

# Europe's divisive integration – an overview

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'The worst of the crisis may be behind us, but this is not an invitation to be complacent. To make the recovery stronger and create more jobs, we need to stay on the course of economic reform.'

Olli Rehn, 25 February 2014 <sup>1</sup>

## 1. Introduction

When, after the immediate effects of the worldwide financial and economic crisis had been surmounted, a course was set for 'austerity measures' and 'structural reform' Nobel prize-winning US economist Paul Krugman (2010) characterised it as a 'strange triumph of failed ideas': 'Free-market fundamentalists have been wrong about everything – yet they now dominate the political scene more thoroughly than ever.' We found this formulation so apposite that we used it as the title of our first joint volume on the European crisis published by the ETUI.<sup>2</sup> But the story has continued. Many changes that were merely on the horizon in 2012 have, in the meantime, come to pass and in a series of countries the full extent of the upheavals is discernible only today. On one hand, economic developments in a few countries may promise some light at the end of the tunnel. At the same time, however, the centrifugal forces have grown stronger, especially within the Monetary Union, both economically and politically. The economic and social contours of our continent in the further course of this decade are now clearer. In response to this we present here a continuation of our 2012 volume: largely new country analyses, supplemented by analyses of the policies of the European Union (EU) and the challenges facing trade union strategy. The focus of the present

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1. Former vice president of the European Commission during the presentation of the economic forecast for 2014. Available at: [http://europa.eu/rapid/press-release\\_SPEECH-14-159\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-14-159_en.htm)
  2. See Lehndorff (2012). 'We' being a grouping of labour market researchers from 10 European countries who have cooperated in various research projects – recently in an EU project on the 'Dynamics of national employment models' – over the past 20 to 30 years (see, among others, Bosch, Lehndorff and Rubery 2009).

volume is the weight attributed to the different economic and social development paths in individual countries, and their interaction with the austerity regime established at EU level, which in fact is deepening the crisis rather than paving ways out of it. The most dangerous implication of this policy approach highlighted in the following chapters is that it is driving European countries apart—misleadingly in the name of ‘Europe’. This is what we call ‘divisive integration’.

Many critical analyses of the European crisis concern themselves with wrong turns taken at the EU level and with economic imbalances within the EU and the euro zone. The fear has become widespread that the Monetary Union will ultimately founder on these problems. However, in these discussions for the most part too little attention is paid to the role that economics and politics should play at the national level in the course of reorientation. The national level is decisive, however, because any impetus for change in the EU and in the euro zone will proceed from individual countries (or groups of countries). At the same time, attempts at change at the European level can be blocked or discredited by individual countries, causing them to run aground. It makes sense, if we are to understand the extent of the challenge better, to take a closer look at the economic and social problems of individual countries.

This is the message of the present volume: a gradual recovery from the chronic crisis in the EU is possible only if there is a change of course in individual countries that then triggers reactions in the policies of other countries and perturbations at the EU level. However, it is also clear that a change of course in individual countries in most cases is no longer feasible without a green light or at least toleration from the level of the European institutions. In the various chapters of this book this interlinking is examined from either the national or the EU level. In the rest of this introduction I shall try to outline the connections between the two sides, starting with the policies being pursued, with EU support, to overcome the current crisis.

## **2. The competition Union**

The severe economic downturn of 2008/2009 seemed to have been surmounted successfully and a recovery had got under way in the second half of 2009, thanks primarily to the massive deployment of economic

stimulus packages that, not long beforehand, had been vilified as ‘watering-can policies’. It was at this point, however, that the crisis of the euro zone commenced. The straw that broke the camel’s back was the revised budget presented by the newly installed Greek government. It came out that the public debt and the budget deficit were much higher than had been publicly professed. When one considers that Greece’s share in the EU’s economic output was at that time 1.8 per cent – it is now even smaller – it beggars belief that the announcement set off an avalanche that brought the European Monetary Union to the brink of collapse. What, then, is the problem?

The accepted wisdom is that the fortunes of each member country of the European Monetary Union are in their own hands. Mutual assistance was originally expressly ruled out (which officially is still the case, under the vigilant gaze of the Bundesbank and the German Constitutional Court). If ‘the markets’ purchase government bonds of particular countries only if, due to ‘lack of confidence’ in their economies, they receive high interest rates in return, other countries were not allowed to help out the relevant ‘debt sinner’ to ameliorate their acute financing problems. The economic journalist Thomas Fricke (2013: 63) has called this logic, which underlies the euro, the ‘Swabian housewife theorem’ (SHT): ‘Falling ratings and high interest rates on government bonds [were] the just punishment meted out by the financial markets to SHT sinners’. The governments affected must therefore make efforts to put their budgets in order in order to ‘restore the confidence of the markets’. Obviously, if that does not succeed straightaway and if in fact the economically stronger member states do not jump in to help immediately ‘the markets’ become distrustful and even more borderline cases emerge within the Monetary Union. Once ‘confidence’ has been lost bond prices fall and interest rates skyrocket. This can land countries in acute payment difficulties as soon as they have to replace maturing government bonds with new ones and possibly even have to seek additional credits. In this way, in a matter of weeks or even days a chain reaction can occur, threatening to bring down the entire euro-construction. This drama was played out in front of an astonished global audience from early 2010.

In defence of Angela Merkel, it can be pointed out that the ‘SHT’ is not her invention, but was built into the foundations of the monetary union in the early 1990s in the form of the ‘Maastricht criteria’. The euro zone, like the single market, is conceived as a union of states that compete with

one another as if they were enterprises (Troost and Hersel 2012).<sup>3</sup> This construction has already proved highly problematic for the single market – for example, because in the rules in accordance with which competition takes place social standards do not have anything like the importance of the free movement of capital – but for the Monetary Union it amounts to a knock-out clause: without, among other things, a common tax system, equalisation payments between economically stronger and weaker regions or a common economic policy – in short: without central state institutions that previous economic history had shown to be indispensable conditions of a monetary union – it can be assumed that the existing differences in terms of economic performance between the participating states will only increase rather than diminish, so much so that the construction of a ‘competition union’ between an export and surplus oriented core and a periphery dependent to a considerable extent on imports financed by external credit has unleashed a dynamic of increasing imbalances within the EU (Horn *et al.* 2009).

However, it was more than ten years before it occurred to decision-makers that there was a problem, because Greece’s economic growth was always above the euro-zone average. The illusion was dispelled in 2008. The faulty design of the competition union could not withstand the storm of the international financial and economic crisis. In order to avoid its collapsing like a house of cards several rescue packages were deployed on a trial and error basis – or rather ‘error and trial and another error’ – and finally the European Stability Mechanism (ESM) was created.

