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Democracy in Europe: a tale of two crises
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What is happening to democracy in the European Union? The series of decisions that are being taken within the EU in these crucial months are democratic and legitimate? What is on offer with the democratic vote, and what are the channels through which citizens can now influence these decisions? This paper revolves around these basic questions, looking at the transformations in both the EU economic governance framework and in the wider political economy that is going through a period of restructuring in the midst of the ongoing economic and financial crisis. In the first section, I look at the recent reforms of economic governance in the EU. The second section is conceived as a review of some of the analyses of the economic crisis and its morphing into the current sovereign debt crisis, looking in particular at how the crisis has become entangled with the structural problems of the European monetary union. In the third section, I draw some general conclusions on the underlying transformations of our political economies and the problematic relationship between 'the market' and democracy.

'A Silent Revolution'

Recent reforms of the stability and growth pact and economic governance in the European Union and in the Eurozone in particular have been defined by President of the European Commission Barroso as a 'silent revolution'[1]. Indeed, it is remarkable how, in the midst of the economic turmoil that Europe is going through, so little attention has been given by public opinion to the significant changes in the way the European institutions will contribute to managing our political economies. Perhaps confirming Naomi Klein's idea that far-reaching economic and social reforms are best introduced in moments of 'shock', the current economic crisis has indeed been grasped as a chance to enact reforms which would have been contested only a few years ago. As Milton Friedman argued, "Only a crisis – actual or perceived – produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable."[2]

In order to understand the changes introduced to European governance, let us take a step back and look at the origins of the governance rules introduced in the run-up to the adoption of the Euro in 1999.

The Stability and Growth pact was adopted in 1997, in order to ensure that fiscal discipline is maintained in the member states. The reference values set were:

- a maximum of 3% of GDP for annual budget deficits
- a maximum of 60% of GDP for public debt

These limits have never been properly enforced. In 2005, both France and Germany exceeded the ceilings and successfully pressed for a relaxation of the rules

At the beginning of October 2011, the Council has agreed upon a package of six legislative proposals on economic governance, the so-called "six-pack", explicitly designed in

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1 Corporate Europe Observatory, *Corporate EUtopia*, accessed on 9/11/2011 at: http://www.corporateeurope.org/sites/default/files/Corporate_EUtopia_final.pdf; p.2
2 *Ibidem,* p.13

order to strengthen "economic governance in the EU – and more specifically in the Euro area – as part of the EU's response to the current turmoil on sovereign debt markets."[3] These reforms make the Stability and Growth pact stronger in both the prevention and enforcement stages. As will be explained, the public deficit and public debt criteria are placed on equal footing for the first time, and a new voting procedure ('reverse qualified majority' voting) has been adopted. In fact, 2011 will probably mark a watershed in the history of the EU.

The reforms have concerned how fiscal and economic policies are conducted in the European Union member states. In the wake of the crisis, EU institutions pushed to intervene in labour markets and in member states' budgets in a more stringent way than was done before. The innovations put in place can be broadly divided in two main areas: the new economic governance procedures and the initiatives taken apparently outside the formal institutional framework of the EU: so-called Europe 2020 initiative and the Euro plus pact. As we will see, these two innovations are tightly linked and together constitute the new framework for dealing with socio-economic governance in the European Union (particularly in the Eurozone, where sanctions can be applied to 'deviant' states).

The changes to the 'economic governance' of the EU introduced with the so-called 'Six-pack' are essentially three[4]:

1. Stronger preventive arm. With regards to the Stability and Growth pact, each member state is assigned a medium-term budgetary objective (MTO), which sets limits to expenditure growth, which should not exceed the medium-term GDP growth rate. Each member state commits itself to a Stability or Convergence Programme (SCP), which includes the structural reforms needed to achieve fiscal sustainability. If the member state fails to respect the programme, an enforcement procedure is activated which can lead to a sanction in the form of an interest-bearing deposit amounting to 0.2% of GDP (for Eurozone states), which can later be turned into a fine. It is important to note that the final decision can be taken by the Council following the so-called 'reverse majority' voting procedure (meaning that it will be adopted unless a simple majority of member states votes against it). This marks an important innovation, as to date countries could be punished only if a qualified majority of Eurozone countries voted to approve. The latter procedure has been a recent innovation and does not seem to have a secure legal basis in the treaties.[5]
2. The Excessive Deficit Procedure (EDP). This implements the obligations for member states to keep deficits below 3% and government debt below or sufficiently declining towards 60% of GDP. The corrective part of the SGP is strengthened by imposing stricter rules and through better enforcement. Regarding the stricter rules, it will now be possible to open an EDP on the basis of the debt criterion. "Member states with government debt ratios in excess of 60% of GDP should reduce this ratio in line with a numerical benchmark, which implies a decline of the amount by which their debt exceeds the threshold at a rate in the order of 1/20th per year over three years."[6] If they do not, the country can be placed in an EDP. Crucially, and this is the second innovation, the sanction (in the form of a non-interest bearing deposit of 0.2% of GDP) can be activated following the 'reverse majority' voting procedure. This deposit can then be turned into a fine in case of non-compliance, and extended – in the case of further non-compliance – to up to 0.5% of GDP.

[3] Council of the European Union Press, *Council confirms agreement on economic governance,* 4/10/2011 accessed on 9/11/2011 at: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/124882.pdf

[4] see EU economic governance – state of play. See also: Council of the European Union, *Council confirms…op.cit.*

[5] see: B.Waterfeld, "EU breaks its own rules to funnel money into Irish referendum", *The Telegraph,* 29/09/2009

[6] EU press releases, "EU Economic governance "Six Pack" - State of Play, accessed on 9/11/2011 at: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/647

3. The policing of so-called 'major macroeconomic imbalances'.[7] The latter are judged according to a 'scoreboard' of around 10 indicators of macroeconomic imbalance, whose content is left unclear: "the composition of indicators may evolve over time. Thresholds will be identified and announced."[8] If there is an imbalance – or if there is risk of the emergence of an imbalance - in a state which fails to implement the necessary corrective action plan, there is a semi-automatic decision making procedure (all the decisions in the procedure are taken by the 'reverse majority' voting procedure) which leads to a sanction and the potential fine of 0.1% of GDP.

In addition to these three innovations, the so-called 'European semester' has been introduced. This procedure unifies the two cyclical controls by the EU institutions of the national economic and fiscal frameworks, which used to be divided in two different moments of the year. From now on, "member states and the Commission will discuss structural reforms, growth-enhancing measures and fiscal surveillance at the same time. (…) The extra commitments taken under the Euro plus pact will also be fully integrated into this new process."[9]

The process is initiated by the adoption on the part of the Council of the Commission's proposal for the Annual Growth Survey of the Union, on the basis of which the member states draft their Stability or Convergence Programmes (SCPs). The latter are then assessed by the Commission and approved by the Council in July, which can also adopt or reject the Commission's recommendations. It is remarked that "draft budgets will continue to be sent from governments to national parliaments for debate in the second half of the year, since they continue to exercise fully their right to decide on the budget." It is thus argued that "the new framework in no way represents a limit to the sovereignty of national parliaments."[10] However, throughout the year, the economic and fiscal policies of the member states will be surveilled on the basis of the recommendations, "including consideration of possible further/enforcement measures (Excessive Deficit Procedure/Excessive Imbalance Procedure)."[11] So, although formally the national parliament continues to have the last word on the budget, it is easy to see that the new economic governance framework strongly constrains the room of manoeuvre set to it, lest it face sanctions and fines for years (if it wants to adopt different economic and fiscal policies). This reform was adopted only three months after it was tabled, and hardly any national parliament has been able to influence the decision.[12]

The second wider area of intervention, which is strictly related to the first and partly uses the same procedures, incorporates the Europe2020 strategy and the Euro Plus Pact.[13] The Europe 2020 strategy is the EU's common economic agenda. It sets out priorities and targets at EU and national level in order to achieve – in a way akin to the failed Lisbon strategy of 2000 – "smart, sustainable and inclusive growth over the next 10 years."[14] According to the Council document, "it deals with both short-term challenges linked to the crisis and the need for structural reforms and growth-enhancing measures needed to help Europe recover from the crisis and make its economy more resilient to economic shocks in the future."[15]

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[7] *Ibidem*

[8] EU press releases, "EU Economic governance: a major step forward" accessed on 9/11/2011 at: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/364.

