The Debt Crisis in the Eurozone: Social Impacts

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Edited by

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PROLOGUE

The production and publication of every book has its history. The impetus for this volume came from the “Disaster, Conflict and Social Crisis Research Network” (DCSCRN) of the European Sociological Association. The RNs are urged by the ESA to organize interim conferences, on themes relevant to the purposes of the RN. The Network usually concentrated on “natural” and “technological” disasters, although a focus on “social crises” was also a central objective of its professional repertory. Following the breakout of the economic crisis in the Eurozone, especially in Southern Europe and Ireland, with its extensive impact on citizens of these societies and its evolution into an “humanitarian crisis” in some of these countries—that brought to memory the conditions of the Great Depression—the Network decided to focus on the “social crisis” dimension and organize an interim meeting with the following theme: “The Debt Crisis in the Eurozone: Social Impacts”. The conference took place on the island of Lesvos (Mytilene), 13-14/09/12, and attracted more than 30 academics/researchers participants (speakers) from Greece, Spain, Turkey, Germany, UK, USA, New Zealand, Finland, Russia, France and Switzerland, i.e. from the entire spectrum of “debt-” and “non-debt-ridden” countries. For the needs of the current volume, selected papers were written up and updated by the authors.

The volume is organized into five parts, following the structure of “causes”, “responses” and “new structures”, though admittedly some of the chapters could also be included in more than one part, depending upon interpretation. Part I deals with the political-economic dimensions/bases of the debt crisis and consists of five chapters. Chapter 1, by Prof. Brigitte Young (See “Contributors” at the end of the text) explores the role of “rule-based” German “ordoliberalism” and the “monetarist-supply” bias in the debt crisis. Chapter 2, by Prof. Magnus Ryner, focuses on the “disastrous” consequences of the European Monetary Union financial capitalism on the Eurozone members. Chapter 3, by Prof. Georg Vobruba, describes how the adoption of the “common currency” led to the Europeanization of distributional conflicts and the emergence of a complex conflict structure. In turn, he describes how this new constellation of conflicts is open to “populist exploitation” or can present a challenge for the development of a new European society. Chapter 4, by Profs.

Sotiris Chtouris and DeMond Miller, arguing from a Bourdieuian perspective, analyzes the role of social, human, natural, cultural and economic capital, as well as their interrelationship in causing or solving the "economic" crisis. Finally, Chapter 5, by Josua Gräbener, focuses on one of the crisis-ridden countries, Italy, using both quantitative and qualitative data; Gräbener examines how ESF and its European Employment Strategy for worker training, with the different agendas of the employers, can reinforce north-south regional fragmentation and thus exacerbate the crisis.

Part II consists of four chapters that deal with the macro- and micro-impacts of the debt crisis and focus on Greece, the EZ country worst hit by the recession. Chapter 6, by Prof. Dennis Smith, adopts a historical-comparative and typological approach for comprehending the contrasting coping tactics, strategies and collective reactions of Greek and Irish people to the "humiliation" attendant to the bailout system. Dr. Dionyssis Balourdos, the author of Chapter 7, also focuses on the country level, employs a variety of quantitative methods (e.g., trend and cluster analysis) and a multi-dimensional conception of poverty, to assess the impact of the crisis on poverty risk as well as on "old" and "new" categories of poverty in EU countries—and especially in Greece which, as said above, is the hardest hit of the debt-ridden countries. Chapter 8, by Dr. Joanna Tsiganou, relying on the European Social Survey (ESS) micro-sociological data (2002, 2005 and 2010 rounds), and comparing Greece with the EU-27 as a whole, assesses the impact of austerity programs on interpersonal trust, trust in sociopolitical institutions and sense of security while simultaneously making a critical note on the application of anomie theory. The last Chapter (9) of Part II, by Prof. Joanna Despina Bergiannaki, based on a review of the relevant literature and on clinical experience, applies the classical notions of post-traumatic stress symptoms/reactions—that we usually associate with "natural" or "technological" disasters and humanitarian emergencies such as wars, terrorism and hostage situations—to the economic-financial crisis.

