The king is dead – long live the king: what follows after the Troika?

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Torsten Müller

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Contents

Abstract .................................................................................................................................................. 4

1. Introduction – The Troika is a spectre still haunting Europe ................................. 5

2. What the Troika really is – and what it is not .............................................................. 9
   2.1 The role of the Troika in the direct financial assistance procedures .................... 9
   2.2 The Troika’s internal structure and the division of labour ................................. 11

3. European interventionism as a new policy model ...................................................... 15

4. The Troika in action: the example of wage and collective bargaining policy ................. 19

5. Conclusion and proposals for reform ................................................................. 23

References ....................................................................................................................................... 26
Abstract

The focus of this paper is the need to reshape the financial assistance programmes and the related activities of the Troika in a way that would make them more socially and democratically acceptable. The starting point, therefore, is an analysis of the current role of the Troika and of each of its three constituent institutions in the framework of the financial assistance programmes. This analysis is followed by a discussion of the new style of European interventionism embodied by the Troika with special emphasis on the democratic and social deficits by which it is marred. Next, in order to describe the effects of this European interventionist approach as practised by the Troika, the example of wage and collective bargaining policy has been selected as a specific illustration. Finally, some concrete suggestions are put forward as to how the attempt at crisis management conducted by the Troika (or its successor institutions) might be set on a policy footing inspired by a more socially and democratically oriented political vision.

This is a revised and updated version of a chapter published in German under the title ‘Die Troika: Kontrolle der Kontrolleure’ in von Alemann, U., Heidbreder, E.G., Hummel, H., Dreyer, D. and Gőde A. (eds.) (2015): Ein soziales Europa ist möglich – Grundlagen und Handlungsoptionen, Wiesbaden: Springer VS, 261-284. We would like to thank Springer VS for their kind permission to publish this revised and updated version as an ETUI Working Paper.
1. Introduction
The Troika is a spectre still haunting Europe

‘In the future, we should be able to replace the “Troika” with a more democratically legitimate and more accountable structure, based around European institutions with enhanced parliamentary control both at European and at national level.’

Commission President Jean-Claude Juncker in his policy guidelines for the new Commission (Junker 2014: 7)

The crisis which, in its varying manifestations, has cast such a heavy shadow over Europe since 2008 has not led only to extensive and, in many cases, distressing economic and social effects in a majority of EU member states. The whole process of managing the crisis has, at the same time, entailed some fundamental changes to the European institutional apparatus. Thus, as a consequence of the decision taken on 25 May 2010 by the Eurozone heads of state and government to support Greece with a financial assistance package, the Troika made its appearance as a new actor on the political stage. During the ensuing period scarcely any other actor had such a polarising effect as this new three-headed structure consisting of the European Commission (EC), the International Monetary Fund (IMF) and the European Central Bank (ECB); for, while it was argued in some quarters that in the countries subject to the assistance programmes there was no reasonable alternative to the Troika policy – geared primarily to austerity and ‘structural reforms’ – for overcoming the crisis, there were others who saw the Troika as epitomising the authoritarian implementation of a neo-liberal policy directed primarily at serving the interests of capital.

Above all in the directly affected so-called ‘programme countries’, there developed increasing opposition to both the Troika *qua* policy contents and the particular policy *style* practised by the new triarchy. A main focus of criticism was the Troika’s one-sided policy commitment to the economic criteria of budgetary consolidation with scant consideration of the potential social consequences of such an emphasis. An additional focus of criticism, akin

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1. In May 2010 the first financial aid programme for Greece was decided. This was followed by similar programmes for Ireland in December 2010 and Portugal in April 2011. In March 2012 and August 2013 the second and third aid programmes for Greece were decided and in June 2013 Cyprus became subject to a financial aid programme. Spain will also be included in this analysis because, though not subject to an aid programme covering the economy as a whole, it did in July 2012 receive such a programme for its banking sector and the assistance thus granted was linked, exactly as in the ‘conventional aid programmes’, to a ‘memorandum of understanding’ by means of which the national government accepted the conditionalities negotiated with the Troika.
to the first one, is the unbalanced distribution of the austerity measures’ costs which, having fallen disproportionately upon specific population groups already enduring more than their fair share of hardship, are exacerbating inequality, poverty and social exclusion in the programme countries (Leschke et al. 2015). A further point of criticism was that the interventionist policy style practised by the Troika in the context of the crisis management represented an unprecedented form of direct European intervention in the living conditions of millions of European citizens. The associated shift in power from the national to the European level instilled a sense of political impotence in the ‘programme countries’, for even if national governments objected to the policy contents of the reforms imposed by the Troika this opposition proved to no avail (Scharpf 2014:36f).

This combination of a reform policy that was misguided in terms of its contents while also exhibiting shortcomings regarded from the standpoint of its democratic legitimacy created the breeding ground for an unprecedented loss of trust in both the EU authorities and the national governments. Table 1 shows – on the basis of Eurobarometer surveys conducted to ascertain the level of EU citizens’ trust in the European Union and in their national government – the dramatic magnitude of this crisis in political confidence. It can be seen that confidence in the EU in spring 2007 – i.e. just before the beginning of the crisis – was 57%, a level which by autumn 2013 had fallen to 31%. A striking feature of this overall drop in confidence is that it was particularly pronounced in the ‘programme countries’. In spring 2007 the levels of confidence in all ‘programme countries’ except Ireland had been above the European average and in spring 2010 – i.e. before the beginning of the financial assistance programmes – they were still somewhere close to the European average. Subsequently, during the period of the financial assistance programmes between spring 2010 and autumn 2013, the level of trust in the EU in the southern programme countries fell far below the European average. A similar development is seen in terms of citizens’ trust in their national government – with a particularly spectacular drop in Spain from 52% in spring 2007 to 9% in autumn 2013.

