CHRONICLE OF A CRISIS FORETOLD: THE POLITICAL ECONOMY OF THE EUROPEAN PROJECT[1]

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Introduction

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This cartoon was released when the EU won the Nobel Prize for Peace in 2012 and calls to mind a quote attributed to Napoleon – "never ascribe to malice that which can be explained by incompetence" (in McNamara, 2013). But the cartoon is misleading because it portrays the response of the EU authorities to the economic crisis as simply a mistake (or a series of mistakes). This overly ascribes to incompetence much that can better be explained by malice. In reality, what has happened is largely in line with how the makers of the Eurozone saw the system working. This crisis is not an aberration – it is the logical result of a coherent, though not necessarily sustainable, design.

The logic of the EU project

The EU has long helped institutionalise what Stephen Gill (2001) has dubbed 'disciplinary neoliberalism' (see also Storey, 2008). Neoliberal policies are locked, politically and often legally, into the very structure of the EU. Examples of such policies include the following:

- An active EU policy of encouraging competition which acts against the exclusive state provision of certain goods and services, and limits state aid that would distort the 'level playing field' of competition. A highly germane example is the 2002 decision to end German government aid to its state-owned Landesbanken and savings banks (European Commission, 2002), which was probably one factor prompting them to try and sustain profitability by diversifying into sub-prime mortgages and other risky financial 'innovations' (Reuters, 2008). Furthermore, the prohibitions on direct state aid have fuelled a proliferation of tax reliefs and contributed to downward pressure on corporation tax rates as governments have sought alternative ways of helping 'their' companies. Of course, once the crisis broke all bets were off and governments were allowed, urged even, to throw unlimited amounts of money at financial institutions.[2]

- In certain sectors, such as telecommunications and high-speed trains and in the services sector as a whole, there has been direct promotion of liberalisation, especially through the issuing by the European Commission of legal directives (Dobbin, 2001; Hay, 2007; Thatcher, 2004) and through the judgements of the European Court of Justice against trade union collective bargaining rights, such as in the infamous Laval case (European Commission, 2007).

- Monetary policy is administered by an 'independent' (from electoral pressure) European Central Bank (ECB) with an anti-inflationary mandate, but with little or no concern for issues of growth and employment. Of course, this claim to a narrow mandate is often interpreted in a disingenuous fashion and does not prevent the current ECB president

[2] This is an example of the distinction David Harvey draws between neoliberalism in theory (free markets, competition, etc.) and neoliberalism in practice (a project to boost corporate power and profits); see Lilley (2006). Referring to the evolution of financialisation, as driven especially by Wall Street and the US state, Peter Gown (2009: 20) makes a similar point: "while the New Wall Street System was *legitimated* by free-market, laissez-faire or neo-liberal outlooks, these do not seem to have been *operative* ideologies for its practitioners, whether in Wall Street or in Washington", who instead operated in a cartel-like manner that cut across the public-private sector divide.

intervening in a debate about, for example, the balance (between cutting expenditure and raising taxes) of fiscal adjustment (O'Rourke, 2013).

- Fiscal monitoring is carried out by the EU Commission through, initially, the Stability and Growth Pact (SGP), which sought to limit states' capacities to run fiscal deficits and debts. This aspect has reached its apotheosis in the current climate with a new Fiscal Treaty and various other related fiscal governance rules that are obliging governments to strive to meet arbitrary and onerous deficit and debt targets at a time when the recessionary circumstances clearly call for fiscal stimuli (Palley, 2013).

- International agreements are negotiated by EU authorities, such as through the World Trade Organisation (WTO) and through regional and bilateral free trade deals, that bind European countries (and their trading partners) into the global liberalisation of trade in goods and services and into the free movement of capital (Storey, 2006; Storey, 2011; Hurt, 2012).