Part III concentrates on the relation and/or the impact of the economic crisis on migration processes and intergroup relations. Chapter 10, by Profs. Nikolaos Nagopoulos and Konstantinos Rontos, evaluates the impact of the economic and social crisis on the labour market and migrant integration, as well as the impact of a large number of non-documented migrants on the Greek labour market and its implications for the current EU policy implementation at a time of crisis. The next three chapters, on the micro-sociological level of analysis, are based on data from the European Social Survey (ESS). Chapter 11, by Dr. Stefania Kalogeraki, tests the relevance of the well-known "realistic group conflict theory", using the 2004 (pre-crisis) and 2011 ("post"-crisis) rounds of the ESS and *Anovas,* as a framework for the prediction of native (majority) and migrant ("minority") intergroup attitudes. Chapter 12, by Dr. Katerina Iliou, also assumes the immediately above theory and takes into account the debt crisis and the "disproportionate large inflow of migrants"; Iliou uses data from four Rounds of ESS (2001/02-2010/11), a time-series analysis of fluctuations in personal perceptions of social trust, institutional trust, subjective well-being, human values and political affiliation (interest, participation, ideology and allegiance), as well as an inter-correlation analysis, to draw conclusions on the impact of the crisis on "negative attitudes" toward immigrants. The authors of the last Chapter (13), Dr. Theoni Stathopoulou and Prof. Anastasia Kostaki, use two rounds of ESS data (2009 and 2011) and regression analysis to account for variations in interpersonal trust, institutional trust, tolerance for immigrants, homophiles and "political extremes" in two of the debt-ridden countries—Greece and Spain; a plethora of "independent" variables (e.g., sex, education, religion indicators, living in a big city, feelings about household income, ESS round, etc.) are used as potential explanatory variables. The Stathopoulou and Kostaki chapter complements the Tsiganou chapter and expands the types of target groups.

Part IV focuses on the impact of the debt crisis on political processes, and especially on the *indignados* movements in Spain and Greece. Chapter 14, by Ignacía Perugorria and Prof. Benjamín Tejerina, relies on qualitative methods—ethnographic and depth interviews with indignados; following a dissection of the 15M into its principal axes (cognitive, emotional and relational), the authors describe the process of synchronizing divergent 15M identities. The author of Chapter 15, Prof. Alberto Cotillo, works within the context of macro-politics and views the 15M as a "withdrawal" from institutional politics; using a time-series analysis of the political situation and the economic situation and a multi-dimensional conception of "political disaffection" within various categories of ideological proclivity, he explores the source of the increasing disaffection in Spain during the last decade (2002 to 2012). The last Chapter (16) of Part IV, by Dr. Nicholas Petropoulos, deals with the *indignados* of Greece. Relying both on qualitative (e.g., participant observation, content analysis) and quantitative (e.g., Greek social surveys) methods, he arrives at a sociopolitical profile of the indignados, accounts for the mass phenomenon and draws out its short- and long-term effects.

The last part of the volume, Part V, presents *some* of the alternatives that could constitute an answer to the debt crisis, affecting not only

Greece, but also other debt-ridden countries. In Chapter 17, Prof. George Tsobanoglou, after a review and analysis of the social impact of the debt crisis on the Greek economy, as well as an analysis of the idiosyncrasies of the Greek labour market, discusses the established and emergent forms of "assembling sociality" and "social economy" as possible therapeutic alternatives for the current crisis. The authors of Chapter 18, Christos Kanellopoulos and Dr. Sotiria Liakaki, after an exhaustive review of the international and Greek situation, analyze the concept of "full citizenship" and its implications for the distribution of social resources; furthermore, they analyze the shortcomings of the Greek social insurance system and recommend that Greece pay more attention to the Scandinavian model. Chapter 19, by Dr. Antti Silvast, based on documents and textual analysis, compares the concepts of "critical infrastructure" in the U.S., the E.U. and Finland, with special reference to economic institutions and banking systems; in turn, he takes a more in-depth longitudinal look at the Finnish situation pointing out some of its limitations from the perspective of integrated disaster management. In Chapter 20, Prof. George Gantzias occupies us with the new technologies, the "info-communication landscape" and "Global Info-Cash" (GIC); in addition, he describes how the adoption of the "digital transactions/payment culture" could help the debt-ridden countries of Southern Europe to emerge from the crisis.

The Editors would like to point out that two of the chapters, Chapter 4 by S. Chtouris and D. Miller, and Chapter 5 by J. Gräbener are theoretical and/or empirical observations of cross-cultural research work in progress. They nonetheless provide significant analytical perspectives to the economic crisis and constitute an impetus for further substantive discussion with the authors. In any case, in a scientific community, even the "completed works" are essentially works in progress.

To document the impact of the crisis, the text relies on graphic presentations (diagrams, graphs, photos etc.). The Editors would have liked to print these in the original four colors. However, the costs would be forbidding, especially at a time of crisis, and our main concern was to reach wider audiences of social scientists and policy-makers. Following consultation with the CSP, the authors were instructed to invest their graphic presentations with a variety of symbols, types of lines, and the labels for the various statistical groups, and assess their legibility by doing a black and white print-out before submitting their contribution. We hope that these techniques mitigate the problem.