However, this did not calm the situation. The European Central Bank (ECB) overcame its misgivings – to be more precise, the misgivings of the Bundesbank – at the end of 2011 and provided the banking sector with, in effect, unlimited credit at zero interest in order to boost lending to the crisis states at lower interest rates. Naturally, it would have been simpler to have provided the states concerned with central bank credits directly, but the ECB statutes do not allow it. The point of the diversion was concisely expressed by the then chief economist of Deutsche Bank: ‘By passing on cheap central bank money to states with a mark up the banks make profits from taxpayers. This attracts less attention

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3. Just how peculiar the logic underlying this concept is becomes clear when one puts the simple question: what happens to the employees of an enterprise that is unable to keep up with the competition and disappears from the market? The reader is no doubt perfectly capable of following this line of argument and transposing it to states.

than when taxpayers' money is applied directly in order to rehabilitate bank balance sheets' (Mayer 2012). When even this failed to calm things ECB President Mario Draghi declared in July 2012 that the ECB would, if necessary, itself intervene in the markets and buy up government bonds to an unlimited extent in order to bring down interest rates for the endangered states. The announcement alone did the trick: the situation steadied and the interest rates of the crisis states fell substantially.<sup>4</sup>

Naturally, the rescue path on which the ECB set out in 2012 is inconsistent, first, because, as part of the Troika, the ECB at the same time compels the endangered states to take medicine that only makes the illness worse. And second, it is undemocratic because in the extreme case the unelected ECB executive board can decide which bonds are to be purchased without limit and which are not – in other words, whether states that are unwilling to kowtow to the Troika's diktat are to be left to the mercy of 'the markets', while obedient crisis states can be protected with a firewall. Whatever the case may be without this ECB intervention the euro zone would probably already have broken up.

Although the powers-that-be in Berlin and Brussels were not enthusiastic about these activities on the part of the ECB they quickly realised that 'the Greek crisis was a godsend for anti-Keynesians' (Krugman 2013: 6). They launched a 'silent revolution' that, as former Commission President Barroso put it, 'will lead to a quantum leap of economic surveillance in Europe' (EUobserver 2011). In this way, step by step – or 'error by error' – the madness found its method.

### 3. The 'austeritarian' regime

German Chancellor Merkel, in a speech at the global economic forum in Davos, summed up the two main aims of this 'silent revolution' as follows: 'We in Europe intend ... to develop our economic and monetary union into a real stability union. This is anything but a quick-fix

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4. The pragmatism of the ECB induced the most devout believers to go before the German Constitutional Court. Its first judgment in this matter in February 2014 in essence calls 'the whole existence of the monetary union into question', in the opinion of one of the authors of the present book (Watt 2014a), who further notes that, fortunately, 'the markets' have thus far not taken this new threat seriously. But since the proceedings have not yet been concluded the time bomb continues to tick away (on this see also the contribution by Annamaria Simonazzi in this volume).

emergency operation. It's a strategy for the long term – a strategy that combines structural reforms designed to enhance competitiveness with the consolidation of public finances.' In a series of decisions by the EU institutions ('fiscal compact', 'sixpack', 'twopack' and so on) what will be practiced as 'new economic governance' within the framework of the 'European semester' took shape. Leschke, Theodoropoulou and Watt in their contribution to this volume describe the basic structure of this set of instruments and analyse some of the main results of its implementation, while Schulten and Müller show what this means for employees and trade union rights. A few highlights will suffice here that are particularly important for a better understanding of the links between EU policy and developments in particular countries.

The first and predominant focus of 'economic surveillance' is the 'consolidation of public finances'. This is accomplished primarily with the help of spending cuts; the revenue side, by contrast, receives little attention, with the exception of (regressive) consumption taxes. Austerity measures tend to be focused on health care, social services, pensions and infrastructural investment (OECD 2012: 41, 52ff). In the following country chapters the consequences of this approach are vividly described.

The focus on budget consolidation, primarily by means of spending cuts – so-called 'austerity policy' – is notable because the sequence of events is evident: first came the crisis, then public debt rose rapidly (see Figure 2). The latter was primarily the result not of the stimulus packages and rising social expenditure, as had been usual in previous crises, but of the bailout of the private banking sector. By way of example, in Germany public debt in relation to GDP rose from around 60 per cent to over 80 per cent, overwhelmingly because of the bank bailouts (BMF 2012).

By a quite breathtaking sleight of hand the effect was declared to be the cause and the victim the perpetrator. The rehabilitation of public budgets has been taken by the leading actors in Brussels, Berlin and elsewhere to be self-evidently the key to everything: in the short term debt reduction is to serve as defence against speculative attacks on the government bonds of 'debt sinners'; in the medium term it will furnish the 'confidence' needed for economic recovery; and in the long term it is the only way of protecting our 'children and grandchildren' from having to bear the costs arising because today 'we are living beyond our means'. There is no need to search for an elaborated rationale behind this approach, any more than in the case of the 'Swabian housewife theorem'

mentioned above. Over the past thirty years neoliberal doctrine has become strongly established as an interpretative framework independent of time and place. Such a thing cannot be thrown overboard in a matter of months. Especially not when 95 per cent of journalists strongly believe that 99 per cent of 'economic experts' cannot be wrong (the figures relate to Germany, where this piety is at an extremely high level by international comparison – matched only by the Directorate General for Economic and Financial Affairs in Brussels).

Austerity policy in combination with so-called 'internal devaluation' is the hard core of EU crisis policy. Leschke, Theodoropoulou and Watt (Chapter 13) describe the scope of the so-called 'scoreboard' with which the European Commission monitors the economic development of the member states. At its centre are budgetary policy and 'structural reforms for more competitiveness'. 'Social policies, in the broadest sense, have today been designated and targeted as the EMU's main adjustment variables' (Pochet and Degryse 2012: 217). For the cheerleaders of EU crisis policy, labour costs are the decisive factor in prosperity or otherwise. Schulten and Müller show with what insistence the universal remedy for boosting price competitiveness stemming from the 1980s and 1990s has been pursued, and in the relevant country chapters it becomes clear what the effects of this policy have been in a relatively short time.

The basic principle of neoliberal 'structural reforms' is 'one size fits all'. One is reminded of Joseph Stiglitz's (2002: 64) anecdote about how in the IMF's conditions applying to the granting of credits to countries stricken by financial crises in the 1990s someone once forgot to replace the name of the respective country using 'copy and paste'. The countries with which the Troika has concluded 'agreements' have been prescribed a programme of cuts and deregulation which is described by Maria Karamezini in her chapter on Greece as an 'acceleration of the neoliberal project'. The rescue packages provide an opportunity, at least in some EU countries, to implement an 'austeritarian' (austerity imposed in an authoritarian manner) regime (Dufresne/Pernot 2013: 4). The German government has played a decisive role in implementing this regime.<sup>5</sup>

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5. Jürgen Habermas (2014: 88) has summed up this role by saying that the German government has played on Germany's 'semi-hegemonic status' in Europe 'quite robustly' and has compelled the 'crisis countries to implement far-reaching "reforms", without discernibly taking pan-European responsibility for the severe consequences of this socially one-sided austerity policy.'

But how can ‘structural reforms’ be implemented in countries where the writ of the Troika does not run? The idea is to agree on so-called ‘competitiveness pacts’ to strengthen the ongoing ‘authoritarian constitutionalisation’ (Oberndörfer 2013). While critics regard this as contrary to European law, with the fiscal pact ‘Pandora’s box [has already been] opened’ in this regard (Oberndörfer 2013: 84). The establishment of such ‘competitiveness pacts’ has not proved easy, however. ‘Only Merkel still wants economic reforms’, ran the headline in FAZ on 21 December 2013, which reported that, in the Chancellor’s opinion, ‘reform fatigue’ was rampant in most member states because ‘the pressure from the financial markets and thus pressure for reform had abated’. Furthermore, in some states – such as the Netherlands – the flame of solidarity has dimmed. But the euro states must not leave things, she warned, until ‘the markets show us the red light’. It is as well to be reminded occasionally who has the final say and sets the lights to red or green.