[9] Eu economic governance: a major step forward

[10] *Ibidem*

[11] *Ibidem*

[12] Y.Vassalos, D.Plihon, K.Haar, "Will the merkozy deal save greece and the Euro?", Transnational Institute, accessed on 9/11/2011 at: http://www.tni.org/multimedia/will-mercozy-deal-save-greece-and-euro

[13] See: EU Economic governance: a major step forward. See also http://ec.europa.eu/europe2020/index_en.htm

[14] *Ibidem*

[15] *Ibidem*

Apart from the targets proposed, which often simply re-formulate the Lisbon strategy targets (75% of the population 20-64 to be employed; 3% of the EU's GDP to be invested in Research and Development; CO_2 emissions to be reduced by 20%; The share of early school leavers to be less than 10% and at least 40% of the younger generation should have a degree or diploma; 20 million fewer people at the risk of poverty), the strategy also points to three priorities to guarantee macro-economic stability: 1.putting public finances in order; 2. Take action where there are large current account deficits or surpluses and 3. Ensuring the stability of the financial sector. Four further priorities are highlighted in order to "enhance structural reform: "1. Helping people get back to work or find new jobs by making work more financially attractive; 2.urgently reforming pension systems; 3.making sure that unemployment benefits provide an incentive to work and 4.better balancing flexibility and security in the labour market." These proposed reforms are arguably more influenced by neoliberal economic thinking than even the 2000 Lisbon goals. In fact, the emphasis on 'getting people back to work' instead of creating useful and stable jobs says a lot about the extent to which socio-economic policy-making and thinking has abandoned the traditional 'de-commodifying' goals of European welfare states.[16] What is also visible (although not new[17]) is the switch from a 'right to work' to a 'duty to work' discourse and practice, with the corresponding framing of the market as the regulator of each individual's competitive quest, and thus as a natural condition, as the 'realm of freedom' in human affairs (in contrast to a social-democratic or welfare-state conceptualisation of the market as a sphere which must be regulated and limited to certain aspects of social life).

Moreover, the Eurozone countries plus a group of other EU member states have signed the so-called Euro plus pact. The pact commits the signatories to implement reforms in four areas: competitiveness, employment, sustainability of public finances and reinforcing financial stability. The Pact is embedded in the new 'economic governance' framework described above, and the commitments are included in the so-called National Reform Programmes of the member states. Moreover, a new set of plans, called Stability or Convergence Programmes are created. These indicate the measures – to be translated into concrete policy actions – that each state intends to take domestically to contribute to what has been decided at EU level (with the Annual Growth Survey). The Euro plus pact also strengthens the preventive arm of the SGP, as it commits member states to translating EU fiscal rules as set out in the SGP into national frameworks through a national legal vehicle of their choice. However, "this should have a sufficiently binding and durable nature (e.g. a constitutional or framework law)"[18], with the intention of, in the words of EU Commission for Economic and Financial Affairs, "enshrine a balanced budget in the constitution"[19]. This latter goal is particularly important and has been repeated in, for instance, the recent letter that the European Commission has sent to the Italian prime minister Berlusconi.[20]

Making sense of 'economic governance'

The two most groundbreaking innovations are arguably the procedure to correct 'macroeconomic imbalances' and the strengthening of the Stability and Growth pact. Regarding the first, the implications of this change is that decisions on wages and budgets can

[16] On this see: G.Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Polity Press, Cambridge, 1990.

[17] See A.Gray *Unosocial Europe*, London, Pluto Press, 2004

[18] EU press releases, "EU Economic governance…", *op.cit.*

[19] EU press relseases, "Olli Rehn: ongoing developments in the Eurozone", accessed at 9/11/2011 at: http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/11/540

[20] See: Request for clarifications on the letter from PM Silvio Berlusconi to the President of the European Council and the President of the European Commission, accessed on www.repubblica.it on 9/11/2011

now be made at EU level. As remarked above, only a few years ago it would have been unconceivable that the Council and the Commission would have the possibility of analysing and commenting upon the budget of the member states even before the national parliament has a chance to do so.

Moreover, the ambiguity of the 'scoreboard' used allows the Commission to touch upon fiscal policy, including taxation and spending, labour policy, the composition of debt and influences even domestic decisions such as the allocation of resources between sectors, and levels of consumption[21]. As clearly remarked, recommendations for member states can include both revenue and expenditure sides of fiscal policy and labour and goods markets. As one commentator put it, "it provides a leeway for demands for lower wages and for cuts in welfare."[22] Others have argued that it is practically an "open door to influencing all areas of national economic policy."[23]

The Commission defends this vagueness by arguing that the importance of different imbalances cannot be predicted. While this is clearly true, such lack of transparency will not only exclude popular influence on policy, but will also tend to give more power to large member states. The ambiguous definition of what an imbalance is opens the door to all kinds of interventions. In fact, it has been argued that the Excessive Imbalance Procedure described above might seem much like an extreme manifestation of the pretence of knowledge, of which Hayek accused the policy makers of the Keynesian era.[24]

The way competitiveness is framed within the Europe 2020 strategy is clearly in the direction of more flexible labour markets, cutting public pensions, liberalising or privatising public services.[25] For instance, the fact that competitiveness will be evaluated by the national unit labour costs (ULC) implies a pro-capital stance. In addition, it has been highlighted that labour costs are to be reduced by reforming the "degree of centralisation in the bargaining process, the indexation mechanism"[26] and reduce wages in the public sector. Productivity is to be achieved mostly by "deregulating industry".

As Marco Buti, one of top civil servants in the Commission put it: "when wages in the public sector damage competitiveness and price stability then the country will be requested to change this policy. And the wage development in the public sector does of course have great influence on the private economy."[27]

Among the policy suggestions, one can also find the advice to increase productivity by "further opening of sheltered sectors to remove restrictions on professional services, to foster competition and efficiency", "improve business environment", "increasing pension age, limiting early retirement schemes"[28]. Although these are not compulsory policies, as the commitments involve the goals to be achieved, the documents produced stress that these issues mentioned above will be given particular attention both in the recommendations and in the National Reform Programmes and Stability or Convergence Programmes mentioned above.