As the solutions to the debt crisis confronting Southern European countries are not exhausted in Part V, the volume closes (Chapter 21) with conclusions and policy recommendations drawn from all, if not most of, the contributions. A number of the authors contributed to the text of this chapter. However, the order of presentation does not necessarily follow the order of the chapters. It is the hope of the Editors and all the contributors to this volume that the recommendations will not fall on the deaf ears of policy makers.

Before ending this Prologue, the Editors would like to acknowledge the contributions of the main factors in the production of this volume. First, the European Sociological Association which contributed to the funding of the Lesvos midterm conference. Second, the “Disaster, Conflict and Social Crisis Research Network”—especially the Coordinator, Murat Balamir; the Vice-Coordinator, Nina Blom Andersen; the economic liaison with ESA, Susann Ullberg; and the web manager, Antti Silvast—for its logistic and IT support. Third, the members of the mixed consultation committee from Aegean University and DCSCRN (Sotiris Chtouris, Murat Balamir, Maureen Fordham, Anastasia Zissi, George Tsobanoglou and Nicholas Petropoulos) for the initial selection of conference papers. Fourth, the University of the Aegean for its professional auspices and its logistic support to the conference. Fifth, the Lesvos Chamber of Commerce for the venue of the conference. Sixth, the “Krishan and Vicky Joshi Foundation” of Dayton, Ohio, for the funding of the keynote speakers and the registration fees of conferees from debt-ridden Southern European countries (Greece and Spain). Lastly, but not least, our links with Cambridge Scholars Publishing: Carol Koulikourdi, Author Liaison and Commissioning Editor, for her guidance, patience and understanding; Amanda Millar, Typesetting Manager and Keith Thaxton, Typesetter, for their technical assistance in text formatting; Adam Terry for the design of the dust jacket and Sean Howley for his promotion efforts. Above all, our thanks to Cambridge Scholars Publishing and its Management who gave us the opportunity to reach wider audiences of social scientists, crisis managers and policy makers.

Nicholas P.Petropoulos, Ph.D.
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Athens, 17/01/2014

PART I.

THE EUROZONE CRISIS: REGIONAL, INTERNATIONAL, POLITICAL-ECONOMIC AND SOCIAL DIMENSIONS

CHAPTER ONE

THE ROLE OF GERMAN ORDOLIBERALISM IN THE EURO CRISIS

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"Germany destroyed itself – and the European order – twice in the twentieth century. It would be both tragic and ironic if a restored Germany, by peaceful means and with the best intentions, brought about the ruin of the European order a third time".
(Joschka Fischer, former German Foreign Minister)

Abstract

The paper argues that the German belief in the rule-based ordoliberal doctrine is a major agenda setter of Eurozone crisis management. Ordoliberalism, also known as the Freiburg School, rejects government intervention championed by Keynesians to shore up indebted countries, since this would violate the independence of the European Central Bank to follow its mandate of price stability. This position was ideologically defended in the so-called economist dispute between German ordoliberals and Post-Keynesian economists debated in highly prestigious German newspapers in the summer of 2012. This debate is important for several reasons. First, it demonstrates the deep divisiveness within the German economic profession representing the ordoliberal tradition of the Freiburg School with its emphasis on a rule-based monetarist supply-side model and the Post-Keynesian ideas with their focus on demand-led growth. Secondly, the debate brings to the fore the many veto points and institutional frictions within the domestic German decision-making process resulting in the much criticized lack of coordination of Euro crisis management. In the concluding part, the article discusses some strategies to resolve the crisis. It argues for a deepening of the Eurozone with a political, banking, economic and fiscal union which would permit executive decision to be accountable to European citizens. Most surprising

in this design of an institutional framework is the missing link of a “Social Europe”. The asymmetry between the model of “Market Europe” and the model of “Social Europe” means that social policy is largely left to member states with very different capacities to protect citizens from economic and financial market failures.

An introduction to crisis politics in the Eurozone

The present financial and economic crisis has split the Eurozone not only along geographical lines among northern current account surplus and southern deficit countries[1], the fissure also reflects a deep ideological rift in how to resolve the financial and sovereign debt crisis in the Eurozone. Under the leadership of Germany, the current account surplus countries of Finland, Austria and the Netherlands call for strict austerity rules to reign in fiscal deficits of the highly indebted Eurozone states (the so-called GIIPS of Greece, Ireland, Italy, Portugal and Spain). The pressure for strict household consolidation has only limited support among other European nations. In fact, many European government and political leaders, as well as president Barack Obama and the Canadian prime minister Stephen Harper, have criticized Germany for its single-handed pursuit of austerity measures, its strict legal approach to the ECB mandate of monetary stability, and its export model which has contributed to the macroeconomic asymmetries in the Eurozone.