Table 1  Trust in the EU and in the national government

<table>
<thead>
<tr>
<th></th>
<th>Spring 2007</th>
<th>Spring 2010</th>
<th>Autumn 2013</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>EU National</td>
<td>EU National</td>
<td>EU National</td>
</tr>
<tr>
<td>EU-wide</td>
<td>57</td>
<td>41</td>
<td>29</td>
</tr>
<tr>
<td>Ireland</td>
<td>54</td>
<td>44</td>
<td>21</td>
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<tr>
<td>Greece</td>
<td>63</td>
<td>42</td>
<td>25</td>
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<tr>
<td>Portugal</td>
<td>65</td>
<td>45</td>
<td>20</td>
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<tr>
<td>Spain</td>
<td>65</td>
<td>52</td>
<td>20</td>
</tr>
<tr>
<td>Cyprus</td>
<td>61</td>
<td>64</td>
<td>43</td>
</tr>
</tbody>
</table>

Though there is naturally a need for caution in claiming the existence of directly causal relations between the Troika policy and the crisis in political confidence in the programme countries, the above figures surely provide a startling illustration of the growing disaffection of European citizens from the ‘political’ Europe represented by its current institutions; and such disaffection will inevitably, in the longer term, further strengthen anti-European political parties in the EU member states and ultimately jeopardise the European integration project as a whole. The manner in which the financial assistance programmes are constituted is therefore not of relevance from the standpoint of an exclusively economic rationale; it is a highly political matter, for ‘without social stability, there can be no economic and financial stability in the European Union’ (Fischer-Lescano 2014: 5). An essential building block in overcoming the political crisis of confidence in Europe must accordingly be a more social and democratic approach to the practices of European crisis management as these are embodied in the activity of, among other actors, the Troika.

Exploration of the possible features of a more social and democratic formation of policy content and style of the financial assistance programmes is the main purpose and theme of this working paper. It should be highlighted that, given this particular focus, the paper deals with only one specific pillar of the EU crisis management which, at the time of writing in January 2016, applies to Greece alone as the sole remaining country still subject to a financial assistance programme. However, the analysis of the social and democratic deficits of the mechanisms involved in this type of crisis management and in the related activities of the Troika is still relevant. First of all, because the conclusion of the third financial assistance programme for Greece in August 2015 has shown that there have been no substantial changes in either policy content or policy style. Thus, despite all the talk about the end of the Troika and the need for a reform of the current mechanisms after the start of the Juncker Commission in November 2014, the Troika is still alive and kicking. In the context of the negotiations of the third financial assistance programme for Greece, the Troika – or ‘the institutions’ as the Troika has been called since the election of the Syriza government at the beginning of 2015 – merely morphed into a ‘Quadriga’ through the additional active involvement of representatives of the European Stability Mechanism (ESM) (Schulten 2015: 5). Thus, in the light of the far-reaching economic, social and political consequences of the financial assistance programmes, it is high time to resume the debate on a reform of the content and institutional set-up of this particular strand of the European crisis management, even more so in that ‘the Troika’ epitomises the most radical form of a new interventionist policy approach with important spill-over effects to other areas of EU crisis management.

2. This paper will explicitly not deal with the discussion about the ‘socializing’ and ‘democratizing’ of the European Semester as the second essential pillar of the EU crisis management (for recent contributions to this debate see Zeitlin and Vanhercke 2015 and Vanhercke et al. 2015). Nor will the paper address the more encompassing debate about a more social and democratic institutional architecture of the EU as a whole (for recent contributions to this debate see Scharpf 2015 and Seikel 2016).
The discussion will begin with an analysis of the Troika’s role in the framework of the financial assistance programmes, consideration of its internal structure and a description of the division of labour among the three institutions involved (section 2). This part will serve above all to open up the black box of the Troika as a basis for the ensuing discussion (section 3) of the new European interventionist policy style as embodied by the Troika. Central to this discussion is identification of the democratic and social deficits of the Troika policy as a starting point for proposals as to how the financial assistance programmes might be reformed. Some specific effects of the European interventionist approach followed by the Troika will then be illustrated (section 4) using the example of wage and collective bargaining policy. The concluding fifth section will serve to formulate some concrete proposals that could offer a more democratic and social recipe for EU crisis management as conducted by the Troika – or its successor institutions.
2. What the Troika really is – and what it is not

The founding of the Troika in conjunction with the first financial assistance programme for Greece in May 2010 has to be viewed in the broader context of the EU exercise in crisis management being devised at that time in an attempt to stabilise the Eurozone. The institutional framework of this EU crisis management rested substantially on two pillars: on the one hand, the establishment of a new system of European Economic Governance as part of the Europe 2020 Strategy adopted in 2010; on the other, the creation of a procedure for direct assistance to Eurozone members experiencing severe financial difficulties. The new Economic Governance System was aimed primarily – through the mechanisms of surveillance, sanctions, and closer coordination of national economic and budgetary policy, introduced in the framework of the European Semester – at the long-term stabilisation of the Eurozone (Degryse 2012). More short-term mechanisms, by contrast, were created to enable the provision of direct financial assistance for the purpose of maintaining the solvency of Eurozone members finding themselves in particularly dire financial straits. It is within this second strand of EU crisis management that the founding of the Troika and the activities of this new body are to be discussed.

2.1 The role of the Troika in the direct financial assistance procedures

A central problem in setting up a mechanism for financial assistance for Eurozone members turned out to be that, at the time of the founding of EMU, no one had foreseen any such eventuality. There existed, accordingly, neither the requisite treaty provisions nor the appropriate institutional apparatus for granting emergency financial assistance to Eurozone members (Pisani-Ferry et al. 2013:18). For this reason it was necessary, under extreme pressure of time, to put in place the necessary institutional mechanisms in a quasi-ad hoc manner. To this end, first of all, in May 2010, the European Financial Stability Facility (EFSF) was set up as a provisional instrument for the financial support
of Eurozone members requiring assistance. Subsequently, after the founding of the European Stability Mechanism (ESM) as a long-term support fund in October 2012, the activities of the EFSF were gradually dismantled and taken over by the ESM.

Alongside putting in place the necessary institutional provisions for granting financial support through the creation of the EFSF/ESM, the EU was faced also with the need to devise an effective procedure for granting financial assistance to EMU members. For this purpose a standardised procedure was used for the first aid package to Greece in 2010 and this procedure underwent no substantial subsequent change (Pisani-Ferry et al. 2013: 20ff.) The tasks and functions allotted to the Troika (and its three component institutions) differ depending on the differing stages of the procedure.