One of the interesting aspects of the Euro plus pact is that while it is claimed that it is consistent with existing instruments, in which it is integrated, "it will involve special efforts

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[21] See: Corporate Europe Observatory, *op.cit.*, p.6; L.Phillips, "EU ushers in "silent revolution" in control of national economic policies", *EU Observer,* accessed on 9/11/2011 at: http://euobserver.com/9/31993

[22] Corporate Europe Observatory, *op.cit.,* p.7

[23] Vassalos *et al., op.cit.*

[24] F. W. Scharpf, "Monetary Union, Fiscal Crisis and the Preemption of Democracy", MPIfG Discussion Paper, 11/2011, accessed on 9/11/2011 at: http://www.mpifg.de/pu/mpifg_dp/dp11-11.pdf; p.35

[25] The rhetoric and proposals of the European Roundtable of Industrialists bears a remarkable resemblance to the discourse of the Commission, the ECB and heads of state. The ERT pushed for the union to review national fiscal policy measures and national budgets. Corporate Europe Observatory, *op.cit.,* p.9-10.

[26] European Council Conclusions, 24/25 march 2011, , accessed on 9/11/2011 at: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf ; p.16.

[27] Corporate Europe Obeservatory, *op.cit.*, p.7

[28] European Council Conclusions, 24/25 March 2011, *op.cit.,* p.15-18

going beyond what already exists and include concrete commitments that are more ambitious (…) with a timetable."[29] Thus, the Euro plus pact is to become a kind of "vanguard of reforms"[30] which makes use of existing structures where possible and goes it alone when not. These special efforts and policy commitments will take into account best practices and benchmarks against the best performers, a practice that is long-standing within EU institutions. It has been one of the goals that the ERT (European Round-table for industrialists) have long proposed for European governance, as it entrenches a form of competitiveness based on the best performant in attracting capital.[31]

The innovations regarding the Stability and Growth pact have a significant influence on national economic policy. We have seen that if a country has not committed a budget to the scrutiny of the Commission before its parliament has seen it or is too slow in reducing debt or deficit, then the Commission can demand a financial guarantee it won't give back unless the government changes policy, or impose a fine. Now, one of the main jobs of the government is precisely to produce a budget, and now the democratically elected representatives of the people can have a look at the budget and vote on it only after the EU institutions have judged them (or have imposed a fine). Susan George calls this a coup d'état, coupled with the moral dimension that has been dominating the debate in public opinion which is centred on the idea that 'you cannot live beyond your means'.[32]

We can thus see that there is an underlying economic (and socio-political) logic unifying what EU commissioner for Economic and Financial Affairs Olli Rehn calls a "quantum leap of economic surveillance in Europe"[33]. Wage restraint, the reduction of social expenditure, competitiveness and 'fiscal sustainability' are the wider goals to be achieved. The 'permanent structural adjustment programme' that is being implemented in the EU touches upon the lives of millions of citizens. As can be clearly seen, the issues that are dealt with in this new economic governance framework are and have been the object of political, social and class struggle for decades. Here they are viewed simply as subjects of debates among EU decision-makers, most of whom unaccountable to voters. This is highly problematic in terms of democratic legitimacy and is bound to generate resentment and disaffection (not least for the idea of democracy) among the electorate. One must not forget that the power of the parliament in budgetary matters has been at the root of European democracy.

Whose Europe? Whose Crisis?

We have seen that specific measures have been put in place at the politico-institutional level. These measures have a clear economic rationale and reflect a specific interpretation of the origins and solutions of the economic and sovereign debt crisis in Europe. I do not want to open here the enormous debate on this issue. However, it is useful to review some of the criticisms that have been made to the EU institutions' approach to the 'solution' of the crisis. We will see how the solutions proposed are clearly in line with a neoliberal understanding of how to achieve growth and often go hand in hand with the interests of financial capital and of the German state class, perhaps confirming that we are going through a crisis *in* neoliberalism, instead of a crisis *of* neoliberalism. In the last section we will then sum up the

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[29] European Council Conclusions, 24/25 March 2011, *op.cit.,* p.14

[30] Corporate Europe Observatory, *op.cit.,* p.14

[31] O.Holman and K. Van der Pijl, "Structure and Process in Transnational European Business", Alan W.Cafruny & Magnus Ryner (eds.), A Ruined Fortress? Neoliberal Hegemony and Transformation in Europe, Lanham, Rowman & Littlefield Publishers Inc, 2003, pp.71-93

[32] Vassalos *et al., op.cit.* and S.George, "End financial control of European governance", Transnational institute, accessed on 9/11/2011 at: http://www.tni.org/briefing/eu-crisis-pocket-guide

[33] "Eu's Rehn: 'Quantum Leap' for Econ Surveillance in Europe', *iMarketNews*, March 15, 2011. Accessed on 9/11/2011 at: http://imarketnews.com/node/27814

argument by theoretically reflecting on the nature of the curtailment of democracy that is being carried out in Europe.

The current economic recession has been interpreted as a crisis of capital overaccumulation and profitability that has its origins in the 1970s.[34] During the two-three decades before the financial crash, capitalism has been reproducing itself accumulating an enormous amount of debt. To avoid the collapse of the system, the states have taken over that debt, effectively privatizing public spending, thus transferring them from the private to the public sector. Now, the bill is presented to the majority of the citizens, who are forced to accept cuts in salaries, social spending and an increasing privatisation and liberalisation of the economies, perhaps turning many European political economies from 'Social Market Economies' to 'Liberal Market Economies'.[35]

Moving from this abstract level of analysis to the actual concrete unfolding of the crisis, we can see that the economic crisis has exposed the long-standing problems of the Eurozone to strain and is now putting at risk the very existence of the common currency. The Eurozone does not represent an optimal currency area, famously defined by Mundell as an area characterised by high mobility of capital and labour and the availability of internal transfers to deal with the possibility of 'asymmetric shocks'. While the monetary union had achieved the goals of eliminating currency fluctuations and interest rate differentials, it had done so only by shifting the problem somewhere else, namely in the difference in wage-setting mechanisms and wage levels. Exchange rates can no longer be used to counter economic differences within the Eurozone, and – as monetary policy was left to the ECB and fiscal policy was surveilled – the only mechanism for adjustment was labour costs and employment conditions, which were targeted in order to achieve the needed 'flexibility'. Hence,

> "if a deterioration in relative (unit) costs cannot be reversed by productivity improvements, unions in affected areas will be pressed to accept nominal wage reductions or low increases as well as cuts in nonwage costs, eroding bargained statutory social benefits. This may happen even without asymmetric shocks, insofar as employers (and governments) seek price advantages, no longer attainable by currency depreciation, through wage and benefit cuts instead."[36]

The public authorities highlighted that even if the Eurozone was not an optimum currency area, it was deemed sufficient that member states respond to asymmetric shocks

> "with a high degree of flexibility in the markets for goods and services…this flexibility is needed above all in the labor market, that is, wages must adjust to changing market conditions..the more the price system (in the widest sense) bears the burden of adjustment, the less important is the loss of the national exchange rate and monetary policy instruments "[37]

What this stance implies is that the policy prescriptions produced by EU institutions for adaptation tended to include supply-side and market-enhancing policies such as liberalisation and deregulation. These were and are highly politically salient measures. The current reforms of economic governance - on which few if any national parliaments had a say[38] – make these pressures for reform more stringent, as they are now linked with the possibility of sanctions and fines.

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[34] A.Callinicos, *Bonfire of Illusions,* Polity Press, Cambridge, UK, 2010; J. Bellamy Foster and F.Magdoff, *The Great Financial Crisis – Causes and Consequences,* Monthly Review Press, New York, 2009.