But let’s now turn to the effects of the reforms that are alleged to have moved the markets to switch the indicator light to amber.

#### **4. Deepening the crisis with the efforts to fix it**

First of all: what has the austeritarian regime done for growth? As can be seen in Figure 1, gross domestic product (GDP) has returned to or surpassed its pre-crisis level in only four of the countries analysed in this volume. In the countries on the so-called periphery it has fallen much more than the euro-zone average, most dramatically in Greece, where austerity has been applied most severely. On average, austerity policy has driven euro-zone countries into a deepening recession.

This correlation has recently been rather soberly confirmed by the IMF on several occasions. The economists of the IMF even felt obliged to re-examine the consequences of all short-term consolidation programmes implemented across the world over the past 30 years at the IMF’s instigation. The outcome was that during a period of five years GDP has fallen substantially, unemployment – in particular long-term unemployment – has risen, wages have fallen and inequality of income has increased (Batini *et al.* 2012; Blanchard and Leigh 2013).<sup>6</sup>

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6. Nevertheless, within the framework of the Troika the IMF continues to help implement policies that its own economists regard as mistaken. However, tensions within the Troika appear to be increasing.

Figure 1a Change in GDP in selected EU countries below the euro-zone average (EA-18) (2007 = 100)

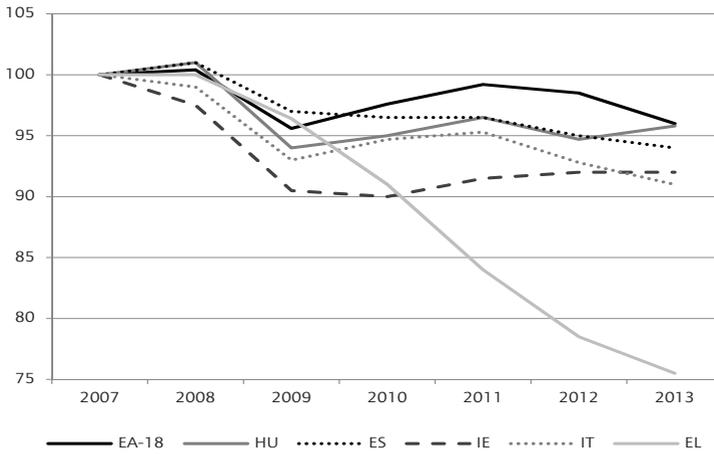
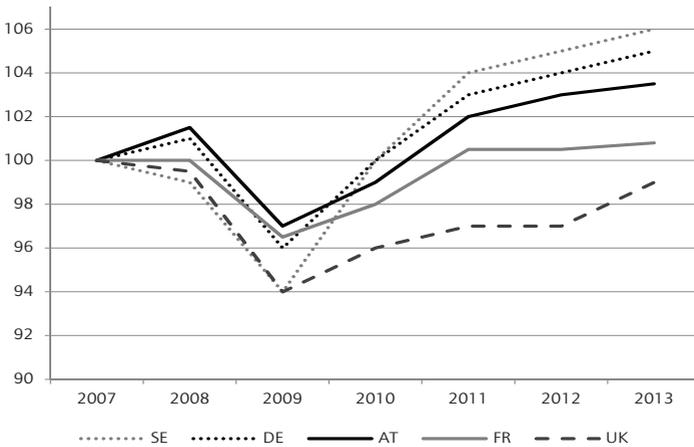


Figure 1b Change in GDP in selected EU countries above the euro-zone average (2007 = 100)



Note: For EU country codes see annex of the book.  
 Source: Eurostat; author's own compilation.

Needless to say, due to the prolonged and deepened recession in most countries unemployment is rising (on this see the chapter by Leschke *et al.*). Financial Times columnist Martin Wolf (2013a) puts it in a nutshell: ‘Austerity has failed. (...) Austerity cannot kill the economy. But it can inflict a great deal of unnecessary suffering and waste. Austerity is a treatment that aggravates the illness.’

Ironically, this policy has failed to achieve even the indirect goal of lowering public debt in relation to GDP (De Grauwe/Ji 2013). Because cuts in government spending reduce GDP even faster than state budgets the government debt ratio has risen (Figure 2).

The obsession with combating the crisis by reducing public debt has triggered a particularly calamitous negative spiral because austerity policy – as emphasised by the IMF economists – has negative effects on distribution. Increasing income inequality was among the major structural changes in most EU countries in the two or three decades preceding the crisis (OECD 2011; Ballarino *et al.* 2012). Critical analyses have presented this as one of the main causes of the global financial crisis, because increasing profits and capital income – encouraged by financial market deregulation – sometimes accompanied by higher private debt and long-term falling economic growth rates were increasingly re-invested in speculative investment classes (Huffschnid 2002; Foster and Magdoff 2009). The 2008/2009 crisis gave further impetus to this trend in most countries, after a brief profit plunge (OECD 2013). To make matters worse, austerity policy has only exacerbated the basic problem. Paul Krugman (2013: 13) sums it up nicely: ‘while economic policy since the financial crisis looks like a dismal failure by most measures, it hasn’t been so bad for the wealthy. Profits have recovered strongly even as unprecedented long-term unemployment persists; stock indices on both sides of the Atlantic have rebounded to pre-crisis highs even as median income languishes. It might be too much to say that those in the top 1 percent actually benefit from a continuing depression, but they certainly aren’t feeling much pain, and that probably has something to do with policymakers’ willingness to stay the austerity course.’

Wolfgang Streeck (2013) sees in this policy, which continues to flourish in Europe more than anywhere else in the world, as the latest culmination of a historical development from the ‘tax state’ through the ‘debt state’ to the ‘consolidation state’, in terms of which he demonstrates the tension between capitalism and democracy. He convincingly analyses

Figure 2a Changes in government debt in relation to GDP in selected EU countries: countries making severe spending cuts since 2009\*

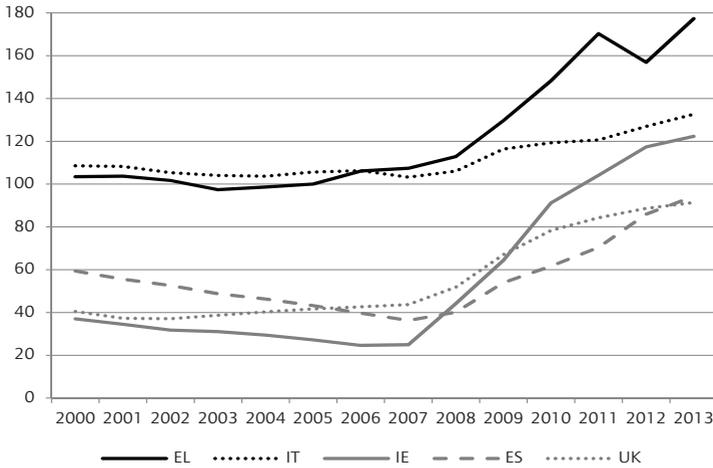
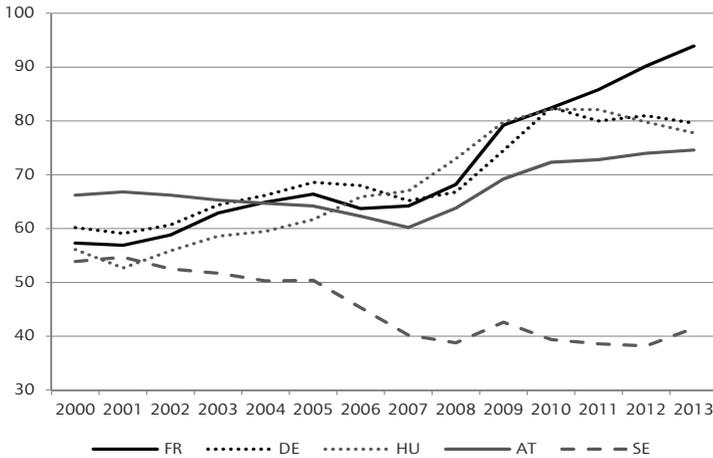


Figure 2b Changes in government debt in relation to GDP in selected EU countries: countries making less severe or only modest spending cuts since 2009\*



Notes: For EU country codes see annex of the book.