Once a Eurozone member state has submitted to the International Monetary Fund and EFSF or ESM a formal application for financial aid, the Troika is responsible, in cooperation with the national authorities of the member state in question, for drawing up an assessment of the country’s financial and economic situation. The main focus of the investigation is to determine the sustainability of the national public debt and of the state’s potential financial need in this respect. While on the EU side this analysis is conducted by the European Commission ‘in liaison with the ECB’ (Article 13.3 ESM Treaty), the IMF also dispatches a group of experts, a so-called ‘mission team’. On the basis of their respective analyses, the European Commission and IMF draw up separate reports, but these are checked against one another for content. It is on the basis of these reports that the relevant IMF and EU bodies decide on the acceptability of the application for financial assistance. At this stage of the financial assistance procedure therefore, the Troika serves as instrument for economic analysis and as a platform for internal verification and coordination of the analyses and the strategies to be based thereon by the three institutions involved.

If the application is accepted, the Troika then conducts negotiations with the representatives of the national government on the steps to be taken – the so-called ‘conditionalities’ – in return for the financial assistance. On the EU side, the negotiations are conducted by the European Commission (‘in liaison with the ECB’). Even though the negotiations are conducted jointly by the three Troika institutions, they lead to separate agreements with the IMF and the EU. The outcome of the negotiations in the case of the IMF is a so-called ‘Letter of Intent’, in which the general strategy for overcoming the financial problems is outlined, and a so-called ‘Memorandum of Economic and Financial Policies’ (MEFP) which formulates more concrete individual policy measures and targets. In the case of financial assistance from the EU, the outcome of the

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4. The EFSF and the ESM are both international financial institutions founded on the basis of inter-state treaties with the specific goal of mobilising financial assets and placing them at the disposal, in the form of loans, of Eurozone members that have run into financial difficulty. The EFSF was set up in May 2010 on the basis of the EFSF framework treaty as a temporary financing instrument. Since October 2010 the ESM has replaced the EFSF on the basis of the ESM Treaty as a permanent financial institution.
negotiations is a so-called ‘Memorandum of Understanding’ (MoU) which defines the economic policy conditionalities. The memoranda concluded with the IMF and the EU are checked against one another for content but are not identical, the MoU being very much more detailed than the MEFP with regard to the structural reforms to be undertaken (Pisani-Ferry et al. 2013:22). At this stage of the proceedings therefore, the Troika is a joint structure for negotiations between the official providers of credit and the government of the recipient countries.

Once it has been officially confirmed that financial assistance will be forthcoming, the Troika becomes responsible for monitoring implementation of the assistance programme and observance of the terms stipulated in the Memorandum. As a general rule, quarterly ‘Troika missions’ take place for this purpose and each such mission leads, depending on the outcome of the inspection, to a corresponding adjustment of the ‘Letter of Intent’ and of the ‘Memorandum’ (Pisani-Ferry et al. 2013:22). At this stage of the procedure, accordingly, the functions of the Troika are those of monitoring and surveillance.

From the above description of the Troika activities at the different stages of the procedure for granting direct financial assistance, it is clear that the Troika is primarily an instrument for analysis, negotiation and surveillance and that it performs, in addition to this, the tasks of internal verification and cross-checking among the three institutions involved. Yet the Troika is explicitly itself neither a credit institution nor a body that decides on whether loans will be granted. The decision on whether or not to provide financial assistance lies exclusively with the IMF executive board and, on the EU side, with the ESM Board of Governors which is composed of the Eurogroup countries’ finance ministers. The political responsibility for the formation and implementation of the assistance programme lies therefore, on the EU side, with the national finance ministers and not with the European Troika institutions, even though, from the standpoint of public opinion, the latter alone are frequently held responsible for the negative effects of the reform policy because the behind-the-scenes deliberations of the national finance ministers are so much less visible to the general public.

2.2 The Troika’s internal structure and the division of labour

The absence of a treaty basis, and the lack of a European institution comparable to the IMF with clear-cut responsibilities and procedures, has also given rise to some questions about the Troika’s internal structure and division of labour. Which institutions should be involved on the EU side? What would be their powers and on the basis of what mandate?

With regard to the general composition of the Troika, the involvement of the IMF was beyond question. On the one hand, the heads of state and government
stressed – in view of the huge sums of money that had already been required on the occasion of the first financial package for Greece – that ‘substantial IMF financing’ would also be required (Heads of State and Government of the Euro Area 2010). On the other hand, the IMF was in possession, on account of its many years of experience in other regions of the world, of the technical knowledge required to conduct the financial assistance programmes. On the EU side the involvement of the European Commission was equally beyond question. This body had cooperated with the IMF already at the time of financial aid for the non-Euro states Latvia, Romania and Hungary in 2008 and 2009. What is more, the Commission was in possession of the requisite detailed knowledge of the policy fields and structures in the Eurozone states that would be of relevance in negotiating the conditionalities. The ECB was involved on account of its thorough knowledge of the banking and finance sector in the states in question and was expected to ensure that the reform programmes were in keeping with its own policy line. In addition, the ECB enjoyed a high degree of trust among the European heads of state and government who welcomed its involvement in the negotiations alongside the European Commission (Merler et al. 2012).

At a first glance, accordingly, there appear to be substantially good reasons to justify the specific composition of the Troika. On closer scrutiny there emerge, however, some quite weighty reservations with regard to the democratic and political mandating and responsibility of the European Commission and European Central Bank as Troika members. According to Article 13(3) of the ESM Treaty, ‘the Board of Governors [of the ESM (author’s bracket)] shall entrust the European Commission – in liaison with the ECB and, wherever possible, together with the IMF – with the task of negotiating with the ESM Member concerned, a memorandum of understanding (an “MoU”) detailing the conditionality attached to the financial assistance facility’. The mandating of the European Commission takes place, in other words, on the basis of the ESM Treaty. Yet since this text is an intergovernmental Treaty, there exists no EU Treaty basis for the mandating of the Commission. Furthermore, the ESM Treaty, as an intergovernmental construct – and hence also the activities based on the ESM Treaty – is not subject to the standard EU Parliament co-decision and control rights foreseen under the Community method (Repasi 2014). In the absence of democratic legitimacy at the European level, the European Commission’s democratic legitimacy is at best indirect and dependent on the political accountability of the national finance ministers to their national parliaments (European Parliament 2014a: 20).