[35] F.W. Scharpf, "The Asymmetry of European Integration: Or why the EU Cannot be a "Social Market Economy" in *Socio-Economic Review*, 8 (2), 211-250

[36] A.Martin and G.Ross "In the Line of Fire: the Europeanization of Labor Representation" in A.Martin and G.Ross (eds), *The Brave New World of European Labor: European Trade Unions at the Millennium,* Berghahn Books, New York/Oxford, 1999; p.345

[37] O.Issing, "On Macroeconomic Policy Co-ordination in EMU", in *Journal of Common Market Studies,* 40(2), p.345-358.

[38] Vassalos *et al., op.cit.*

Altvater summarises in this way the constraints imposed on member states of the EU:

> "Within the Eurozone the expense side of government deficits is tightly regulated by the Maastricht criteria, even if the budgetary impact of the financial crisis has been to disrupt significantly the guidelines. The revenue side, on the other hand, is subject to regulatory arbitrage in favour of investors. Limiting wealth taxes frees up money wealth that is in turn used for speculation in financial markets."[39]

In short, only wage restraint or government spending could vary in order to adjust the 'real' economies in a single currency area What this means is a permanent pressure on workers and their organisations to respect the laws of competitiveness. However, this effect materialised in a differentiated way across the Eurozone. What happened was that the imposition of a one-size-fits-all monetary policy in the Eurozone produced asymmetric dynamics in EMU economies. For low-growth countries, the ECB rates were too high, and viceversa for high-growth economies. In Germany, wage levels were effectively curtailed, thus inflation levels were maintained at very low levels. Here, the real interest rates were much lower than in the rest of the Eurozone, hence maintaining – in the run-up to the economic crisis – low growth. This economic slowdown in Germany in turn was effectively overcome through supply-side measures which further constrained domestic demand and increased export competitiveness (The Schroeder era was here crucial). In the periphery, and in particular in the so-called PIGS economies (Portugal, Ireland, Greece and Spain), high growth fuelled wage levels increases, in turn increasing inflation and thus lowering real interest rates. This caused a credit-financed economic growth which tended to generate speculative bubbles (as in Spain and Ireland). This credit was increasingly imported from Germany. In short, the current account surplus of Germany was financing the current account deficits and growth of the peripheral countries – what De Grauwe calls *animal spirits*, that is, "waves of optimism and pessimism that in a self-fulfilling way drive economic activity"[40]. Crucially, the imbalances developed were due to a unitary interest rate, which fuelled *private* debt. Apart from the current account deficits, debts accumulated domestically in the periphery also as the banks took advantage of the homogeneous European money market to expand their credit operations.[41] In fact, the public debt/GDP ratio of countries like Spain and Ireland was significantly lower than Germany, and in the 2000s they even maintained *surpluses* of the budget.

The underlying problem is that when a monetary union includes competitive export-oriented economies such as Germany, peripheral countries are unable to resort to devaluation for making up for their lack of competitiveness. This is also at the cost of German wage-earners, who have witnessed the largest slump in wages in Europe.[42]

Fritz W. Scharpf, in a brilliant article on the relationship between economic policy and democratic accountability, notes that the Euro was created neglecting the significant institutional differences in national wage-setting mechanisms between Germany and the peripheral European states.[43] These differences are what generated the imbalances described here. This is another way of saying that German capital had found a way to permanently contain the wage demands of labour and thus acquire competitiveness (in Marxian terms, increase relative surplus value). It was a quid-pro-quo with the unions: "the strong German unions had found a deal with capital on the basis of which they retained their strength and co-

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[39] E. Altvater, "From Subprime Farce to Greek Tragedy: The Crisis Dynamics of Financially Driven Capitalism", in *Socialist Register 2012: The Crisis and the Left.* Monthly Review, New York, 2011,; p.283

[40] P. De Grauwe, "The Financial Crisis and the Future of the Eurozone", Bruges European Economic Policy Briefings, 2010, accessed on 9/11/2011 at: http://www.coleurop.be/content/studyprogrammes/eco/publications/BEEPs/BEEP21.pdf ; p.3

[41] C.Lapavitsas, "Default and exit from the Eurozone: a radical left strategy", in *Socialist Register 2012: The Crisis and the Left.* Monthly Review, New York, 201;p.289

[42] Corporate Europe Observatory, *op.cit.,* p.12

[43] Scharpf 2011, *op.cit.,* p.6-7

decision powers in exchange for the acceptance of a monetarist policy."[44] We can now understand what is meant when it is said that German monetarism was exported to the whole of Europe. However, other countries did not have the same institutional set-up, the same class compromise or export industry and the same historical conditions as Germany, hence it can be argued that to think that this model could be exported to other countries was either an illusion or the rationale for an arrangement which would serve specific social forces in the European Union.

Relative wages in peripheral countries increased more than in Germany, although there has been a general downward pressure on wages. In fact, even the fastest growing wages in the Eurozone, the Greek salaries, failed to keep pace with productivity growth.[45] Hence, there is no folly, or greed by 'irresponsible' workers here. There was simply a gap in the ability of different national institutional set-ups to contain inflation, which is another way of saying that capital in different countries had not found a negotiated way of containing wage demands and hence increasing relative surplus-value. One can go a step further and argue that "it is not wage increases on the periphery per se which cost jobs in Greece and other poorer Eurozone countries…but the success of the German bourgeoisie in keeping down wages at home"[46] For instance, unit labour costs in Greece were 130 in 2010 if 2000 is 100, while the corresponding figure for Germany was 105.[47]

Scharpf argues that the reforms enacted in the mid-2000s in Germany (with the Schroeder government) contributed to the vulnerability of other Eurozone countries. These reforms consisted basically in supply-side measures designed to enhance German's competitiveness by lowering unit labour costs (wages). The country's predicament was that – as described above – since nominal interest rates converged whereas real interest rates were the highest in the Eurozone, economic growth stagnated. In Scharpf's words, "German unions helped to re-establish the advantages of an undervalued currency – providing the functional equivalents of export subsidies and import duties in ways which could not be challenged under the EU's competition and internal-market rules."[48] In this way, Germany increased exports and reduced imports, and export earnings were then profitably invested in peripheral economies, not for production but for speculation in real estate. The latter economies thus had an availability of cheap capital, also attracted by low interest rates.

But how did the crisis actually play out in Europe? For explanatory purposes, we can present the current predicament as a sequence of three crises:

1. The countries most affected by the financial meltdown in the USA were Ireland, the UK and Germany, which had in one way or another to intervene to rescue the 'too big to fail' banks'.
2. The banking crisis generated a credit squeeze, which caused recession and an increase in unemployment. This generated an increase in the 'automatic stabilizers'. Moreover, the consequences of the credit squeeze affected countries which were most reliant on the availability of cheap credit and capital inflows. In Spain, for instance the state had to step in one more time to save other financial institutions and their creditors, mostly in surplus economies. The end result was an even more dramatic rise of public deficit,

[44] *Ibidem,* p.7

[45] H.Flassback, "Cry Wolf but do not ignore Tomorrow's Tigers", IDEAs, accessed at 9/11/2011 at: http://www.networkideas.org/news/mar2010/news12_Tigers.htm. The author notes that real compensation to labour increased at 1.9% per employee annually in Greece, a little less than productivity.

[46] S.McGiffen, "Bloodless Coup d'Etat: The European Union's Response to the Eurozone Crisis", *Socialism and Democracy,* 25:2, p.25-43, p.31

[47] Flassback, *op.cit.*

[48] Scharpf 2011, *op.cit.,* p.14

also in countries such as Spain and Ireland which had been financially 'virtuous'.

3. The resurgent financial markets became doubtful about the sustainability of public finances, which intervened in fact to bail them out in the first place. So, interest rate convergence came to an end as markets placed different risks on different national bonds.