\* see OECD 2012 and de Grauwe/Ji 2013

Source: Eurostat; author's own calculations.

the financial crisis and European crisis policy as the current expression of a problem that has been around for over 100 years, namely that the modern state has found it more and more difficult to obtain the resources it needs to perform its increasing tasks from a 'society of private property owners': 'The cause of public debt is not too high spending but too low revenues' (Streeck 2013: 8).

The following chapters on the countries hit hardest by the crisis and by the measures taken to combat it since 2010 show strikingly how current austerity policy constitutes a second blow to lower income groups and with even greater force, while upper income groups remain largely unaffected. As observed by Leschke *et al.* (in this volume) the fact that social spending has been cut most savagely in just those EU countries in which the poverty rate was already highest is lamentable.

The key to current developments can be discerned in the fact that rising public debt, which has provided an excuse for austerity policy, is largely due to the bailout of the banks. In days gone by, so much capital was annihilated in capitalist crises that the remaining capital could be invested profitably again. This economic 'purging function' of crises has to a considerable extent been blocked since 2008 by the 'nationalisation' of private debts (Deppe 2013: 38ff). Although there have certainly been considerable losses, the profitability of a large part of surplus (some might say 'superfluous') capital has been maintained for the time being using taxpayers' money. In other words, rising inequality prepared the ground for the great crisis and austerity policy has served to sustain the threat. The victims are thus being persecuted instead of the perpetrators, who – so far, at least – have emerged from the crisis stronger than ever. What does this portend for the economic recovery that is purported to have set in at the end of 2013? Does it not show that the drastic remedies are finally beginning to work? Naturally, critics of EU policy incline to the view that the perceived signs of recovery are modest, to say the least. I don't want to yield to this temptation – although such fears are well founded – but rather to draw attention to another problem. If only due to the need for replacement investments, any crisis – as long as capitalism and cyclical crises continue to exist – has to bottom out at some point. What we have seen in recent years, however, has been a prolonging of the agony by means of the EU's efforts to get to grips with the crisis, making matters even worse. In practice, this means that unemployment, poverty and the dismantling of social protection have been pushed so hard that the economic data have improved almost by de-

fault. To take the example of Spain, due to social immiseration demand for imported goods has receded, while at the same time the sharp fall in wages has given a quasi-automatic boost to Spanish industry's price competitiveness. This turnaround from a chronic current account deficit to a modest export surplus has enabled the cheerleaders of 'reform' to boast of its success. In simple terms what we are seeing in some European countries today is recovery by virtue of impoverishment. It is important to understand, however, that this will inevitably leave its mark *over the long term*, indeed for decades to come. Crop destruction can be accomplished in a matter of minutes; recultivation takes considerable time. This is because the most important basis of any economy – human productive capacities – have been debased and neglected.

In this way the 'purging function' of crises is stifled in a more far-reaching sense. In contrast to earlier major crises the current one has not, to date, given rise to any innovation – in the good sense – in respect of either the economic development of individual countries or their social and environmental reorientation. And when it comes to a 'transformation project' like the one undertaken in the United States in the 1930s, which paved the way for the social harnessing of post-War capitalism the less said the better (Deppe 2013: 50). To be sure, the conditions for – and challenges facing – such a transformation are entirely different from those in the middle of the last century and would also entail, due to lower growth rates, much bitterer conflicts about distribution (Klein 2013: 47). To sum up, much ground has been lost in the current crisis but there has been no innovation in terms of socio-economic development.

This applies not only to the countries hit hardest and most dramatically by the crisis. This is shown clearly by the variegated picture provided by the country analyses in this volume, with all its contrasts, contradictions and paradoxes.

## 5. Continental drift

The first overall impression that emerges from the ten country chapters is that of a continent drifting apart. If one considers the trends in context it becomes clear how much the obsession with cutting public spending and shrinking wage costs – the pivot of the new economic policy governance in the EU – is blocking the urgent reorientation of socio-economic models in the member states.

This observation is important because criticisms of the ‘structural reforms’ driven forward by the austeritarian regime should not give rise to the conclusion that – particularly in the most crisis-ridden countries – there is no need for reform. On the contrary, as the following country analyses show, every country is afflicted in its own special way, thereby making it vulnerable to crisis. The universal remedy being prescribed to these countries – now that ‘the party’s over’, as James Wickham put it in the case of Ireland – bears no relation whatever to the nature of the illness. It will at best retard any recovery.

The stubborn adherence to questionable or even manifestly bankrupt growth models is most striking in the places hit hardest by the crisis. We should thus look at these countries first.

## 5.1 Pathogenic medicine

After the initial phase of the crisis – namely the global financial and economic crisis of 2008/2009 – *Greece* has suffered the most dramatic slump of all the euro-zone countries. Maria Karamessini depicts the ‘punitive character’ of financial assistance and the consequences of ‘shock therapy’ for her country, which has ‘unleashed a spiral of austerity – recession – austerity’. She describes, on one hand, the social devastation that has ensued, which will continue to afflict the country for a long time to come. On the other hand, she emphasises the lack of economic prospects due to this approach: austerity and privatisations deprive the state of the tools with which it might be able to foster growth. ‘Growth will thus entirely depend on incentives to foreign multinational capital and the most internationalized fractions of Greek capital. The greatest incentive will be an impoverished working class deprived of its rights and a great labour reserve created by mass unemployment.’

In contrast to *Greece*, *Italy* has a major tradition of internationally competitive industrial production, ranging from the garment industry to mechanical engineering. However, crisis has been creeping up on Italian industry – which moreover hardly expanded into the southern part of the country – since long before 2008. Annamaria Simonazzi takes a somewhat more optimistic view of the endogenous potential of the Italian economy than many other experts from that country, but she takes especially the state and the political system to task. She explains ‘Italy’s vicissitudes’ among other things in terms of an interaction of tax evasion,

tax evasion and tax cuts, which, along with an inefficient and clientistic public administration, substantially impedes expansion of infrastructure and, especially, social services. Tax policies have opened a 'perverse channel of income redistribution', as 'the middle classes (and the 'third Italy' in the north-east and elsewhere) managed to avoid paying taxes and turned their tax notices into bonds, underwriting the loans required to finance the deficit'. Other factors include the policy of labour market deregulation aimed at bringing about – inadequate in her opinion, too – flexibility by means of social insecurity; the lack of any kind of industrial policy; and 'a political stalemate making bold reforms to clean out cronyism and corruption almost impossible'. Against this background she explains the situation that in Italy the recession has snowballed into a bigger and prolonged burden for the Italian economy and society. She sees no light at the end of the tunnel.