5. Under the Community method the European Commission takes the first step in the EU legislative process by issuing a proposal. The Commission proposal is then discussed in the European Parliament and the Council and adopted. In the framework of this process both Parliament and Council are entitled to submit amendments. These possibilities for control and amendment are waived when, as in the case of the ESM Treaty, binding legislation is created on the basis of intergovernmental treaties. This principle of the so-called Union method is increasingly used to circumvent the co-decision rights of the European Parliament, and indeed in cases where the national governments are expecting opposition from the Parliament (Repasi 2014).
Since the European Commission, on the basis of the ESM Treaty, acts de facto on behalf of the member states, it could well be that conflicts of interest might arise here with its role as an independent EU institution (European Parliament 2014a: 19), for the Commission, in this independent capacity, has the task of guaranteeing observance of the EU Treaties. Such a conflict becomes apparent, for example, in the area of wage and collective bargaining policy, a field in which any EU competence is explicitly ruled out by Article 153(5) TFEU. In its capacity as guardian of the Treaties, the European Commission would be required also to guarantee observance of this provision; and yet, as a member of the Troika, it negotiates provisions that represent a massive interference in matters subject to the competence of the national social partners.

The ECB finds itself in a similar conflict of interests as a member of the Troika, for it is acting on the one hand as ‘technical adviser’ and on the other as the programme countries’ creditor. Furthermore, the role of the ECB is, under the EU Treaties, quite unequivocally limited to the field of monetary policy and the maintenance of financial stability. Yet as a member of the Troika the ECB is also involved in decision-making processes in the fields of budgetary and fiscal policy and even in questions concerning the introduction of structural reforms in the labour market policy field. Such areas far exceed the narrow limits of its defined role and its involvement in them could potentially even run counter to the ECB’s areas of tasks as defined by the Treaties (Pisani-Ferry et al. 2013: 111).

Against this background, the European Parliament has quite rightly criticised the lack of clarity in the mandating and competences of the European Troika institutions and the lack of transparency characterising decision-making procedures within the Troika (European Parliament 2014a: 18). The European Commission states that such concerns are groundless, arguing that, in particular thanks to Regulation 472/2013 adopted in May 2013 as part of the so-called Two Pack, there exists in EU law an adequate basis for the Troika activities (European Commission 2014: 1). According to the Commission, Regulation 472/2013 not only formally confirmed the involvement of the Troika in the programme countries but also stepped up its responsibility towards the European and national parliaments as well as the involvement of social partners in the composition and implementation of the programmes (European Commission 2014: 14). While the European Parliament welcomed

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7. The ‘Two-Pack’ is part of the newly created system of European Economic Government put in place since 2010 to improve economic policy surveillance and coordination. The Two-Pack, which consists of two Regulations, aims at improved budgetary policy coordination in the Eurozone. The two core components of the Two Pack are, first, the obligation of the EU member states every autumn to present their draft budgets to the European Commission which, for its part, verifies whether the provisions of the stability and growth pact are observed, and, secondly, the clarification of the procedure for the provision of financial aid to EU member states whose financial stability is threatened.
the Regulation as a first step (European Parliament 2014a:18), it criticised it as inadequate, not least because the procedures stipulated tended not to be followed in practice. The European Trade Union Confederation too was critical of the purely formal nature of the meetings between the Troika and the social partners and of the fact that the positions of the social partners found no reflection in the policy of the Troika which continued to adhere strictly to its own line (ETUC 2014: 4).

The above description of the role and function of the Troika and of its internal structure and division of labour illustrates how far the existence and activities of this body serve to embody a new policy model of European interventionism (Schulten and Müller 2015). The characteristics of this new policy model will be examined in more detail in the following section.
3. European interventionism as a new policy model

The policy model of European interventionism is characterised by three central features. First, the European interventions are the expression of an increasingly authoritarian top-down approach in which the European level directly determines policies at the national level – including in fields such as social and wage and collective bargaining policy in which EU competences are explicitly ruled out by the Treaties. Alongside this shift in decision-making powers from the national to the European level, the second characteristic feature of the new European interventionism is the strengthening of the executive bodies (European Commission and national financial ministries represented in the ECOFIN Council or ESM governing board) vis-à-vis the arenas for parliamentary action at the European and national levels (Oberndorfer 2013a). In a discussion of this shift of regulatory competences in conjunction with the voiding of parliamentary functions of co-decision and control, Bofinger et al. (2012) refer to the emergence of façade democracies. The third central feature of the new policy model is the institutionally biased focus of its content on the implementation of austerity policy and neo-liberal structural reforms as the central components of European crisis management.

The European interventionism practised by the Troika rests on the conclusion between the member states concerned and the EU of formal bilateral agreements in which the member states undertake to carry out the measures specified in the MoUs. This form of intervention is not, however, confined to the programme countries. In particular as a result of pressure exerted by German Federal Chancellor Angela Merkel, there has been repeated discussion of using the method of formal bilateral agreements also for the country-specific recommendations issued at the end of the European Semester, as a means of making these instruments more binding. The idea was to bring into being a ‘Troika for all’ (Oberndorfer 2013b) and, although some spokes were placed in the wheels at the European Council meeting in December 2013, the idea is still on the political agenda. In June 2015, for instance, another attempt was made

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8. The European Semester is the core component of the new system of European Economic Governance. It is an annual cycle of economic policy coordination, at the end of which the European Council adopts, on the basis of a detailed economic analysis, the so-called Annual Growth Survey and a set of political recommendations for the EU member states. The content orientation of these so-called ‘country-specific recommendations’ is, as with the MoUs in the case of the programme countries, a neoliberal policy of deregulation (for an overview of the Country Specific Regulations in the social policy field, see Clauwaert 2013). In the field of wage and collective bargaining policy the country-specific recommendations aim at a moderate wage policy and decentralisation of collective bargaining systems (Schulten and Müller 2015).
to improve the institutional possibilities for political intervention into national wage-setting. The so-called ‘Five Presidents’ Report’\(^9\) proposed to establish a Euro area system of national competitiveness authorities with the explicit objective of assessing whether wages are evolving in line with productivity and of issuing opinions to be used by the national social partners as guidance during wage negotiations (Juncker et al. 2015: 8). Even though this proposal was watered down to a certain extent in a later recommendation of the European Commission (European Commission 2015), this is yet another example of the persistence of European interventionism as a new policy model.