Keynesian economists have pointed to the pro-cyclical nature of the mandated austerity programs for indebted peripheral countries, since these policies leave no room for discretionary fiscal policy. Countries are in a no-win situation: they confront unsustainably high budget deficits, but the austerity measures are most likely to harm aggregate demand and may aggravate the fiscal deficits of debtor nations even further (Heise 2012). Recent data on GDP declines in the Eurozone seem to support the Keynesian position. Even the economically strong northern states have registered a fall in GDP due to the economic slow-down in peripheral countries. German economic growth shrank 0.2 percent in Q2 compared with the previous Q1, while the economies of Greece, Spain, Italy and even Finland contracted sharply (FT, 15.8.2012: 4).[2]

Although European political and financial leaders have met nineteen times for summit meetings to resolve the Euro crisis since the first Greek bailout measure was agreed in May 2010, the crisis is by far not over and will occupy Eurozone leaders throughout 2013. While there has been some leveling-off in the skyrocketing interest rate hikes on sovereign bonds for some peripheral countries, the rating agencies have continued downgrading European states and banks.[3] The economic turmoil has already led to the fall of governments in Ireland, Greece, Italy, Spain, Portugal, Holland and France. The replacement of political leaders in Italy and Greece (until the Greek election in spring 2012) with unelected technocrats was greeted with euphoria by the financial markets, but alienated many citizens. European citizens are losing trust in their elected leaders and in the legitimacy of the European Union (Scharpf, 2012). The result is a rise in populism and revolt in countries whose citizens are told that there is no alternative to the austerity measures championed by Germany and its allies to regain the trust of the financial markets (Leonard and Zielonka, 2012). The Occupy movement which started in the United States but has since found followers in many places around the globe is a further indication of the frustration of ordinary people about political decisions to socialize the costs, and privatize the benefits of the financial sector. In a German *Spiegel* interview, Mario Monti, the head of the technocratic caretaker government of Italy until his resignation in December, warned about the increasing resentment of Italians (this is also happening in other countries) "against the EU, against the Euro, against the Germans, and sometimes even against Chancellor Merkel" (*Der Spiegel*, 2012: 44). Many analysts see the Eurozone at a cross-road between complete disintegration and deep structural reforms of the economic governance structure of the European Union.

The inability of European leaders to arrive at a coordinated reform agenda is not just a failure of individual leaders of the Eurozone, it signals the structural flaws of the European Monetary Union and its economic (non)governance system. Setting monetary policy at the European level while leaving fiscal policy in the hands of individual member states was a huge gamble from the inception of the European Monetary Union, and may have worked during "normal" economic times, but became the Achilles heel during the financial crisis. Namely, the inability of economic leaders to arrive at authoritative political decisions has deteriorated the credit conditions in the Eurozone. This "executive deficit" is less the result from "inadequate decisions than from an absence of decisions when they were needed" (Véron, 2012: 1). Four years into the crisis and the slow pace and fragmented process of decision-making has exacted huge long-term political costs.

As the borrowing costs of Italian and Spanish government bonds started to reach unsustainable levels in the late spring of 2012, and speculation increased about the possible exit of Greece from the Eurozone, the European leaders finally decided at their Brussels summit meeting in June 2012 (lasting into the early morning hours) to sign up for "more Europe" by agreeing to transfer some national sovereignty to four new

European institutions consisting of a fiscal union, a banking union, an economic union and a political union. While these results were hailed by many government leaders and the financial media across and beyond Europe as a true break-through, it started one of the most virulent debates among German economists: whether the banking union would result in the mutualisation of European debt and would thus violate the mandate of the Maastricht Treaty. The former member of the ECB-Executive Board, Otmar Issing, even warned that “forming such a union would be the end of the nation state” (Issing, 2012).

This emotional and vitriolic debate started with a protest call drafted by Walter Krämer, economist at the University of Dortmund, which then was co-signed by the renown director of the Munich ifo-Institute, Hans-Werner Sinn. The *Economist Streit* was launched in the *Frankfurter Allgemeine Zeitung,* on July 5, 2012, was entitled “Dear Fellow Citizens” and was subsequently signed by about 200 German economists (Sinn and Krämer 2012). The public memo was immediately met with counter-responses by other renown German economists, signed also by many hundred economists, arguing that economists around Hans-Werner Sinn lacked impartiality and did not even understand a banking crisis. However, the criticism was not restricted to the German economic profession; many star foreign economists also took issue with the ideological arguments of Krämer/Sinn and their supporters (FT 9.7.2012; *The Economist,* 2012).