According to the economist De Grauwe, the root cause of the sovereign debt crisis is precisely the accumulation of debt in the *private* sectors of the economy.[49] The public debts reached high levels only *after* the economic crisis (in fact EU government debts dell from an average of 72% in 1999 to 66% in 2007) due to (i) the governments actually taking over the private debts of the financial institutions and (ii) automatic stabilisers. Both De Grauwe and Scharpf argue that the only thing that could have made a difference and perhaps soften these imbalances, was a differentiated monetary policy based on different interest rates in different economies.[50]

In fact, De Grauwe explicitly blames the European monetary authorities for these imbalances, because "bank credit is a more proximate cause of the bubbles and booms" and monetary authorities have the power to control bank credit by, for instance, setting up differentiated deposit requirements and the growth of bank credit.[51] However, in no official document there is any acknowledgment of the fact that the monetary policy of the ECB played a role in the crisis. What is implied is that member states have to deal with the imbalances produced by a common monetary policy by using their policy instruments, which however have been strongly limited by the Commission's interventions, for instance with the Excessive Deficit Procedure.

In the wake of the crisis, the dependence of peripheral economies on foreign capital increased. As devaluation was ruled out, what was experienced is a classical crisis in current account deficits. Thus, these economies became vulnerable to disturbances in international financial markets that induce massive capital flight.

The European response to the sovereign debt crisis was to approve a series of rescue packages. In May 2010, Eurozone countries and the IMF agreed to a 110 billion dollar loan for Greece (at a 5% interest rate, a rather high level), conditional on the implementation of austerity measures. This was followed by an 85 billion Euro rescue package for Ireland in November and a 78 billion Euro bailout plan for Portugal. In October 2011, the European Financial Stability Fund (EFSF) was increased to about 1 trillion Euros. The latter is a legal instrument aimed at preserving financial stability in Europe by providing financial assistance to Eurozone countries in difficulty, and it is guaranteed by Eurozone governments. The ECB also bought sovereign bonds in the secondary markets. Insolvency was – for the time being – avoided, but the loans are conditional on the implementation of harsh fiscal retrenchment, in order to facilitate economic recovery. However, as many point out, such measures may in fact exacerbate the vicious circle of low growth – austerity – debt.[52]

The recessionary impact of the austerity measures imposed by the EU makes it unlikely that the public deficits can be reduced. As Atwater argues,

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[49] De Grauwe, 2010a, *op.cit.,*

[50] Scharpf, *op.cit.,* p.18. P. De Grauwe, "The Greek crisis and the future of the Eurozone" accessed on 9/11/2011 at: http://www.econ.kuleuven.be/ew/academic/intecon/Degrauwe/PDG-papers/Discussion_papers/EuroIntelligence-March-2010.pdf

[51] De Grauwe, 2010a *op.cit.*, p.8

[52] Vassalos *et al*, *op.cit.,* S.George, "End financial control of European governance", accessed on 9/11/2011 at: http://www.tni.org/interview/end-financial-control-european-governance; Lapvitsas, *op.cit.*, Callinicos*, op.cit.*

"if the servicing of the debt requires too much of the surplus of the primary budget, neither the debt stock nor servicing will be accepted as fair. In any case, and even more serious in the long run, the primary surplus will never be sufficient to reduce the debt burden. The sovereign debt load will then unleash a vicious circle. Real economic growth rates will be below the level necessary to grow out of debts and, moreover, the debt grows as the refinancing requirements reduce economic growth rates. The debt burden as share of GDP inevitably increases, and consequently the levels of debt service increase"[53]

However, what these measures have done and are doing is constituting a wide market-enhancing 'structural reform' that will weaken unions, privatise and liberalise public services and professions and open up education and health care to private providers. The structural power of capital is due to increase significantly.

The political struggles that accompany these rescue plans are in the media every day. Entire nations are now asked to rescue other entire nations. This way of presenting the issue hides the fundamental fact that those being supported by this sort of international solidarity are the banks and financial institutions, not the people of another nation. As Streeck has put it, "the new conflict alignment translates class conflicts into international conflicts, pitting against each other nations that are each subject to the same financial market pressures for public austerity. Ordinary people are told to demand 'sacrifices' from other ordinary people, who happen to be citizens of other countries, rather than from those who have long resumed collecting their bonuses."[54] In fact, it seems that not *even* the financial markets have faith that the austerity measures can produce sustainable growth, as indicated by the fact that when Ireland announced its radical austerity package, the spread on Irish bonds actually increased, signalling that that fiscal consolidation programme appears too strict.[55]

The way the crisis was handled and the underlying problems of the Eurozone we have described above point to a more fundamental flaw, that is, the lack of a political union that would compensate the imbalances of monetary union. A political union would put in place the necessary fiscal transfers that could compensate for different economic conditions in different member states. This would create an automatic stabiliser that internalises the problem, in the same way that the US centralised budget works.[56] In the next section we will see that this design was in fact not a mere 'mistake', but reflected the neoliberal hegemony that has characterised European integration since the mid-1980s, and which was backed by a set of social forces.

From 2013 on, a European Stabilisation Mechanism is to guarantee the creditworthiness of EU member state but it is still unclear whether this will work. In fact, "as long as loans between EU countries and institutions are perceived not as domestic loans occurring in a single currency area…global financial markets expect turbulence and thus opportunities for financial speculation against individual states of the Eurozone."[57]

De Grauwe argues that the solution offered by the European institutions, which we have described in the first part, that is, the strengthening of the Stability and Growth pact and the policing of 'macroeconomic imbalances' is ill conceived.[58] As the fundamental cause of the imbalances is the private debt, why is the *public* debt and deficit surveilled? In fact, "German proposals to impose a balanced budget would do little to avoid the kind of crisis that the Eurozone experiences."[59] The Belgian economist also argues that the German proposal is a

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[53] E. Altvater, *op.cit.,* p.273 274

[54] W.Streeck, "The Crises of Democratic Capitalism", *New Left Review,* 71, 2011.p.28. Moreover, the promised reform of the financial sector has failed in practically all respects, and the banks continue being 'too big to fail', this continue to possess the same capacity for blackmail.

[55] *Ibidem,* p.25

[56] This point is shared by many observers, including: De Grauwe 2010; Scharpf 2011

[57] Altvater, *op.cit.*, p.275

[58] De Grauwe 2010a, *op.cit.,* p.11

[59] De Grauwe, "Fighting the wrong enemy", 2010b, accessed on 9/11/2011 at: http://www.voxeu.org/index.php?q=node/5062

major cover-up for its own responsibility in contributing to the imbalance in the Eurozone.[60] In fact, Germany has resisted the Commission's proposed recognition of the fact that such a surplus can, as much as a deficit, create dangerous macroeconomic imbalances.[61] As McGiffen notes, "only the small, the poor and the weak can apparently be guilty of disturbing the harmony of the economic spheres."[62]

In addition, another serious problem is the fact that the ECB is the only central bank in the world that does not lend to governments but to banks. These banks, which borrow money from the ECB at low interest rates, then buy government debt neatly pocketing the profits. In fact, as long as a country is not defaulting the high-risk premiums are a formidable source of profits for banks. The rescue plans pour credit that is then handed down to the banks. And government austerity plans ensure that in the end it is the citizens who transfer an increasing part of their income to private banks. Thus citizens pay twice: once for the bail out and the second time for austerity measures.