After this brief examination of the first two institutional elements of European interventionism in the framework of an analysis of the function and structure of the Troika from the standpoint of its lack of democratic legitimacy, the following considerations will focus on the third element characteristic of its content, namely the lack of consideration of the social dimension.

The Troika’s policy orientation towards fundamentally economic criteria stems from its initial aim. This aim was, in the short term, to avoid a state of disorderly insolvency on the part of the programme countries and to prevent speculation on the state debt. In the medium and long term the Troika saw its task as being to create, by means of its reform programmes for the achievement of sustainable growth and an effective dismantling of debt, the conditions for repayment of loans incurred and that would enable the programme countries henceforth to obtain funding on the financial markets (European Parliament 2014: 7).

A detailed consideration of the economic consequences of the Troika policy would exceed the framework of this contribution (see ETUI and ETUC 2014: 13-15; Sapir et al. 2014, Myant et al. 2016). A glance at the goals of the assistance programmes shows, however, that at least the short-term goal of insolvency prevention has been achieved and that at least Ireland and Portugal have found themselves able, after expiry of the three-year assistance programme, to access funding on the financial markets. However, a glance at the medium-term economic indicators (Table 2) shows that, with the exception of Ireland, there is little occasion for optimism as far as the creation of sustainable growth and an effective reduction of public debt are concerned.

Any serious assessment concerning achievement of the economic targets is extremely complex for the simple reason that the assessment criteria are unclear from the start (Sapir et al. 2014). Is it necessary to consider developments in the light of earlier prognoses and forecasts? Is adherence to the measures laid down in the programme to be used as the benchmark? Or are actual developments to be compared with other possibilities based on

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\(^9\) The report entitled ‘Completing Europe’s Economic and Monetary Union’ was issued by the five presidents of the Council, European Commission, ECB, Eurogroup and European Parliament. The aim of the report was to formulate a roadmap for further deepening of the EMU through various institutional reforms.
alternative models that could potentially have been used in designing the aid programmes? Such methodological issues aside, however, the decisive matter is – given the crisis of confidence in the European institutions to which attention was drawn at the beginning of this paper – to consider how developments are perceived by citizens in the countries in question. In this respect, the unsatisfactory figures relating to the growth and debt situation will certainly not have contributed to strengthening trust in European crisis management. And even if one chooses to follow Olli Rehn, former European Commission vice-president, in stressing the positive developments in the budgetary deficits (Rehn 2014), it must be pointed out equally that the social price paid for these minimal successes has proved unacceptably high. The central problem when it comes to legitimisation of the Troika policy, accordingly, is that, in selecting the measures whereby the economic targets were to be reached, the social effects of these measures were not sufficiently taken into consideration. In drawing up the assistance programme no role was accorded, for example, to the social goals formulated in the Europe 2020 strategy in the field of employment and the fight against poverty. Similarly disastrous developments are to be seen, as shown in Table 3, in the programme countries – with the exception of Ireland – in the areas of unemployment, employment rates and risk of poverty (for a more detailed overview see the respective country chapters in Myant et al. 2016).

This neglect of the social dimension in the design of the Troika reform policy is structurally built into its composition, a fact that is apparent from the inadequate – or total lack of – participation of institutions which could have introduced social correctives, in terms of both the shaping and the implementation of the reform programme, to the one-sided economic orientation of the Troika policy. This applies, in particular, to the EU institutions responsible for employment and social affairs such as, for example, the Council of Ministers for Employment and Social Policy (EPSCO), the European Parliament Committee for Employment and Social Affairs, and the European Commission DG for Employment, Social Affairs and Integration (DG EMPL). It applies also, however, to civil society institutions such as trade unions and NGOs. While the European Commission has emphasised that all its decisions were taken by the

<table>
<thead>
<tr>
<th></th>
<th>Growth (% change in real GDP 2008-2015)</th>
<th>Current account deficit (as % of GDP)</th>
<th>Gross public debt (as % of GDP)</th>
</tr>
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<td></td>
<td></td>
<td>2015: -10.0</td>
<td>2015: 195</td>
</tr>
<tr>
<td><strong>Portugal</strong></td>
<td>-5.5</td>
<td>2010: -10.3</td>
<td>Ø 2004-2008: 67.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2015: 0.5</td>
<td>2015: 128</td>
</tr>
<tr>
<td><strong>Ireland</strong></td>
<td>10.1</td>
<td>2010: 1.3</td>
<td>Ø 2004-2008: 30.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2015: 5.9</td>
<td>2015: 100</td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td>-4.4</td>
<td>2010: -4.4</td>
<td>Ø 2004-2008: 411</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2015: 1.4</td>
<td>2015: 101</td>
</tr>
</tbody>
</table>

Source: Ameco database
college of Commissioners as a whole (European Commission 2014: 2), a glance at the contents of the MoUs, with their one-sided focus on the implementation of a strict austerity policy to reduce public expenditure and consolidate state finances and the implementation of basic (supply-side) structural reforms to improve the national competitiveness, unmistakably betrays the authorship of the Economic and Financial Directorate General (DG ECFIN).

The austerity policy fostered in the reform programmes and structural reforms led to far-reaching cuts in several areas of social security provision, most particularly the unemployment and retirement insurance systems and health and education spending (for an overview see Busch et al. 2012; Herman 2013, 2015; European Parliament 2014b). A further central building block of the Troika reform policy was substantial and procedural interference in the field of wage policy and collective bargaining. This is a field officially excluded from EU competences under Article 153 (5) TFEU; in the following section it will be taken as an example to illustrate several points including the effects of European interventionism, the unprecedented manner in which the European level is encroaching on the national level of action, and the one-sided neoliberal orientation of the reform policy followed by the Troika.