Stagnation, by contrast, is the last thing that comes to mind in relation to *Spain*. In fact, in the past 30 years this country, in contrast with the rest of southern Europe, has experienced the most rapid capitalist modernisation process. Josep Banyuls and Albert Recio describe an economic and social dynamic shaped by the 'contradictory attempt to apply neoliberal policies in a society that was trying to develop a – previously non-existent – welfare state'.<sup>7</sup> The economic boom was increasingly sustained by a construction and speculative bubble nourished by foreign debt. The bursting of this bubble is now being exploited as an opportunity to impose a 'neoliberal-conservative project' involving privatisation in health care and education, the dismantling of social services and rights, but also the strengthening of conservative-elite elements. Thus in a major education reform more mechanisms of social selection were introduced; the financial basis of the state school system was weakened; and civic instruction reduced in favour of Catholic religious instruction. Social and regional inequalities are likewise deepening. As a consequence, 'the need of the family to be the provider of welfare services returns even stronger, in a context in which the public sector is no longer providing basic services.' This policy is driving the country towards 'a falling back to the old Mediterranean model, as many of the cuts are aimed at burdening families, or rather the women with managing to fill the gaps caused by the

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7. One striking indicator is the enormous increase in female employment: on the eve of the crisis the employment rate among women, according to Eurostat figures, was 55 per cent, having been only 40 per cent in 2000 and 30 per cent in 1990. By comparison, the EU27 average was around 59 per cent in 2008 (50 per cent in the EU15 in 1990), in contrast to 47 per cent in Italy and 49 per cent in Greece.

lack of public provisions.’ In the economic domain Banyuls and Recio also consider the ‘structural reforms’ to be backward-looking: instead of promoting scientific and technological advance, opening up to more productive and cooperative production methods or eliminating barriers to social mobility, the government programme ‘reinforces an obsolete production model based on low wages and precarious employment, limiting the possibility of change and reproducing all of the problems which have traditionally affected the Spanish economy.’<sup>8</sup> It is exactly the production model that initially enabled Spain to achieve high growth rates until it came under pressure from central and east European enlargement and was partly replaced by the real estate boom of the 2000s as a new growth engine. Thus, Spain is being driven ‘closer to the experience of many Latin American societies affected by adjustment plans rather than the Central European model that it has spent years trying to emulate.’

As in Spain, in *Ireland*, too, a real estate boom financed by private debt ushered in the crisis. Growth was so rapid that this traditional emigrant country turned temporarily into an immigrant country. When the bubble burst the government debt ratio exploded from around 25 per cent on the eve of the crisis to almost 120 per cent five years later, primarily as a result of the unprecedented assumption of all the debts of the banking sector, which had been heavily involved in speculative trading.<sup>9</sup> Among the countries whose budgets were taken under the umbrella of European rescue efforts Ireland’s development is the one held up by the European Commission as an encouragement to others. James Wickham in his analysis examines the contradictions and shortcomings of this success story. The main growth engine, alongside the banking sector, comprises foreign – especially US – direct investments. Ireland’s attractiveness in this respect lies in large measure in its low corporate taxation, favoured by, among others, large software and internet firms for their global businesses. Wickham finds it ‘bizarre’ that the entire party spectrum has ‘made [the low corporate tax rate] into a symbol of national independence’, which has to be defended against the criticisms of other EU member states: ‘Far from stimulating any re-think of the national development strategy, the crisis turned the reliance on FDI into a national fetish’.

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8. Steinko (2013: 148) illustrates the economic strategy being pursued in Spain at that time with a quote from a minister for economic affairs from 1990: ‘the best industrial policy’ is one ‘that doesn’t exist’.

9. In the meantime, ‘the dangerous shadow banks in Ireland are flourishing again’, as FAZ (1.3.2014) reported with some concern, and are handling an estimated 70 per cent of the country’s financial transactions.

The Irish growth model is not only a striking example of the increasing predominance of national egoism in the EU as a result of the crisis – other examples are the defence of the City of London against the financial transaction tax by the British government and the defence of the German automobile industry against strict CO<sub>2</sub> directives by the German government). It also shows how great the obstacles are to developing a coordinated economic and tax policy, which is essential for a functioning monetary union, but also how comparatively easy it is for the participating governments to reach agreement on cutting social spending and deregulating labour markets as a recipe for boosting competitiveness.

## 5.2 You don't need the Troika to wreak havoc

The four countries we have used so far to exemplify adherence to unsustainable or even manifestly bankrupt growth models are members of the euro zone. The structure of this monetary union has served only to exacerbate the problems, but also in countries without the euro revision of previous growth models is being undermined, even if it is accompanied, as in *Hungary*, by anti-neoliberal rhetoric.

András Tóth describes Hungary's socio-economic development under the reign of charismatic right-wing populist prime minister Viktor Orbán as a 'selective economic nationalism'. The previous model, as in Ireland, was reliant on foreign direct investment. To some extent, this was the other side of the coin of the Spanish growth model that faltered in the 1990s because German industrial companies in particular diverted their supplier and investment strategy from southern Europe and France to the new member states (Duval 2013). However, the new industrial engines in Hungary have long since ceased to provide the rest of the economy with much impetus. Rapidly increasing private and public debt in the years before the crisis yielded short-term growth, but did nothing about the fundamental problem. This model collapsed with the advent of the crisis and under pressure from the European Commission the – then still social-liberal – government switched to austerity. The widespread disenchantment to which this gave rise enabled Orbán, similar to Rajoy in Spain, to swing the pendulum to the right. He established a regime sustained by an absolute majority (sufficient to enable it to change the Constitution) with strong echoes of national chauvinism, racism and anti-Semitism, which was returned to power at the parliamentary elections in April 2014. Orbán's policies are, on one hand, neoliberally inclined, as

indicated by the labour market ‘reforms’, massive social spending cuts and restrictions of trade union rights, as well as the continued efforts to attract foreign investors. On the other hand, this is combined with the systematic promotion of and preference given to influential domestic suppliers in the home market and in the case of public contracts. Furthermore, the highly indebted segments of the middle and upper classes (economically speaking) were given the chance to settle their debts with foreign banks at one fell swoop at a very favourable exchange rate, very much to the chagrin of, in particular, Austrian credit institutions. All of this has repeatedly brought the European Commission into the arena, but even legal measures are only grist to the mill of nationalist rhetoric. Tóth warns that other, larger countries could follow Hungary’s right-wing populist example. In the short term this mixture of neoliberalism and reactionary nationalism can be relatively successful, but the fundamental economic problems are not being addressed and the effects on social standards and the political culture are, in Tóth’s view, devastating.