This debate, which in the meantime has found critics but also supporters across the German political party spectrum, the media and civil society groups, is important for several reasons. First, it demonstrates the deep divisiveness within the German elite and among economists representing the ordoliberal tradition of the Freiburger School with its emphasis on a rule-based supply-side model and Keynesian ideas with their focus on demand-led growth. While Keynesianism has never gained a really strong foothold among German economists or in the state bureaucracies, Keynesian ideas have become stronger since the start of the global financial crisis in 2008. Given the aggressive and emotional debate played out for weeks in the public media, it is not surprising that in the meantime only 27 percent of Germans believe Greece should stay in the Eurozone, against 54 percent who said it should leave (FT, 3.9.2012: 1). Nevertheless, this debate is the first real public discussion on the future of the European Union, which was until now an elite project discussed behind closed doors without any democratic accountability. Secondly, the divisiveness brings to the fore the many veto points and institutional frictions within the German decision-making process which has resulted in the much criticized incremental steps taken to resolve the Euro crisis. The reactive and uncoordinated mode of crisis resolution has largely been associated with Angela Merkel and her small-step approach to the crisis. Analysts have warned about the fragmentation and the renationalization of Euro politics since the Euro crisis and that Merkel's hesitant intervention has made the rescue packages for peripheral countries more expensive since the uncertainties in the Eurozone markets drove the credit default swaps and yields on government bonds to ever greater heights (Young and Semmler, 2011).

The rule-based system of ordoliberalism

Despite the many institutional players in the German domestic arena which Hall and Soskice (2001) have identified as part of the coordinated market economies of the "Rhenish" model, and which other authors have adapted as a framework to explain the different approaches to financial regulation (see Zimmermann 2010; Mügge 2006), I argue that the German belief in the rule-based ordoliberal doctrine is a major agenda setter to prevent a coordinated decision-making process in the Eurozone as a whole. Ordoliberalism, also known as the Freiburger School, rejects government intervention championed by Keynesians to shore up indebted countries, since this would violate the independence of the European Central Bank to follow its mandate of price stability. This "ideological edifice behind German orthodoxy" (Dullien and Guérot, 2012: 2) is strongly entrenched in German tradition and is unlikely to change even if there was a transfer of power to a SPD/Green coalition in 2013.

Namely, ordoliberalism is geared to long-term solutions of establishing a political framework, an *Ordo,* in which market forces can work efficiently. The present international demand for political intervention in fiscal and monetary policy to stabilize the Euro crisis is contrary to the long-term goals of ordoliberals to establish a legal system through treaty changes to force countries to adhere to strict fiscal discipline and for automatic sanctions if the constitutional framework is violated (Berghahn and Young, 2012; Dullien and Guérot, 2012). Ordoliberalism has its antecedents in the 1930s, and was influential after World War II in the development of the Social Market Economy of Ludwig Erhard. Its most influential leaders are Walter Eucken, Franz Böhm, Wilhelm Röpke, Alfred Müller-Armack and Alexander Rüstow (Sally, 1996; Bonefeld, 2012; Berghahn and Young 2012; Young, 2013). In the present Euro crisis resolution scenario, the influence of ordoliberalism is most evident in the German position on price stability and its defence of the independence of the Central Bank. The German Bundesbank was created and reflects the rule-based approach of an *economic order,* within which economic processes take place (Sally 1996: 235). After World War II, the Freiburgers argued for the primacy of currency policy. For Walter Eucken, monetary policy was the constituting principle of the *Ordnungspolitik:* "All efforts to institute a competitive market economy will fail as long as price stability is not guaranteed" (cited in Issing, 2000: 1). However, the goal of a sound monetary system was not just to guarantee price stability. Equally important are the rules for sanctions against any transgression of such price stability. The purpose is to rule out any discretionary space for politicians to intervene in monetary policy (Young, 2013).