Wolfgang Streeck, in a recent article, has characterised the history of what he calls 'democratic capitalism' as entailing an endemic conflict between capitalist markets and democratic politics, that is, between two conflicting principles or regimes of resource allocation: one working according to marginal productivity, that is, the outcome of the free play of market forces in determining each person's income, and the other based on social entitlement, as certified by the collective choices of democratic politics.[63] In his fascinating account, Streeck argues the post-war settlement has first entered a crisis in the 1970s, when a new balance between these two conflicting principles – maintaining the commitment to full employment – was found only at the expense of higher inflation. Next, as capital put increasing pressure on the state for lowering inflation, the conflict switched from the labour market to the electoral arena, as the conflict produced a rising public debt. This means that social peace was bought by using in the present future resources. This could only be a temporary choice, as the markets put increasing pressure to limit debt. The next phase was inaugurated by the Clinton administration in the US, and was based on deregulation of finance and the provision of private debt as a means to create social cohesion. The principle, however, was the same: using future resources in order to maintain a certain level of demand and spending.

Now that 'privatised Keynesianism' entered into trouble, there has been a dramatic new increase in public deficits and debts, which – as explained above – was not caused by overspending on the part of public institutions. But once again political power was deployed to make future resources available for securing present social peace. However, it is not clear how stable this situation is. As Streeck notices, markets must avoid pushing states into declaring sovereign bankruptcy, which is always an option if market pressure becomes too strong.[64] This is why, in fact, other states intervene to bail out those most at risk, in order to protect themselves and their banks. This, in practice, is a "solidarity between states in the interests of investors."[65] In his article, Streeck gives several examples of how the conflict between the two contrasting principles can play out in the present circumstances. One scenario is particularly interesting:

> "Further complications arise from the fact that financial markets need government debt for safe investment. Pressing too hard for balanced budgets may deprive them of highly desirable investment opportunities. The middle classes of the advanced capitalist countries have put a good part of their savings into

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[60] *Ibidem.*
[61] McGiffen, *op.cit.*, p.39
[62] *Ibidem*
[63] Streeck, *op.cit.*
[64] *Ibidem,* p.22
[65] *Ibidem.*

government bonds, while many workers have now heavily invested in supplementary pensions. Balanced budgets would likely involve states having to take from their middle lasses, in the form of higher taxes, what these classes now save and invest, among other things in public debt. Not only would citizens no longer collect interest, but they would also cease to be able to pass their saving to their children. However, while this should make them interested in states being, if not debt-free, then reliably able to fulfil their obligations to their creditors, it may also mean that they have to pay for their government's liquidity in the form of deeper cuts in public benefits and services on which they also in part depend"[66]

Even if financial markets may thus be hoping for a permanent victory against political interference, that would once and for all reinstate market discipline and microeconomic rationality to the whole of society, this endeavour seems all the more difficult to achieve, a citizens will not easily renounce their 'irrational' beliefs in a moral economy that is different from the – equally moral – economy and resource allocation proposed by capital and markets.

Moreover, as Husson notes, since the crisis,

"the European governments and the European Commission have had one overriding goal: business as usual. This goal is however out of reach because everything that had helped manage the contradictions of the flawed form of European integration such as peripheral Europe's indebtedness and internal Europe's' trade imbalances, has been rendered unusable by the crisis."[67]

Therefore, in contrast to earlier periods, the era of cheap credit is over. Peripheral countries will not have access to cheap borrowing from abroad to ease the pressures of monetary union. Perhaps we will effectively enter a period in which, as Slavoj Zizek notes, a kind of economic emergency is becoming permanent, turning into a constant, a way of life.[68] Inequality will most probably increase and social tensions will rise as the people at the lower end of the market hierarchy will not so easily and peacefully be made to understand the technocrats' explanations of the foundations of a market economy.

Bracketing the economy

This last part constitutes a more theoretical reflection on the origin and *social purpose* of both the recent innovations in European economic governance and on the way the economic and corresponding sovereign crises have been dealt with by EU institutions. . The claim is that the flaws in the construction of the Euro cannot simply be understood as mistakes of design and implementation, but have also reflected the power imbalance between social forces and the neoliberal hegemony that has characterised policy-making since the 1980s.

One of the main elements of neoliberal governance, theorised by Stephen Gill, is what has been termed 'new constitutionalism'. It consists of a tendency to insulate significant aspects of economic policy from popular-democratic accountability, and subordinating them to technocratic management. In Gill's words, we are witnessing the "imposition of new constitutional and quasi-constitutional political and legal frameworks – with respect to the state and the operation of strategic, macroeconomic, microeconomic and social policy"[69]. We have seen this process at work with the proliferation of constitutionally guaranteed arrangements for macroeconomic policies, such as the creation of independent central banks and of balanced budget laws, or the proliferation of so-called quangos ('quasi governmental

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[66] *Ibidem*, p.23

[67] M.Husson, "Exit or voie? A European strategy of rupture", in *Socialist Register 2012: The Crisis and the Left.* Monthly Review, New York, 2011

[68] S.Zizek, "A permanent economic emergency", *New Left Review,* 71, 2011.

[69] S.Gill, "The Constitution of Global Capitalism", contrivution presented at the International Studies Association annual convention, Los Angeles, 2000, available at http://www.theglobalsite.ac.uk/press/010gill.htm

organisations', which retain control over significant administrative and financial aspects of state activity.

Arguably, nowhere has this trend been more manifest than in today's EU. Within the EU framework, this tendency has been expressed in, for instance, the case of monetary policy under an independent ECB[70] or competition policy guarded by the Commission and European Court of Justice. In addition, the unelected Commission has the exclusive power of legislative imitative, and within a quite broad mandate laid down by member states, exercises day to day control over external trade.

New constitutional reforms are intended to shape economic policies in a neoliberal direction, and to make alternative development models to market civilisation[71], including both versions of socialism or state capitalism, more difficult to bring about.[72] In essence, new constitutionalism enshrines, in Gill's words, "the discipline of capital in social relations', it is the "politico-legal dimension of the wider discourse of neoliberalism."[73]

The general outcome is that governments have been and are more responsive to the discipline of transnational market forces, expressed in the need to maintain or, when necessary, develop, freedom for capitals, maintain low inflation and low corporate taxes, balance national budgets and keep public spending under control, as well as deregulating the labour market. As we saw above, the EMU regime has been characterised by a pressure to implement policies attuned to these goals. Thus, "public policy has been redefined in such a way that governments seek to prove their credibility" to capital, their policies judged "according to the degree to which they inspire the confidence of investors."[74] A 1997 publication of the IMF illustrates this point. It is stated that in the brave new world of globalisation states cannot pursue "policies that are incompatible with medium-term financial stability. The discipline of global product and financial markets applies not only to policy-makers via financial market pressures, but also to private sectors, making it more difficult to sustain unwarranted wage increases and markups."[75] As Gill argues,

"Economic liberalisation is not necessarily the same as rolling back the frontiers of a particular state. It involves remaking state apparatuses and governmental practices and the institutions of civil society. The central goal of neoliberal reforms is to make state and civil society more permeated with market practices, values, discipline, transparency and accountability"[76]

Van der Pijl argues that "just as economic competitors are not supposed to challenge the nature of the market economy itself (which is why the state has to be separate from the economy and refrain from taking on any activity which private subjects can handle), the participants in the democratic competition must accept the 'level playing field'; that is, the existing socio-political order"[77]. Thus, the boundaries of the 'political' and the 'economic' are redesigned in order to lessen short-run political pressures on the formulation of economic policy, so that many redistributive policies, let alone a radical change in socio-economic policy, are rendered more difficult, or even *illegal*. If inequality cannot become an electoral issue, it is perhaps easier to understand the lack of appeal of national (and, even more, European) elections: why vote if the principles on which the economy, and thus society, are

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[70] see: G.Amyot, *Business, the State and Economic Policy*, Routledge, New York, 2004.