While legal development in Hungary was at least partly triggered (if not caused) by intervention by Brussels what is perhaps the most massive austerity steamroller in Europe was set in motion without any help or even compulsion from Brussels or Berlin. This is shown by Damian Grimshaw and Jill Rubery on the example of the *United Kingdom*. In the wake of a number of social adjustments to Thatcherism – such as the statutory minimum wage and the significant expansion of public services – made by the New Labour government the current government is pursuing a radical and broad-based austerity policy in public services and social spending, combined with a new privatisation wave that for the first time has its sights on the health service. Grimshaw and Rubery consider this to be a fundamental restructuring of the United Kingdom towards a ‘true neoliberal employment and social model’ with a ‘shrinking [of the] public realm’ that is part of neoliberalism’s very core. Even a, by some measures, growing economy – after years in the doldrums due to austerity – does nothing to change either the basic problems of the British economy or the weak productivity growth, low investment and a current account deficit stretching back 30 years. The economy also remains unduly dependent on the financial sector (see also Wolf 2013b). To make matters worse, as in Spain, the ever deepening social and regional divisions will continue to exert their baleful influence for many years to come. Grimshaw and Rubery conclude that ‘the UK is likely to witness a “lost decade” of stalled economic output and investment, falling real wages, growing debt and a resurgence of unsustainable asset bubbles.’

The example of the United Kingdom shows even more clearly than that of Hungary that it would be one-sided and delusive to understand the austerity regimes established in a series of EU states as due primarily to the dictates of the Troika or pressure from Brussels (and Berlin). To be sure, this pressure is massive, but it is based on fundamental decisions taken by all heads of state and government and the numerous national parliaments which, for example, approved the 'Fiscal Compact' and in some cases even conferred constitutional status on it. There can also be no doubt that the official designation of Troika directives as 'memoranda of understanding' represents a ridiculous attempt at misdirection to cover up the real balance of power. This applies especially to developments in Greece and Spain, however much their national elites have endorsed and actively been involved in this policy and however much they represent their own direct interests. To drive this point home, with reference to Spain: the roots of the current government party reach back into the Franco era and are based on a clerical-reactionary tendency still existing in Spanish society. However, this tendency – not least against the background of capitalist modernisation in recent decades – has long been too weak to create the basis required for such a socially, politically and economically reactionary government policy on its own account. This is where Brussels and Berlin come in, offering the Spanish government a welcome excuse to declare that 'there is no alternative' and to generate such a degree of discouragement that a large part of Spanish society have come to feel that they must, at least for the time being, bow to the superiority of the powers-that-be, both domestic and foreign. The Spanish government's repeated claims that this foreign interference is an imposition can even be accepted as sincere, exhibiting the pride of these nationalist elites, embattled on all sides by corruption. Even though a domestic programme cannot be implemented without foreign help that does not mean that those providing the help have to be loved.

This complex situation opens the doors to right-wing populism – as in Hungary or France – and, on the other hand, makes it difficult for the opposition in many EU countries to offer a realistic prospect of bringing about a change of course in their own country. Another hindrance is the fact that the elites of economically stronger countries do everything in their power to divert attention from the real reasons for their (relative) economic and social stability and recommend a remedy to other countries that they do not apply themselves.

### 5.3 The concealed sheet-anchor

If one looks at analyses emanating from countries that have weathered the 2008/2009 recession relatively well they seem to have one thing in common: the governments concerned took measures that – as Christoph Hermann and Jörg Flecker show on the example of *Austria* – ‘temporarily returned to Keynesian deficit-spending’. This includes – as in the case of Germany – both state spending programmes and a ‘revitalisation of Austrian social partnership’. The welfare state with its automatic stabilisers has proved to be a stability anchor of last resort.

What Dominique Anxo has to say about *Sweden*, although different in detail, is essentially the same: the stabilising mechanisms included additional central-government transfers to municipalities even beyond 2008/2009 in order to avoid job cuts in social services, as well as an increase in public investment in infrastructure, but also tax cuts and higher transfer payments for low-income households. As in previous crises the Swedish krone was also depreciated but ‘compared with previous economic downturns, Swedish economic growth over recent years has been driven less by increases in exports than by an increase in public and private consumption, due both to increases in disposable household income and the additional appropriations to local government’. Anxo recalls that ‘the Swedish tax burden remains among the highest in Europe in spite of some decline during the past decade’. This made it possible to keep public debt low and, at the same time, the level of social and other services high.

This is all the more remarkable because the conservative Swedish government – much more radical than the Grand Coalition in Austria – is one of the most enthusiastic advocates of neoliberal crisis policies in Europe. James Wickham in his chapter on Ireland draws attention to a comparable paradox, namely the ‘curious survival’ of the welfare state, which he contrasts with what has happened in Greece: ‘In official media and public discourse increasingly the crisis is blamed not on the excesses of Anglo-American casino-capitalism but on allegedly excessive state expenditure. This is a curious inversion of reality. In fact, the crisis has highlighted the state’s ability to protect citizens against the vicissitudes of the market. In Ireland it is precisely the maintenance of the “European” welfare state, weak and imperfect though it may be, that has actually prevented social collapse.’ Even though Ireland’s recovery is celebrated in Europe, this ‘dark side’ is, of course, passed over in silence. The welfare state is an extremely unwelcome anchor.

This partial divergence of policies on the ground from the doctrine purveyed to a credulous media and to other countries is a pattern perfected by the various Merkel governments: prescribing medicine to others that one does not take oneself. Or at least that one does not take *for now*, and certainly not in the dosage forced on others: in Sweden, for a number of years now – much more purposefully than in Austria – the government has been sawing away at crucial pillars of the social model: neoliberalism has not left these countries unscathed, either. However, the care with which this is being carried out contrasts markedly with the deregulatory zeal that reached its zenith in the Agenda years in Germany and now is being proclaimed as a model for Europe.

I go into these points in more detail in the chapter on *Germany*. Deregulation in the German labour market is not the reason why the economy and the labour market stood up surprisingly well to the dramatic downturn from 2008 and developed relatively stably from the second half of 2009. Rather before the crisis they tremendously accelerated the increase in imbalances within the monetary union and thus helped decisively to prepare the ground for the near-collapse of the euro from 2010 onwards. In 2008/2009, however, previously written-off core elements of the pre-*Agenda* social model were reactivated, in particular the preference for *internal* operational flexibility, made possible by a ‘social partnership’ sustained by more self-confident trade unions. On top of that came something that the rest of Europe had awaited in vain during the preceding period of buoyant economic growth: average wages began to rise, not least because the trade unions now received more public support for their wage policy. As a result, for the first time this century economic growth in Germany was sustained more by its domestic market than by the – still high – export surplus. In brief, the relatively stable development of Germany’s economy and labour market is due primarily to the fact that in recent years the ill effects of the *Agenda* policy on the labour market have begun to be curbed.<sup>10</sup>

The fact that the contrary message disseminated by the German government and the media finds such broad resonance is related to the excep-

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10. And once the recent reforms – such as the statutory minimum wage and a strengthening of the option of declaring collective agreements to be generally binding – are in fact implemented not only will the damage be curbed but the first corrective measures will be taken. This will have positive side-effects for Europe, even though certainly unintended because the EU portion of the coalition agreement promised to maintain the policy of the previous government (Watt 2014b).

tional international success of German industry, enhanced by its primarily product-based competitiveness. The fact that this has nothing to do with the Agenda policy, either, is shown by the analyses of Austria and Sweden. In those countries there has been no even remotely comparable labour market deregulation, but there, too, the basis for value creation of the national economy has proved relatively robust in recent years. Thus the depreciation of the Swedish krone, mentioned above, was able to boost industry only because this industry is internationally competitive 'despite' high social standards.