Table 3  Unemployment, employment rates and risk of poverty in the programme countries

<table>
<thead>
<tr>
<th></th>
<th>Unemployment (in %)</th>
<th>Employment rate (15-64 years)</th>
<th>Risk of poverty (% of population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>26.8</td>
<td>+14.8</td>
<td>49.4</td>
</tr>
<tr>
<td>Portugal</td>
<td>14.5</td>
<td>+3.3</td>
<td>62.6</td>
</tr>
<tr>
<td>Ireland</td>
<td>12.1</td>
<td>-2.0</td>
<td>61.3</td>
</tr>
<tr>
<td>Spain</td>
<td>24.6</td>
<td>+4.4</td>
<td>56.0</td>
</tr>
<tr>
<td>EU 28</td>
<td>10.3</td>
<td>+0.6</td>
<td>64.9</td>
</tr>
</tbody>
</table>

Source: Eurostat
4. The Troika in action: the example of wage and collective bargaining policy

In both aspects of the Troika reform policy – austerity policy and structural reforms – wages play a central role. In the case of austerity policy the connection between wages and Troika crisis management is readily apparent. Since labour costs in the government and public services represent a considerable proportion of the state budget, wage cuts, wage freezes and the abolition or lowering of various forms of additional benefits for civil servants and public service employees were a means of reducing public expenditure preferred and propagated by the Troika. Accordingly, wages and salaries in the government sector and public services in the programme countries fell by between 5 and 15%. The greatest onslaught was in Greece where between 2009 and 2013 public servants’ earnings fell by around 30% (Schulten and Müller 2015: 341). In order to apprehend the whole extent of the cuts, it is not just developments in nominal pay that have to be considered. In relation to Portugal, for example, a study by the Labour Research Department (2012: 32) showed that, on account of the cumulative effects of the pay cuts averaging 5% in 2011, of the abolition of the 13th and 14th months’ pay in 2012 and 2013, and of the pay freeze in force since 2010, public sector employees had lost up to 30% of their real disposable income.

Minimum wages are a further target of attack for direct intervention by the Troika in national wage policy. Here too direct intervention is comparatively easy because, in the majority of EU countries, statutory national minimum wages are laid down by the state and are therefore directly subject to policy influence. Thus Ireland, under pressure from the Troika, in February 2011 cut its minimum hourly wage from 8.65 to 7.65 euros, equivalent to a nominal cut of 12%. After a change of government in July 2011 this decision was reversed, in return for which the government had to consent to the Troika’s demand that it reduce employers’ social security contributions (Brandl and Allinger 2013). Once again the most far-reaching onslaught affected minimum wages in Greece: the general level was reduced by 22% in February 2012 and the lower level for workers aged under 25 by as much as 32% (Schulten and Müller 2015: 344). In Portugal, where the minimum wage was frozen between 2011 and 2014, the government was required to agree, as also in Cyprus, that it would raise the minimum wage only subject to prior approval from the Troika.

Somewhat more complex is the connection between the demand for neo-liberal structural reform and the role of wages. In principle the goal pursued by the Troika is to push through a strategy of internal devaluation that is designed to improve the programme countries’ price competitiveness. The structural reforms demanded are therefore aimed at ensuring, by means of increased
downward wage flexibility, that nominal wages rise no faster than productivity. With a view to achievement of this goal, the European Commission’s DG ECFIN in particular is pressing for a far-reaching decentralisation of the collective bargaining system and a general reduction of trade unions’ wage-setting powers (European Commission 2012a: 103-104). This example is further evidence of the significance of the composition of the Troika, for the one-sided supply-side oriented approach of DG ECFIN, seeing the role of lower wages as a means of lowering costs in the programme countries, has been implemented to the letter. The somewhat more nuanced standpoint of the DG EMPL which stresses also the role played by wages in the development of domestic demand and social inclusion, found no point of entry into the Troika policy (European Commission 2012b).

The changes in the southern European programme countries shown in Table 4, which were introduced as a reaction to the political pressure of the Troika, encompass three elements (Schulten and Müller 2014). First of all, company-level collective agreements henceforth take precedence over sectoral agreements in such a way that the former are in practice able to undermine standards previously laid down by the latter. This has happened in Greece and Spain, where the ‘favourability principle’ (Günstigkeitsprinzip)10 was also abolished. In Portugal, by contrast, the possibility of lower-level derogation at company level from standards laid down at sectoral level continues to be dependent on the agreement of the bargaining partners at sectoral level. The second central feature of institutional change in the southern European programme countries is the far-reaching withdrawal or dismantling of support for collective bargaining previously contained in the law, such as, for example, provisions concerning the extension11 or the after-effect of collective agreements12. In Portugal, for example, the collective bargaining system was weakened by the introduction of more restrictive criteria governing the declaration of collective agreements as generally binding. Whereas, before the reform, all important sectoral agreements had been, virtually automatically, declared to be generally binding, currently, as Table 5 shows, this happens in extremely few cases. Finally, the third central feature of changes introduced in Greece, Portugal and Spain has been the far-reaching possibilities for groups of non-unionised workers to negotiate and conclude agreements at company

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10. The favourability principle means that usually deviations in company-level agreements from higher-level (i.e. branch and or cross-sectoral) collective agreements (or legal regulations) are possible only if they are in favour of the employee.

11. The extension of collective agreements means that the applicability of collective agreements is extended to workers and enterprises that are not organised within one of the contracting parties. In principle it is possible to distinguish two different approaches. The first approach is to extend the coverage of collective agreements to non-organised workers in workplaces organised by trade unions. This is usually done by means of an erga-omnes provision. The second approach is to extend the coverage of a collective agreement to non-organised workplaces and firms which is usually done by a legislative act – the so-called declaration of general applicability. For a more detailed discussion of different extension mechanisms in Europe see Schulten et al. 2015.

12. The after-effect of collective agreements refers to the fact that the terms and conditions of collective agreements remain valid even after they have expired until a new collective agreement has been concluded.
level. According to research by Daouli et al. at the University of Patras, in  
Greece, for instance, only 30% of the 1,336 company agreements concluded  
between November 2011 and December 2013 were signed by trade unions. The  
remaining 70% were concluded and signed by non-union workers’  
representatives (Schulten 2015: 2).