[71] S.Gill, "Globalization, Market Civilication and Disciplinary Neoliberalism", *Millennium – Journal of International Studies,* 25, 1995.

[72] See: S.Gill (eds), *Global Crises and the Crisis of Global Leadership,* Cambridge, Cambridge University Press 2012.

[73] Gill 2000, *op.cit.,* p.47

[74] *Ibidem.*

[75] cited in S.Gill, "Constitutionalising Capital: EMU and Disciplinary Neo-Liberalism", in A.Bieler and S.D.Morton, *Social Forces in the Making of Europe,* Palgrace, New York, 2001; P.47

[76] *Ibidem*, p.51

[77] K.Van der Pijl, 'A Lockean Europe?', New Left Review, No.37, Jan/Feb 2006, p.29

run, are out of reach for the voter? Better leave the emotional energies of the electorate to issues of morality or identity.

The de-politicisation of 'Europe'

The new rules of economic governance represent a further step in this direction, as the strengthening of the Stability and Growth Pact and the creation of the new mechanism for intervention on the part of the Commission with the 'Excessive Imbalance Procedure' open new doors for technocratic governance insulated from electoral accountability.

The situation being developed is increasingly one of "politics without policies at national level, policies without politics at European level."[78] The claim is that this situation is itself related to the need by national elites to overcome some of the constraints of mass democracy in order to implement neoliberal policies. But, as Leigh Phillips rhetorically asks himself, "if a government doesn't control monetary policy anymore, and doesn't control fiscal policy anymore, what's left for a government to do? That's about all they do, other than foreign and judicial policy."[79] Perhaps one should go back to the famous argument advanced by philosopher Carl Schmitt: the sovereign is he who rules in the state of exception. And ask himself: who is it that 'rules' at the moment in Greece, Ireland and Portugal?

Only a few years ago Europe witnessed a strong politicisation of its economic governance in the form of the two referenda in France and the Netherlands (as well as the ones organised later in Ireland). Here, the architecture of European cooperation was publicly debated. When the constitution was rejected, this should have killed the proposals. However, the text was presented virtually unchanged and the French – as the other electorates – were denied the chance to vote on it. More recently, the Irish people rejected a similar text, the Lisbon treaty, but were simply forced to vote again (in a referendum in which it appears that the Commission violated its own rules by pouring massive resources for the 'Yes' campaign[80]). As McGiffen argued, "the failure to respond to the treaty's rejection by three separate electorates totalling 85 million voters is symptomatic of the EU's indifference to popular concerns."[81]

Now, however, major decision on the future of the EU are being decided without even a chance for people to express their opinion in a referendum. The message seems to be quite clear: public involvement is a nuisance. It can be argued that the European integration project had always been an élite project, with the masses gradually following later, under what the neo-functionalists called 'permissive consensus'. At the moment, such consensus is largely lacking, because the output legitimacy on which European integration has arguably rested until the 2000s (the referendums on the Constitution do mark a significant rupture in this respect) is now in ruins, as the EU is associated with politically salient decisions taken 'from above', that touch the core of what a modern state is about. On the other hand, what the literature terms as input oriented legitimacy presupposes the possibility of politically meaningful choices and "it is not compatible with a situation where choices are per-empted

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[78] Bailey, J.David, 'Explaining the underdevelopment of 'Social Europe': a critical realization', in Journal of European Social Policy, Vol.18 No.3, 2008, pp.232-245, p.237

[79] L.Phillips, "Hurling democracy into the volcano to appease the market gods", accessed on 9/11/2011 at: http://euobserver.com/7/113326

[80] See: M.Banks "EU Commission 'interfered' in run-up to Lisbon vote', *The Parliament*, accessed on 9/11/2011 at: http://www.theparliament.com/latest-news/article/newsarticle/eucommission-interfered-in-run-up-to-lisbon-vote/. See also: D.Hannan, "EU brekas its own rules to funnel money into Irish referendum", *The Telegraph,* accessed on 9/11/2011 at: http://blogs.telegraph.co.uk/news/danielhannan/100011711/eu-breaks-its-own-rules-to-funnel-money-into-irish-referendum/

[81] McGiffen, *op.cit.,* p.27

by external domination."[82] So, in both its input and output dimensions, legitimacy for the current choices is low.[83]

As MsGiffen notes, the new mechanisms of economic governance reduce the sovereignty of member states to a similar level as that enjoyed by the 50 entities of the United States.[84] However, unlike the US, the EU is not a state, it does not have powerful legislatives which elect an executive, and a very limited supra-national political space. The 'social protection' dimension – in a Polanyian sense – is left to member states, whereas the principle of the market is what constitutes the *social purpose* of the EU's institutional apparatus. The EU has also developed social policies, but these are either marginal or mostly symbolic (the EU directives on social policy on issues such as parental leave or telework) or are framed in a market-enhancing direction, instead of a decommodifying one (the main goal of traditional welfare states, according to Esping-Andersen[85]). On the other hand, social policies such as the ones included in the former Lisbon strategy (like the European Employment Strategy), apart from being essentially supply-side, do not provide any sanction in case of non-compliance.[86] Majone, notes that

"measures proposed by the Commission in the social field must be compatible with the 'economic constitution' of the Community, that is, with the principle of a liberal economic order. This requirement creates an ideological climate quite unlike that which made possible the development of the welfare state in the Member States…the best rationale for social initiatives at Community level is one which stresses the efficiency-improving aspects of the proposed measures."[87]

Scharpf has talked about a 'constitutional asymmetry' between the economic integration objective – the object of EU law under ECJ jurisdiction, which has supremacy and direct effect over national law – and the social protection dimension, including taxation – left to member states. In this way, EU legal and economic constraints have weakened the ability of member states to pursue employment and social policies which are not supply-side and subordinated to the imperatives of the single market, competition policy and EMU.[88]

The end of democracy as we know it?

In the post-war years, there was a widely held assumption that for capitalism to be compatible with democracy, it needed to be subjected to extensive political control. Capitalism tended to be conceived of – even by moderate political forces – as a system based on power asymmetries, in which one of the important roles of public policy and spending was to counterbalance the stronger market power of capitalists vis-à-vis workers. This was the golden era of the welfare state, what in France was known as the *trente glorieuses* of economic

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[82] Scharpf 2011, *op.cit.,* p.37

[83] Moreover, we should not think that democracy is preempted only in peripheral countries: in Germany the state has committed itself to decades of public spending cuts.

[84] McGiffen, *op.cit.,* p.40

[85] See: Esping-Andersen, *op.cit.*

[86] C. Hermann, "Neoliberalism in the European Union", Vienna, Working Life Research Centre, 2005, retrieved on 12th April 2009 at: http://www.iaq.unidue. de/aktuell/veroeff/2005/dynamo05.pdf, p.20

[87] G. Majone, 'The European Community: Between social policy and social regulation', *Journal of Common Market Studies*, Vol.31, No.2, 1993, pp.153-170, p.156.