The dilemma of the German Chancellor

Angela Merkel faces now a huge dilemma. While she clearly sided with the ordoliberal austerity orthodoxy since the outbreak of the debt crisis and rejected Keynesian demands to use the ECB's "firepower" to safeguard the monetary transmission to the real economy, she now welcomes the ECB's "Outright Monetary Transaction" (OMT) program of bond-buying as a useful short-term measure. This is trying to square the circle, since Germans trust Angela Merkel (at least, until now) as the defender of monetary stability characterized in the caricature of *the Swabian housewife.* A more cynical reading of her not publicly coming to the rescue of Jens Weidmann, the president of the German Bundesbank, to defend his no-vote against the ECB decision, is that Merkel can no longer count on the Chancellor's majority in pushing through any further rescue measures in the German Bundestag; thus she accepts the ECB's bond buying scheme in order to gain time. That the German government faced a near mutiny among many CDU-rebels and the Bavarian sister party (CSU), as well as among the coalition partner of the FDP, was to be expected.

Given this emotional polarization in Germany between those that are nostalgically looking backward to the time of the DM when German ordoliberals guarded the stability of the money in the Bundesbank and the others who are trying to shift the debate away from this introspective understanding of the Euro crisis blaming either the debtor countries or feeling victimized "as the paymaster of Europe", Chancellor Merkel will find it difficult to gather support for a political union, and possibly even for a constitutional Convention, given that Otmar Issing, a representative of the ordoliberal orthodoxy, has decried the entire project as "an idea worthy of satire" (Issing 2012). The ordoliberals are deeply disappointed in Merkel. There is even talk in CDU circles that Germany should try to push for a veto right in the ECB (n-tv 7.9.2012).

A "market union" without a "social union"?

Essentially, there are only two possible strategies left to resolve the crisis: either to return to national currencies in the entire EU area and be subject to the volatility of highly speculative currency markets, or laying the groundwork for deepening the Eurozone with a political, banking, economic and a fiscal union with the goal to regain the political space at the transnational level lost to global market forces (Habermas et al., 2012). It has dawned on many political and economic leaders that a break-up of the Eurozone would be a costly calamity. And the biggest loser will be Germany, if the Eurozone fails (Cameron, 2012). This may be one reason why Angela Merkel has taken the strong lead for *more Europe*. At the same time, it has also become apparent that the institutional design of the EMU **is** deeply flawed, and needs the "E" as in economics in addition to the monetary in EMU as Jean-Claude Trichet pointed out in his acceptance speech of the 2011 *Karlspreis* in Aachen, which is awarded to persons/leaders who champion the European idea.

The only possible way forward is to design an institutional framework which allows executive decisions to be made which are democratically accountable to Europe's citizens. This means also that the European Parliament has to be empowered to control executive decisions. Making the European Parliament more representative is all the more important since the German Constitutional Court has cited in 2009, and cited again in its decision on 12 September 2012, that Berlin cannot surrender fiscal power to Europe in the absence of democratic representation in Brussels. The same lack of accountability is also evident in the European Council consisting of heads of states and leaders of government. These political leaders report back to their national citizens, but "the Council as a whole is accountable to no one" (Véron, 2012: 4). While the European Commission is on paper, at least, accountable to the European Parliament, in the early phase of the debt crisis the Commission was largely ignored by the heads of states and the leaders of government (Young and Semmler, 2011). The same lack of democratic accountability is also found in the two intergovernmental institutions, the Eurogroup made up of national finance ministers and the Economic and Financial Affairs Council (ECOFIN) composed of the Economic and Financial Ministers of the 27 member states. However, nothing harmed the trust of citizens as much as the disregard for the French and Dutch no-vote on the European Constitution in 2004, which was then repacked in the Lisbon Treaty in 2007. A similar fate befell the Irish voters who first rejected the Lisbon Treaty in 2008, and were subsequently asked to change their vote in 2009. Nicolas Véron is absolutely right in asserting that "[T]he democratic shortfall has been widely cited as a factor in the rise of populist anti-European parties in recent elections in several member states" (Véron, 2012: 4).

The first step to more democratic accountability has been made with the proposal on 26 June 2012 for a political, economic, fiscal, banking union with different but interdependent tasks. This truly forward-looking proposal issued by the president of the European Council, Van Rompey, addresses not just the technical fixes of a fragile banking system, the lack of European supervision of banks, the break-down of interbank and cross-border lending, the lack of economic competitiveness in the Eurozone, the increasing risk of sovereign bonds, it also addresses the democratic deficit and loss of trust in the European project (Euro Area Summit Statement, 2012; European Council, 2012). None of the proposed individual unions will be legitimate without the political union providing the umbrella to ensure democratic accountability The four building-blocs are divided into different problem solving mechanisms.