Table 4  Changes in national collective bargaining systems in the programme 
countries

<table>
<thead>
<tr>
<th>Measures</th>
<th>Countries concerned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilitating derogation of company-level agreements from sectoral agreements and/or statutory (minimum) provisions</td>
<td>Greece, Portugal, Spain</td>
</tr>
<tr>
<td>General precedence accorded to company agreements/ Abolition of the favourability principle</td>
<td>Greece, Spain</td>
</tr>
<tr>
<td>More restrictive criteria for extension of collective agreements</td>
<td>Greece, Portugal</td>
</tr>
<tr>
<td>Reduction of the ‘after-effect’ of expired collective agreements</td>
<td>Greece, Spain</td>
</tr>
<tr>
<td>Possibility for non-unionised groups of workers to conclude collective agreements at company level</td>
<td>Greece, Portugal, Spain</td>
</tr>
</tbody>
</table>

Source: Schulten and Müller (2015: 347)

The most far-reaching effects of these measures in relation to the neoliberal transformation of collective bargaining systems in the programme countries is manifest in the significant reduction in the numbers of collective agreements and in the proportions of employees who are covered by a collective agreement.

In Greece the number of newly concluded sectoral agreements fell from 231 in 2008 to 22 in 2014. The steep increase in company-level collective agreements in 2012 can be explained principally by the fact that many companies used the reforms introduced in October 2011 to conclude company-level wage agreements stipulating wages below the sectoral wage level in force at the time (Daouli et al. 2013, Schulten 2015). After the peak in 2012 and 2013, the number of company-level agreements dropped roughly to the level at the beginning of the crisis. This trend is confirmed by the 193 company agreements that were concluded in 2015 (Schulten 2015: 3).

In Portugal the numbers of collective agreements fell after the beginning of the crisis at both sectoral and company level, severely reducing the significance of collective agreements as regulatory instruments. In the space of a single year the number of workers covered by collective agreements fell steeply by three quarters from 1.2 million in 2011 to no more than 300,000 in 2012.

Similar developments are to be observed in Spain where the number of registered sectoral agreements dropped from 1,448 in 2008 to 1,194 in 2013 as a result of far-reaching changes in the law. The drop in numbers of company-level agreements was even steeper, from 4,539 in 2008 to 3,395 in 2013. The numbers of workers covered by collective agreements thus fell from 12 million in 2008 to 10.3 million in 2013. All in all, the changes in Spain have
been less dramatic than in Greece and Portugal. According to Cruces et al. (2015: 111), this can be explained by the interest of the two sides of industry in maintaining collective agreements in exchange for substantial modifications in wages and working time.

The foregoing account illustrates the adverse effects of the ‘structural reforms’ imposed by the Troika on collective bargaining systems in the southern European programme countries Greece, Portugal and Spain. The reforms led to a fundamental change in the nature of collective bargaining systems which today is much closer to the single-employer bargaining systems found in central and eastern Europe than to the multi-employer bargaining systems typically found in the northern European countries – even if, in strictly formal terms, the changes made to existing multi-employer collective bargaining systems in the programme countries were rather small. This de facto change to the system implies not only a decentralisation but also a decollectivisation of industrial relations because collective bargaining coverage is generally much higher in countries with strong multi-employer collective bargaining systems than in those where collective bargaining takes place predominantly at company level.

Table 5 Newly concluded/renewed collective agreements and coverage in Greece, Portugal and Spain 2008-2014

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sectoral collective agreements</td>
<td>231</td>
<td>120</td>
<td>113</td>
<td>63</td>
<td>37</td>
<td>23</td>
<td>22</td>
</tr>
<tr>
<td>Company agreements</td>
<td>230</td>
<td>227</td>
<td>240</td>
<td>178</td>
<td>976</td>
<td>409</td>
<td>286</td>
</tr>
<tr>
<td>Portugal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sectoral and multi-employer collective agreements</td>
<td>199</td>
<td>164</td>
<td>166</td>
<td>115</td>
<td>45</td>
<td>45</td>
<td>72</td>
</tr>
<tr>
<td>Company agreements</td>
<td>97</td>
<td>87</td>
<td>64</td>
<td>55</td>
<td>40</td>
<td>49</td>
<td>80</td>
</tr>
<tr>
<td>Collective agreements (all)</td>
<td>296</td>
<td>252</td>
<td>230</td>
<td>170</td>
<td>85</td>
<td>93</td>
<td>152</td>
</tr>
<tr>
<td>Number of extensions of collective agreements</td>
<td>131</td>
<td>101</td>
<td>116</td>
<td>17</td>
<td>12</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>Workers covered by collective agreements (millions)</td>
<td>1.7</td>
<td>1.3</td>
<td>1.4</td>
<td>1.2</td>
<td>0.3</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Spain*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sectoral collective agreements</td>
<td>1,448</td>
<td>1,366</td>
<td>1,265</td>
<td>1,163</td>
<td>1,142</td>
<td>1,194</td>
<td>973</td>
</tr>
<tr>
<td>Company agreements</td>
<td>4,539</td>
<td>4,323</td>
<td>3,802</td>
<td>3,422</td>
<td>3,234</td>
<td>3,395</td>
<td>2,948</td>
</tr>
<tr>
<td>Collective agreements (all)</td>
<td>5,987</td>
<td>5,689</td>
<td>5,067</td>
<td>4,585</td>
<td>4,376</td>
<td>4,589</td>
<td>3,921</td>
</tr>
<tr>
<td>Workers covered by collective agreements (millions)</td>
<td>12.0</td>
<td>11.6</td>
<td>10.8</td>
<td>10.7</td>
<td>10.1</td>
<td>10.3</td>
<td>8.4</td>
</tr>
</tbody>
</table>

* Number of collective agreements registered in the year in question; provisional data for 2014
Source: Labour ministries of Spain, Portugal and Greece in Cruces et al. (2015), Schulten (2015), Schulten et al. (2015)
5. Conclusion and proposals for reform

The starting point for this working paper was the question of what a more social and democratic version of the EU crisis management practices currently conducted by inter alia the Troika might look like. The purpose of seeking to answer this question is to propose a solution to the crisis of political confidence that is currently rife in, above all, the programme countries. The foregoing analysis of the role and structure of the Troika indicates that merely cosmetic changes will not suffice to this end. What is needed is a complete change of policy direction away from the model of European interventionism as the dominant mode of crisis management. The current policy model rests institutionally on a twofold shift in decision-making competences, on the one hand from the national to the European level and on the other from the parliamentary arena to the executive, namely, the European Commission and the national finance ministers who in the relevant bodies (ECOFIN Council and ESM Board of Governors) perform sovereign acts at European level. The content of the European interventionist policy reflects the institutionally inbuilt and exclusive focus on austerity policy and structural reform along neoliberal lines.