[88] It can be argued that the bias in favour of market-enhancing rather than market-correcting policies is less contingent that many account claim. Scharpf claims that the underdevelopment of social Europe is explained by the persistence of different national preferences, which reflect different social models and make agreement on social issues much more difficult (nota 102 mia tesi). New institutionalists, on the other hand, argue that the EU's institutional architecture structurally favours negative rather than positive integration because, in a decision-making process characterised by the searcj for agreement on lowest common denominators and consensus, it is easier to find agreements not to legislate.(nota 103?). These explanations are posibly co-existing, but the claim here is that they are better understood and framed if placed in the context of the trend towards 'new constitutionalism' within the hegemony of neoliberalism.

growth, rising standard of living for everyone and the creation of effective mechanisms of social protection.

Since then, mainstream economics has however slowly but systematically undermined the idea of public intervention in the 'economy', and has become "obsessed with the irresponsibility of opportunistic politicians who cater to an economically uneducated electorate by interfering with otherwise efficient markets, in pursuit of objectives – such as full employment and social justice – that truly free markets would in the long run deliver anyway but must fail to deliver when distorted by politics."[89] In fact, economics as a discipline has arguable been an important vector in the advancement of neoliberalism, as neoclassical theory provides a micro-economic theory set against the state's intervention in the economy. It has become what Marx called a 'material force'. In Van der Pijl's brilliant words:

> "As economics, neoliberalism enshrines capital as the sovereign force in organising society. The sole agencies that it explicitly recognises are the property-owning individual, who is 'free' to engage in a competitive quest for improvement; and the market, which is the regulator of that quest. Capital, as the mobile wealth that has already accumulated and has entrenched itself politically, is obscured as a social force by resurrecting an imagined universe of individuals, some of whom happen to own Microsoft and other only their labour, or not even that. Neoliberalism thus naturalises capitalist relations by taking the economic definition of man as the starting point for an integral social science while leaving outcomes entirely contingent."[90]

The problem experienced in the 1970s was interpreted by the authors of the famous booklet *The Crisis of Democracy* as stemming precisely from an *excess* of democracy, from democracy being carried over and invading the sphere of the economy, where it should not adventure itself.[91] The solution advanced was that microeconomic rationality should be restored to the individual's choices. In fact, the notion of choice has been central for this doctrine. Applied to all spheres of life by thinkers such as Downs, rational choice and public choice theory identifies state regulation and redistributive policies as the origin of economic malfunctioning. [92]

In brief, neoliberalism was an attempt to restore the *adequate* separation between the economic and the political, between what constitutes the sphere of individuals 'freely interacting' and the sphere of political action. In fact, the notion of *freedom* advanced here is one of 'competitively determined freedom', not a freedom obtained through collective emancipation.[93] 'Discretionary' political interference into the economy should be avoided. Even the term capitalism was gradually substituted by 'market economy' because the latter reminded the reader that we are dealing here with a mode of production which is constituted by a relation of power between the capitalists – the owners of the means of production – and the wage labourers. Thus, by resurrecting the idea of 'the market' as the regulator of each individual's freedom and capacity, capital is effectively hidden as a social force which acts *within* the market sphere.

The class conflicts that marked the Fordist or 'corporate liberal' era were fought out in arenas that were highly visible and politicised: the labour market and parliamentary politics. In contrast, at the moment the fog of war between states and financial markets is an issue that is difficult for citizens outside the political and financial elite to understand, rending the identification of their own interest more complex. And this makes it easier for the hegemonic

[89] Streeck, *op.cit.,* p.6
[90] K. Van der Pijl, *Global Rivalries – from the Cold War to Iraq,* Pluto Press, London, 2006, p.160
[91] see M. Crozier,S.P. Huntington and J.Watanuki, *The Crisis of Democracy. Report on the Governability of Democracies to the Trilateral Commission,* New York, New York University Press. See also: Van der Pijl, 2006, *op.cit.*
[92] See Van der Pijl 2006, *op.cit.,* p.160
[93] Van der Pijl, 2006, *op.cit.,* p.160. Later in this outstanding book, the author notes that within neoliberalism, "emancipation as a general cocnern is shifted to overcoming those limits on full individuality and choice that potentially result from differences in gender/sexuality, race and disability…Workplace protection infringes neoliberal logic; but once in a wheelchair, one is rolled back into the universe of equal rights." *Ibidem*, p.175

forces to promote a narrative of the crisis that moves the spotlight from the lack of regulation of finance to government debt as the key problem of the global economy, by means of which banks and financial institutions are attempting to forestall the imposition of a tough regulatory framework.[94]

The trends described above have arguably been exacerbated by the crisis, which – as we have noted in the introduction – is often a productive moment for the introduction of radical reforms. It seems that the de-politicised naturalisation of the crisis, the predominant establishment story, is more and more being accepted as the dominant narration. Thus, the new regulatory measures are, as Slavoj Zizek points out, "presented not as decisions grounded in political choices but as the imperatives of a neutral financial logic – if we want our economies to stabilise, we simply have to swallow the bitter pill"[95]

With this new age of austerity, perhaps the capacity of state to mediate between the requirements of capital accumulation – with its corresponding principle of resource allocation according to marginal productivity – and the rights of citizens – the principle of social entitlements – is being severely influenced. The point is that it has historically been difficult for a state to found its legitimacy solely on the basis of the microeconomic principles of resource allocation.

When citizens increasingly perceive their governments as the agencies of external international agencies, the levels of alienation and lack of trust in the democratic system reach high levels. Now, in Greece, according to a poll, 30% of the population actually wants the country to be led by a group of experts and technocrats, and a full 22.7% want a 'strongman' to solve the crisis. Also In Italy, 20% of the population is in favour of an authoritarian solution.[96] Perhaps this is the result of a situation where economic power is perceived to have become political power, generating a condition of subalternity of workers and citizens, who are unable to project onto the political economy interests and demands that are incompatible with those of property owners.

However, this does not mean that the 'end of history' has come. Capitalism as a mode of production is inherently unstable and rife with contradictions: capital needs austerity policies but it also needs economic growth. How to achieve the two at the same time seems highly problematic at this point in time. In fact, not even the markets are necessarily willing to put their money in the supply-side mantra that austerity generates growth. Perhaps the 'bracketing off' of the economy from democratic influence is not necessarily the best solution for capital, as it might constitutionalise policies that are too rigid and do not generate economic growth, thus provoking a stagnation of capital accumulation and further crisis.

We are already witnessing forms of mass protest and popular insurrection where people take to the streets to protest against austerity measures. In countries such as Greece, Portugal and Ireland, is this the only form of political agency that people at the lower ends of the market hierarchy can have to project their interest on the political economy? And, should we hope, as in Streeck's provocative rhetorical question that "in the name of democracy we will soon have the opportunity to observe a few more examples?"[97]

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[94] W.Bello, "Same Tragedy, Different Scripts", Transnational Institute, accessed on 9/11/2011 at: http://www.huffingtonpost.com/walden-bello/greece-same-tragedy-diffe_b_646401.html In fact, there has been minimal re-regulation of banks. No restrictions have been imposed on the size of banks, and there has been little attempt to separate high street retail banking from investment banking. Moreover, watered down measures that force banks to lower their borrowing and increase capital reserves will not be in place until 2018. On this see the EU crisis pocket guide created by the Transnational Institute at: http://www.tni.org/briefing/eu-crisis-pocket-guide

[95] Zizek, *op.cit.,* p.85. For instance, people are told to believe that the debt of a household is the same as the bedt of a country. This is clearly not so. A family can't live for long beyond its means but countries in modern times have always done so.

[96] *La Repubblica* 6 November 2011

[97] Streeck, *op.cit.,* p.28