A banking union would entail a common framework for banking supervision, crisis resolution, and deposit insurance. A fiscal union would include the creation of a commonly issued debt instrument to meet investors' demand for a credit-risk-free asset (or ("Eurobonds")…. accompanied by adequate central controls on national budgetary choices. A competitive (or economic) union would monitor, assess and coordinate structural reform policies at the national and European levels, including in areas that have high impact on the potential development of high-growth firms in Europe such as insolvency legislation, financial regulation, service sector regulation and labor law. A political union would make the European Parliament genuinely representative and able to exert due democratic control of relevant executive functions (Véron, 2012: 5-6).

At the outset, most of the details were provided for the banking union. The Euro Area Summit Statement dated 29 June 2012 "affirms that it is imperative to break the present vicious circle between bank and sovereigns" on the "condition that an effective single supervisory mechanism is established". The proposals are to be considered on the basis of Article 127(6) for a single supervisory mechanism. Once a single supervisory mechanism is established, it will be possible to recapitalize banks directly rather than having to rely on the state to provide the liquidity. Perhaps not unexpectedly, Wolfgang Schäuble objected in the *Financial Times* (31.8.2012) that a European supervisor would not be able to supervise all of the 6,000 banks in the Eurozone. It has since been agreed that the ECB should only have supervisory power over the largest banks and exclude the German public banks, savings banks, and mutual banks from European supervision. This means that these banks would remain under national jurisdiction and should a bank fail it could not be closed down by the European supervisory authorities. As a result, the banking oversight is once again split between Europe and national authorities.

Most surprising is not what has been suggested to create a democratically accountable executive framework, but rather what is missing. Namely, the present European legitimacy crisis is also a crisis of the missing “Social Europe”. Faced with financial crisis and huge sovereign debt levels, citizens suspect that the EU will promote further a “Market Europe” at the expense of a “Social Europe” based on solidarity and social integration (Scharpf, 2012; Negt, 2012). As Liebert (2011) argues, the Treaty of Lisbon has strengthened the economic dimension of the EMU greatly, but has made little advancement towards a supranational social welfare regime based on economic solidarity. Instead, it has divided the competences of social policy between the EU and the member states. While the Treaty of Lisbon has strengthened fundamental rights, specifically in the social area, the double asymmetries between a “Social Europe” based on soft law and a “Liberal Market Europe” based on hard facts, means that social policy is largely a matter of member states. The near financial meltdown and the subsequent debt crisis in Europe have opened a political and analytical space to question the model of a “Market Europe” of the past two decades. There is widespread public awareness that the near meltdown of the world economy and the drastic economic decline in many European peripheral countries have exacerbated the poverty of many people. The casino capitalism that began in Wall Street and The City and copied in many financial centers in Europe has been pushed back, but the economic and social problems it created are far from having been solved (Berghahn and Young, 2012). As a new political union process matures, it is imperative for a democratic Europe to strengthen the social dimension governing the European Monetary Union.

Notes

[1] The current account surplus countries include Germany, Austria, Holland, Finland, Luxemburg, while deficit countries include Ireland, Spain, Greece, Cyprus, Portugal, and Italy.
[2] Greece contracted about 7 percent in 2012, compared to the IMF forecast of 4.7 percent. Even Finland, a staunch supporter of austerity measures, declined by 1 percent in the Q2 of 2012.
[3] See the satirical memorandum about a Plan B for Chancellor Merkel in the event of a break-up of the euro area, published as lead article in *The Economist,* The Merkel memorandum, 11 August 2012.

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CHAPTER TWO

THE EUROPEAN MONETARY UNION: AN UNFOLDING DISASTER?

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Abstract

Far from being the result of some error or mistake, the Eurozone crisis is the consequence of the over-determined ideology and interests that shaped the monetary union in the first place. Eurozone crisis management continues to be shaped by these interests and attendant ideology, with dire social consequences as documented in other chapters of this volume.

Introduction

The notion of unfolding is nowadays normally eschewed in the social sciences, and for good reasons. It is seen as resting on a particular outmoded 19^{th} century evolutionary conception of temporality. As Andrew Sayer suggests (1992: 122), conceptions such as these rest on assumptions about intrinsic and extrinsic closure of social systems that only rarely obtain. In other words, the identities and external conditions of social objects are rarely as stable as evolutionary conceptions presuppose. Hence, the postulate of evolutionary mechanisms that generate predictable effects are in most instances implausible. Not the least, the capacity of social agents to reflect on their social existence and their capacity to learn are invoked in that regard.

