pension funds to create breakthrough programs for SME's, provide start-up capital for high-tech and high-productivity projects, interconnect with the help of the European Commission patent-holding individuals and SME's to promote the creation of new technological standards, new ways of access to the new economy's forms of production and the diffusion of technological innovation. The provision of such capital should be backed by the ECB's reorientation in terms of liquidity provision and general fiscal stimulation.

The EU needs a fiscal union more than ever. The European Stability Mechanism (ESM) is a major drawback of EU institutional design for economic and fiscal integration since it helps to sustain the current status quo of imbalances and excessive austerity. As a legal institution it undermines the architecture of EU treaties and its institutions, since it was founded on the basis of a multilateral treaty between only 17 out of 27 EU member states, which was ultimately ratified by their national parliaments and strongly signifies a revival of nation state politics. The introduction of Eurobonds which entail the mutualization of public debt with a correspondingly closer coordination and control of fiscal policies of member states can be a first step to the right direction, but this is not enough to boost EU economies. The Stability and Growth Pact's provisions should be relaxed or even abolished for a significant period of time, during which a fiscal stimulus of great dimensions (in the style of Keynesian aggregate demand stimulation recipes) will have to play for time and serve as a down payment on innovative industrial policies and structural programs to stimulate the supply side.

Second step: EU-wide structural programs: As I mentioned above, the opening of gateways to vanguards to revolutionize all economic sectors in an effort to replicate the industrial revolution should be the first priority on a EU-wide level. New Economy sectors and cutting-edge industrial reforms should be promoted in clusters of innovation with the dominant participation of SME's and individual patent-holders. The EU can set in motion local dynamic, collective initiatives and synergy-producing networks to achieve significant efficiencies and innovation without having to rely on few oligopolists who dominate new economy markets in a narrow-minded way. As a second step, SME's and individual entrepreneurs should be financially encouraged to adopt cooperative competition practices, to pool resources together, and to engage in the transformation of innovation into marketable intermediate and final customer products. At the same time, these projects must be accompanied by a revolution in educational systems to promote generic practical capabilities, critical and analytic thinking rather than specific vocational skills. Sustainable economic growth and development are possible only through the accumulation of capabilities over time, in areas ranging from skills and technologies (the formation of vanguards) to public institutions.

Institutions for the promotion of varieties of capitalism and stimulation of sustainable growth in EU peripheral countries: EU institutions should not focus on one model of economic governance, which aims at the realization of one particular form of market economy, but instead, they should adjust their

programs, projects, and actions concerning economic restructuring and growth stimulation to reflect local and transnational socioeconomic and sociocultural preferences, traditions, and aspirations. Systems competition and races to the bottom that endanger market-stabilizing institutions have to be prevented. Central EU institutions of economic governance such as the EU Commission, its subdivisions and agencies, the European Investment Bank etc. should create, together with national, local institutions and businesses, decentralized networks of economic governance, which should not exclude any institutional arrangement from their array of instruments and methodologies beforehand.

Qualifying and categorizing types of economies can in my view lead to conceptual fallacies, because this presupposes the existence of a definition of two extremes or poles. This definition on its part is equal to the identification of the elusive notion of market with a certain prototype set of institutional arrangements. Sometimes it is an oversimplifying approach to make strict distinctions between liberal, coordinated, Mediterranean, Scandinavian and other types of economies. The US has never been as liberal as it is thought to be. It has a long tradition of government funded technological innovations, and has experienced a remarkable WWII period, during which government and private sectors almost fused and were thereby able to produce an unprecedented economic wonder. Until today the US has been spending huge amounts to fund large innovation projects, which are carried out by private firms. Such and other similar structural policies do not neatly feet into the concept of liberal market economy. In this sense, some EU regions and member states might be progressing on the basis of liberal and coordination economics recipes, while others might need some mix of liberal policies and state interventionism to start really growing. Unlike France, Germany was always opposing the EU's empowerment to direct the disbursements of collective funds towards specific industrial projects in particular economic sectors and this is the main reason, why economic policy has remained a member state thing and did not become an EU matter up to this date, in spite of the opposite declaration and prescription in Art. 119 TEU that there shall be an EU-wide adoption of economic policies as a result of a close coordination of member states' economic policies. The rationale behind the German position draws on the principles of a coordinated market economy, in which centrally administered economic projects are always rejected as inefficient and wasteful. Even today, German legal scholars who advocate the coordinated market system prefer to speak of “Marshall plans” and voluntary financial aids, which will fall into the sphere of responsibility of peripheral countries and will not allow for centrally administered EU projects. While EU core countries will probably not need any type of economic dirigisme in the frame of innovative industrial policies, some peripheral countries might be in need of targeted public investment in some sectors in their incipient phase of development or of coordination for a pooling of resources. The successful models of heterodox economic governance in BRIC countries and in Southeast Asia against all prevailing recipes of mainstream neo-liberal globalization patterns prove that flexibility, adaptability, experimentation, and pragmatism are the basic qualities that the reformed EU institutions should have. The actual application of these highly differentiated policies will include stages of specialization and diversification to improve the EU periphery's competitiveness.

EU regionalization and its relation to globalization: EU internal structural programs might not be able to bear fruits, unless they are supplemented by fine-tuned external trade policies and ultimately a revision of the EU's global commercial partnerships, its membership in the WTO, and its general policies relating to whether and under what conditions it will support further globalization efforts or if it will rather first focus on the accomplishment of regionalization goals such as European economies' integration, coherent and harmonious coevolution.

CONCLUSION

The EU should not repeat the mistakes of the ECB and take only the EU core countries' situation into account when designing its trade policies. The current WTO regime is not in accordance with all EU social and political cleavages nor does it always allow it to enhance its peripheral countries' productive capacities without infringing WTO's subsidization rules. However, such industrial policies were the key to success for East Asian nations in international trade. EU peripheral countries cannot compete against Asian and other countries following the precepts of trade fundamentalism. The same holds true for future EU policies related to the IMF and the World Bank. In accordance with the new institutional role of the ECB, the EU should negotiate a new “Bretton Woods” agreement allowing for more national maneuvering and an optimal combination of bi and multilateral arrangements concerning international sovereign debt bail-outs, restructuring, rescue-surplus transfers and other monetary, fiscal and development matters.

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