At the same time, however, the analyses of the economically strong countries draw attention to another thing they have in common: Germany, Austria and Sweden run the risk, in one way or another, of forfeiting their strengths. In Germany, it is primarily underinvestment in social services and public infrastructure, together with failures in education policy, with their detrimental effects on training, that are gradually undermining future economic success. Similarly Austria which, in the words of Hermann and Flecker, 'seems to be able to hold on to existing achievements, but fails to make the necessary investments to cope with future challenges, including long overdue investments in public infrastructures and research, as well as in a profound social and ecological modernisation.' And Dominique Anxo concludes his chapter on Sweden – after referring to the high unemployment and signs of unrest in urban districts with majority immigrant populations in summer 2013 – with an anxious prospect: 'if Sweden fails to re-establish the conditions for a return to full employment, in particular to reduce unemployment and increase employment rates for some of the abovementioned vulnerable groups, we cannot exclude a progressive decline of the Swedish model, its coherence and the robustness of its social cohesion.'

*France* already finds itself enmired in such a process. Here the inability, currently widespread in Europe, of economic and political elites to recognise the particular strengths and weaknesses of their respective economic and social models is becoming evident in an especially worrying fashion, hindering them from concentrating on overcoming weaknesses and developing their strengths free from ideological blinkers. Florence Jany-Catrice and Michel Lallement recall that France's economic development has for decades been sustained, through a number of crises, by a strong domestic market orientation – which until recently was made possible by continuous increases in average wages – and that France belongs, alongside Sweden, to the 'group of countries with the most robust

protection mechanisms' which 'undoubtedly did much to counteract the economic crisis of 2008'. However, the fact that French companies have this time not resorted to short-time working to anything like the same extent as their German counterparts and instead have cut jobs signals a change of direction, which is increasingly carrying over to the political level: cutting labour costs instead of boosting the value creation base. In only ten years the share of gross value added of manufacturing in French GDP has fallen by 5 percentage points to only 10 per cent (less than half the size of Germany). The critical economists cited by Jany-Catrice and Lallement explain this among other things by strategic neglect of product innovation, which also finds expression in the fact that while in 1992 R&D spending by corporations represented 45 per cent of dividends, by 2011 this had plummeted to 25 per cent. In Germany it is generally not recognised that financial market capitalism is stronger in France – as expressed, for example, in companies' stock market capitalisation – despite the number of state-owned companies and substantial residual 'statism'; because of its almost symbiotic relationship with various forms of elite organisation in the economy and the state administration it exerts an innovation-constricting influence.

The conflict concerning France's economic policy orientation – and possibly also that of Italy – is likely, in the near future, to play a key role in determining how serious the commitment is to the guidelines agreed in Brussels on boosting 'competitiveness'. The Hollande government has thus far obediently adhered to the dogma that labour costs have to be reduced in order to improve competitiveness, growth and employment. Disappointment with this lack of leadership has induced many of those who in 2012 showed that they wanted to abandon the 'Merkozy' approach to turn rightwards. Thus France is becoming a vivid example of the grain of truth in Chancellor Merkel's dictum that 'there is no alternative' to current crisis policy: for the time being, there are no powerful – that is, politically credible and feasible – alternatives.

## **6. All change in Europe emanates from the nation state**

Notwithstanding the already cited prognosis of chief hardliners in the European Commission 'the worst' is not behind us. Even if the economy in the euro zone is growing again, in the longer term the scorched earth left by austerity policies will not easily be made good, which paves the way for the next crisis. At the same time, Europe remains locked into

boosting ‘competitiveness’ by institutionalised competition between states and the new economic policy governance, which in the current global economy and in the face of the environmental challenges does not promise a greener future. Even the political ‘crop damage’ is clearly discernible: ‘Europe’ is coming to be perceived by more and more people as rather a threat than a promise and democratic rights are progressively being curtailed. In the euro zone it can be seen most clearly how realistic Joseph Stiglitz’s (2013) pessimistic judgement is: ‘The euro was supposed to bring growth, prosperity, and a sense of unity to Europe. Instead, it has brought stagnation, instability, and divisiveness.’

This evaluation hones in on the core problem: the continent’s economic recovery hinges on the ‘confidence of investors’ or of ‘the markets’. If this does not automatically give rise to confidence among *ordinary people* an excuse lies readily to hand: social and economic problems are explained as *national* problems (see also Sauer 2013: 124).

To a certain extent that is indeed the case. Except that they are social conflicts *within* nation states and not *between* them. This is shown by the country analyses in this volume. The economic development models of a considerable number of European countries have not proved sustainable but now they are supposed to be revitalised despite increasing social inequality and weakening of labour market regulation and the welfare state. In the meantime, the governments of the economically stronger countries, with whom before the crisis the weaker countries had entered into a poisoned symbiosis, keep an eye on whether the rules of the austere regime are adhered to. But even for the stronger economies this regime is becoming a trap they laid for themselves, preventing them from dealing with their own problems. Thus the participants in this competition union are becoming a burden to one another. They are bound together primarily by problems and a common evil that none of them want to face: the increasing inequality which is proving to be a challenge that does not respect national borders and which states are finding it more and more difficult to cope with.

Because all the member states are now in the hole their governments – under the tutelage of the German government – dug for themselves, strapped in by intractable agreements under European law, the view is gaining ground among critics that progressive reform of EU legislation and the monetary union is not feasible in the foreseeable future. Any attempt to fend off the threat to social achievements registered especially

in the second half of the twentieth century within the framework of the nation state is possible, for the time being, only within this framework. Wolfgang Streeck (2013: 218, 223, 256) has expressed this resignation categorically, declaring that ‘constructive opposition is impossible’: ‘At present opposition to the consolidation state cannot be much more than sand in the machinery of capitalist austerity and its associated discourse’. What is needed – if only as the ‘second best solution’, according to Streeck – is to use the historically established institutions and the ‘residual democracy in the nation states’ as ‘a stumbling-block on the downhill slope into a single market state purged of democracy’ (Streeck 2013: 163, 189, English edition).

Experience goes back a long way with a strategy limited to defending the achievements of the nation state. This strategy for obvious reasons is predominant in northern Europe and the trade unions in these countries concentrate on this task to such an extent that they often show little interest in European policy. They have certainly chalked up a number of successes in this way; nevertheless, their power resources are being reduced by inches and their influence is gradually waning (see also the chapter on Sweden). Comparable experiences bring Hans-Jürgen Urban, in his contribution to this volume, to the conclusion that trade unions’ influence may best be exerted by building up what he calls a ‘constructive veto power’ in the sense that ‘it is used not to conserve status-quo structures but to contribute towards the reconstruction of the socio-economic development model.’ He regards this as a key challenge to the trade unions in the European crisis. In other words, coping with this challenge must commence with ideas or concrete reform projects on re-orientation of the socio-economic development model in one’s *own* country. This is the basis needed for the implementation of re-orientation at European level, which must be guided by – as Urban calls it – a ‘pro-European critique of Europe’. The widespread uncertainty concerning how this dual challenge can be dealt with he calls the European-policy ‘strategic gap’ of the trade unions.