Yet, it is advisable not to forget the basic structuralist insight that a measure of elision and repression is a necessary precondition of social life (e.g. Eagleton, 1991). This may give socio-economic and socio-political processes a degree of determinacy and even a teleological quality after all. Here, I suggest that this is the case with the unfolding disaster that is the

European Monetary Union, which, in the last few years, has manifested itself as the Eurozone crisis.

In making this argument, I will begin by outlining the broad contours of Eurozone crisis management as it crystallized in 2012. The objective here is to register the elision in question[1]. I will then account for the unfolding disaster, starting with an analysis of the conjuncture that the Eurozone has found itself after the G20 Summit in London in 2009 and then proceeding to a broader historical-structural level, where I account for the co-determining ideology and interests that have shaped the Eurozone.

Eurozone crisis management

By January 31, 2012, the European Council had agreed to the so-called Fiscal Compact (European Council, 2012). Together the so-called "Six Pack", the "Euro Stability Plus" Agreement, and the Europe 2020 long-term reform agenda, these were the *quid pro quo* for the so-called European Stability Mechanism (ESM) and the precondition for the massive injections of liquidity into the European banking system that the ECB administered under its so-called Long Term Refinancing Operations (LTRO).

The Fiscal Compact is an attempt to resuscitate and firm up the 1996 Growth and Stability Pact (GSP), which in turn sought to lock in the fiscal Maastricht Convergence Criteria once the Euro had been launched. Here, it is worthwhile to recall that the GSP had been broken by France and Germany in November 2003, when overly anaemic growth rates had undermined their capacity to meet the 3 percent deficit target. Since that time—when the Council refused to enact disciplinary measures—the GSP had been a fudge, and the Fiscal Compact most certainly removes any ambiguities about norms and rules pertaining to fiscal rectitude. Compared to the 3 percent norm of the GSP, in the Fiscal Compact, structural deficits of member states may not exceed 0.5 percent of GDP. This norm can only be infringed in "deep recessions" and "exceptional circumstances". When member states exceed the 0.5 percent threshold—and it is worthwhile to note that at the time of the inception of the Fiscal Compact only Finland and Estonia had not exceeded 0.5 percent—the Excessive Deficit Procedure is activated automatically. This is in contrast to the GSP, when a qualified majority vote was required to activate it (and hence it was not activated in the case of France and Germany in 2003).

When in the Excessive Deficit Procedure, member states are required to enter into Economic Partnership Programmes with the EU. These are to be detailed descriptions of macroeconomic *as well as structural* reforms to be undertaken by the member state in question. Progress reports on the implementation of the Economic Partnership Programmes are to be regularly submitted to the European Commission and the Council for surveillance and endorsement. Notably, the Economic Partnership Programmes are to be encoded in EU law, with all that that entails in terms of Direct Effect, Supremacy of EU law and State Liability. Claims of infringement can be made by the European Commission or any other member state, and should the ECB find the offender guilty, then a penalty of up to 0.1 percent of GDP is to be paid into the ESM.

Whilst these norms and rules cannot be faulted on their clarity, they have been subject to criticism well beyond the usual suspects of heterodox economists and critical political economists, to include significant segments of pundits in the financial press. The concern can be summarised in a basic question: From where is final effective aggregate demand going to come in the Eurozone? The Eurozone crisis is a metamorphosis of the global financial crisis that started in US subprime housing markets in 2007, and started when state bailouts transformed private debt into public debt in an effort to save the financial system from meltdown. This, however, put the public debt of some countries, namely Portugal, Italy, Ireland, Greece and Spain, under stress as the confidence in their capacity to service their debt waned resulting in a deteriorating balance of payments and a spread in bond yields, which further increases costs of servicing the debt and hence undermines confidence further. The EU crisis management regime envisages a simultaneous reduction of both private and public debt, and hence balance can only be ensured in the form of massive balance of payments surpluses. But how are the so-called PIIGS going to achieve this, when it would require the elimination of a relative unit labour cost disadvantage of 20 percent with the German economy, which has an inflation rate of 1 percent? This can only happen through deflation, which is certain to lead to a collapse of public revenues, which in turn reinforces a debt trap. The classical adjustment mechanism in such a situation is devaluation of the currency, but it is of course exactly this that is not possible in a monetary union. It is nevertheless the objective need for a devaluation that has been undermining the credibility of the euro in financial markets. Hence, the recurring pattern of inadequate political agreements followed by further financial turbulence. To date only massive ECB interventions now also in sovereign bond markets (so called "Outright Monetary Transactions" or OMTs)—a process which has taken EMU way beyond the intention and spirit, if not the letter, of the Maastricht Agreement—have prevented a meltdown. Whilst these interventions by the ECB have calmed the waters for the moment, we are