A more socially and democratically acceptable approach to financial assistance programmes and EU crisis management will need to tackle all three components of European interventionism. The prerequisite for a reorientation of the content of the current EU crisis management is a change in the currently dominant interpretation of the crisis as characterised by problems of debt and (price) competitiveness, with wages being accorded a central role as an adjustment variable for redressing macroeconomic imbalances. Such an interpretation of the crisis implies a narrow view of the role of wages as a cost factor to be minimised while ignoring their important role for the development of consumer demand and social inclusion (for a more detailed discussion see Müller et al. 2015).

The fact that the supply-side reform policy pushed through by the Troika in the programme countries, with its focus on spending cuts and wage restraint, supplied no impetus for growth and led to devastating social effects, points to the need for a fundamental paradigm shift to a demand-side and wage-driven growth model. The purpose of such a growth model would be to raise domestic demand through sustained growth in real wages, an increase in the wage ratio, and a reduction in wage dispersion. Implementation of such a model would, however, require a complete about-turn in the policy of decentralisation pursued, for example, by the Troika’s wage and collective bargaining policy. The set of policy measures suitable for implementing an alternative growth...
model of this kind would encompass the introduction of a minimum wage above the low-wage threshold, a strengthening of the trade unions’ bargaining power, as well as measures to extend collective bargaining coverage rates (Lavoie and Stockhammer 2013; Hein and Mundt 2013).

Such a paradigm shift in the growth model followed by the Troika is, however, given present political constellations within the European Commission and among the different EU institutions, currently difficult to imagine. This makes it then all the more important to achieve institutional backing for a reorientation of the policy content. A route increasingly taken to this end is to approach European and international organisations such as the ILO, the Council of Europe, or the European Human Rights Court, for the purpose of taking legal action against specific measures implemented in the context of the financial assistance programmes (for an overview see Clauwaert and Schömann 2013; Bruun et al. 2014). Thus, for example, the ILO Committee for Freedom of Association found that the measures pushed through by the Troika for circumventing or abolishing collective bargaining provisions were in violation of ILO Convention 87 (Freedom of Association and Protection of the Right of Association). Increasingly too, complaints against Troika measures are being lodged at national level with the national constitutional court. In 2013 for example the constitutional court of Portugal ruled that the relaxation of civil servants’ protection against dismissal implemented in the context of the MoU concluded with the Troika was in violation of the constitutional guarantee of secure employment and the special relationship of trust between employer and employee in the public service (ETUI and ETUC 2014: 67). What is more, in August 2014 the Portuguese constitutional court declared a portion of the wage cuts planned for public employees until 2015 and beyond to be unconstitutional insofar as they would lead to an unequal distribution of the sacrifices to be made in the context of the crisis (Walter 2014). One way to improve the social component of the financial assistance programmes is accordingly the path of law as a means of ensuring that the conditionalities laid down in the MoU do not represent an infringement of standards enshrined in international, European or national law. Since the ILO ‘judgements’ – for example – are non-binding in character, it is a question of obliging the Troika (or Quadriga) to uphold these fundamental standards by references to the corresponding provisions of Regulation 472/2013. This is all the more important in that the judgements and rulings adopted hitherto have utterly failed to influence the content of the policies stipulated in the MoUs.

A second way to improve the social and democratic dimension of the financial assistance programmes is to effect institutional changes in the structure of the Troika and in its relationship to other actors, such as those detailed in two reports by the European Parliament on the Troika’s activities (European Parliament 2014a, b). The measures proposed by the Parliament can be divided into short-term and medium-to-long-term measures. With a view to the institutional safeguarding of a more social and democratic configuration of the Troika policy, the European Parliament recommends the following measures: in order to guarantee observance of ILO core labour standards and the European social charter, the Troika should cooperate with the ILO and the
Council of Europe at an early stage when the reform programme is being drawn up. The Troika should, in addition, at the very early stages of policy conception and by means of a detailed assessment of the potential social consequences of the reform programmes envisaged, ensure that these programmes do not run counter to social goals formulated in the TFEU and the Europe 2020 Strategy. In its reform proposals the European Parliament also stresses the importance of effective implementation of the procedure laid down in Regulation 472/2013. This relates above all to involvement of the social partners at all stages of the reform programmes (design, implementation and monitoring of compliance) as well as to the role of rapporteur played by the European Commission vis-à-vis the Parliament as laid down in the Regulation through the creation of a standardised procedure that relates to all stages from the negotiation to the monitoring of observance of MoUs. In this context, the European Parliament includes also a reminder about the need to lay down in the Regulation clearer rules for the mandating of the European Commission (and the ECB). Also in relation to the internal decision-making processes in the Eurogroup or the ESM Board of Governors, the Parliament calls for a more transparent procedure with strong democratic responsibility vis-à-vis the European Parliament and the national parliaments.

None of these proposed steps are anything more than short-term corrective measures, however. The fundamental problem of the Troika remains that it operates outside the European system of checks and balances currently in force. In the medium-to-long term the Troika is therefore – and not from the standpoint of the European Parliament alone – a model to be phased out. Exactly what the successor structure of the Troika should look like is still an open question. In the view of the European Parliament (2014a) the Troika’s role should be taken over by a European Monetary Fund (EMF) enshrined in European law and subject to the Community method of cooperation and monitoring rights of the European Parliament. Such an EMF would take over the role of the ESM and the European Commission in the granting of financial assistance and negotiation of conditions, so that the Commission would once again be free to perform its role of ‘guardian of the Treaties’ as stipulated in those same Treaties. Under a scenario of this kind, the role of the European Central Bank too would be cut down to size. The ECB would observe the negotiations in silence, present in order to advise the EMF, if and when necessary, in the conduct of its activities. This too would represent a reduction of the potential for conflict of interest.

Although in the European Parliament’s proposals this institution’s concern to strengthen its own position in the overall apparatus of the Community institutions naturally plays a role, the proposals elaborated do represent a solid basis for a more social and democratic approach to financial assistance programmes and EU crisis management. The proposals are already on the table; what is missing is the political willingness of European and national policy makers to pick them up and, in doing so, make an important contribution to redressing the crisis of political confidence in particular in the (former) programme countries.
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The king is dead – long live the king: what follows after the Troika?


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