The trade unions are far from being the only and sometimes not even the most active opposition functioning as a ‘stumbling block’ in relation to the dismantling of the achievements of nation states. Maria Karamessini, Josep Banyuls and Albert Recio, in their chapters on Greece and Spain, emphasise popular opposition – in which they themselves participate – to the crisis policy of their governments and the EU. We occasionally read in the newspapers that there has been another general strike

or big demonstration. But anyone who seeks out (for example, in trade union publications or websites such as [www.troikawatch.net](http://www.troikawatch.net)) reporting on the activities of social networks and protest movements will be impressed in both political and human terms by the extent of the courage and resistance: one might mention the self-organised clinics for the many people denied access to the public health care system in Greece, the broad-based civil disobedience against evictions in Spain or, again in Spain, the months-long demonstrations, petitions and strikes against the privatisation of six Madrid clinics, which led to a climbdown – for the time being – by the city council.

However, Banyuls and Recio also draw attention to the problem: ‘Although there are important social movements against government policies they focus on concrete aspects and there is no clear alternative to the austerity and liberal policies. Neither the opposition parties nor the trade unions offer substantial plans for new development paths. Because a credible political alternative to the neoliberal policy of cuts and labour market deregulation is lacking the latter can be presented as the only realistic answer to the crisis.’

But the political situation is rapidly changing in Spain, and even more so in Greece, as Maria Karamessini emphasises: the left majority is proposing ‘a growth strategy which allows for fiscal adjustment through an increase in taxable income and radical tax reform and makes use of primary fiscal surpluses and external financing (from the EU and other sources) for poverty alleviation and public investment.’ However, she also points out that such alternative approaches can be realised only if the crisis policy currently being pursued in the EU is halted and scope permitted for national reform programmes. Thus alternative approaches could be negotiated only at the EU level.

Italy, in contrast to Greece and Spain, is not under the strict supervision of the Troika or the European Commission and still has more economic potential. But Annamaria Simonazzi, too, regards the predominant EU policy approach as a barrier, rather than a lever, for desperately needed reforms: ‘An alternative policy must be based on the tenet that aggregate demand must increase in order to create new job opportunities, and public (physical and human) infrastructure needs to be part of it. The tax base must be more equally spread and service provision must improve. This calls for a solution to the quandary of public employment and bureaucratic inefficiency. The concept of taxes must be connected again

with the concept of services: people need to relearn that what they pay is for their health, education, child and elderly care. We need an industrial policy to identify the direction of development, guide investment, endeavour to ensure that the increase in demand does not leak out in imports and devise means to support the upgrading of value chains. New industrial relations and the revision of labour market deregulation are also needed, distinguishing between flexibility and insecurity. Indebted countries surely must do their homework, but we must reach an agreement on which “structural reforms” are most needed.’

Thus, the interlinkage between progressive reform agendas developed at national level and mutual support between countries at EU level is unavoidable today. The calling into question and erosion of the social achievements of post-War capitalism began long before the introduction of the euro. The regulations and institutions created within this framework have increased the pressure, but they did not create it. It should also not be forgotten that there has been no attempt in Europe since the very first years of Mitterrand governments in France to pave the way for an alternative to neoliberalism at the national level. Taking up the resigned proposal to confine oneself to throwing ‘sand in the machinery’ would mean, literally, exhausting one’s efforts to preserve earlier achievements. The only way out of the dilemma is forwards. The difference from previous decades is that this is becoming less and less possible within the framework of the nation state. If it was enough in the twentieth century to refer to globalisation to explain the extent of this challenge – and the rapidly abandoned attempt in France at the beginning of the 1980s justifies this – in Europe today rapid economic integration and the ever tightening bonds of authoritarian governance mean that there is no ignoring mutual dependence across national borders. Anyone seeking a response to this on the left must be realistic enough to accept that in Europe today the following two things go together: *at national level there must be massive pressure for the implementation of reform projects so that the unavoidable conflicts at European level can run their course and the current blockades be overcome, thereby making it possible to realise national reform projects.*

It may be objected that the European treaties prohibit this or that and in any case the political balance of power in the EU rules it out entirely. With regard to the treaties it is only partly true, because programmes such as the DGB proposal for a ‘Marshall Plan for Europe’ or the EuroMemorandum (2015) address in detail the implementation op-

tions within the framework of existing institutions. The same applies to the ‘Programme for Employment’ presented by the Italian trade union federation CGIL (CGIL 2013), which demonstrates the scope for reform within the framework of the nation state in Italy. However, it is certainly true that, for example, the Council decisions on monitoring national budgetary and economic policy are formally well anchored and difficult to overturn, to say nothing of even more far-reaching ambitions, such as a social charter that would have the same legal status in the EU as the economic freedoms. But anyone wanting progressive change must not restrict themselves to what is possible or not in existing institutions, but consider how a political dynamic can be unleashed that makes possible more than was previously considered feasible.<sup>11</sup> Only in this way can institutions be changed. Thus what is called for is to think less in terms of institutions and more in terms of political processes.

Crucial for political dynamics within the monetary union is the point expressed by Austrian economist Stephan Schulmeister (2013: 45): ‘the creditor is only as strong as the debtor is weak’. In other words: decisive support for economic policy alternatives even within only one nation state, linked to the demand for (at least) a loosening of the fetters, deviating from the current decisions and principles of the European Council and the European Commission, would put the whole policy mainstream of the single market and the monetary union to the test. Depending on the capacity for conflict and alliance building of a government that stepped out of line in this way – and, up to a point, was able to push the limits of the principle of unanimity in the European Council – the other governments would be called upon to tackle this provocation. And depending on the extent of their concern about alarming ‘the markets’ and a possible domino effect in the monetary union they would have to ameliorate or correct their previous course, to a greater or lesser extent. However, progressive movements and trade unions in other countries would thus face a new situation. Hitherto, they are likely to have had the impression that they lived in different worlds. In the event of an obvi-

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11. On the other hand, it would be unrealistic to believe that the pressure for reform within particular nation states could to some extent be skipped by means of institutional reforms at the level of the EU and the monetary union. Macroeconomic governance at the EU level that came into being via parliamentary democracy could follow neoliberal guidelines, in which case welfare state achievements at the national level could be dismantled with even greater ‘legitimacy’ than at present. Streeck worries that a left pursuing a constructive European policy could in this way play into neoliberal hands and on this point he is broadly right – except that building up reform pressure in individual nation states cannot simply be neglected.

ously *political* crisis – not one provoked by ‘the markets’ – their options for joining forces would be much improved. It would be easier for all critical forces to exercise *social* solidarity beyond national borders instead of *national* solidarity within one’s own country, which is the likely outcome of the ‘Swabian housewife theorem’.

An institutional structure like that of Maastricht, which gives the green light to neoliberal policies virtually across the board, while showing red or at best amber for social standards and for mutual support and convergence of national economies, cannot be reformed without tough conflicts, crises and schisms. The impetus for such an unavoidably grim reform process would come from countries in which the desire to end the austeritarian regime and for a national social, economic and environmental re-orientation would be so strong that conflict with Brussels, Berlin and other power centres would be inevitable. ‘Constructive opposition’ at the EU level will ultimately only be as effective as ‘constructive opposition’ for reforms in individual states. As things stand at the moment, it is difficult to imagine such impetus for Europe coming from Germany. One thing is certain, however: everything depends on how impetus from other countries is taken up in Germany, especially by trade unions and other progressive forces.

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All links were checked on 15 October 2014.