As Richard Hyman (2004: 8) has put it, "any serious pressure to defend and extend 'social Europe' contradicts a dominant [neoliberal] logic of actually existing European integration". Indeed, this is true to such an extent that in 2012 ECB president (and former Goldman Sachs employee) Mario Draghi could confidently assert that "the European social model has already gone" (Mabille, 2012), again straying somewhat from his mandated focus on inflation. The EU today is the principal (though not the only) channel through which a neoliberal model is being institutionalised right across the continent.

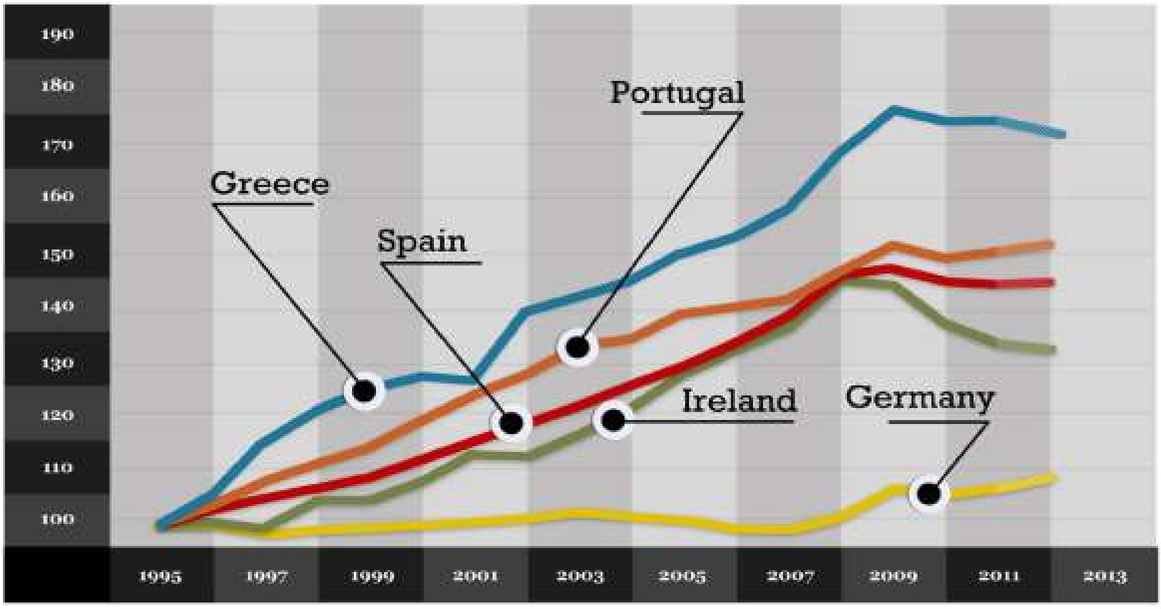
Part of the EU's significance lies simply in its scale. The transfer of power from national to regional level in, especially, the case of economic and monetary union (EMU) ensures that no individual member state can respond to popular pressure by making 'concessions' in the area of monetary policy (and the Fiscal Treaty, etc. seek to ensure that the same is true for fiscal policy). Most starkly, the euro ensures that devaluation is off most national agendas. The significance of the transition from the national to the regional is explained by Werner Bonefeld (2002: 132-3):

> "The importance of EMU… is that national states, on their own initiative, will no longer be able to accommodate class conflict through credit expansion or currency devaluation. EMU, then, inscribes the neo-liberal policy of market freedom… through the creation of supranational institutional devices that check expansionary responses to labour conflict."

In other words, the structure of European regionalism seeks to ensure that no one state can go 'soft' and make concessions to its own working class. Instead, adjustment costs must be borne through adjustments in wages and in the 'social wage' of the welfare state. Steve McGiffen (2001: 91), writing over a decade ago, quoted an approving neoliberal economist thus: "Either the euro subverts the welfare state, or Europe's welfare state will subvert the euro… smart money should bet on the euro". That subversion of the welfare state is precisely what, in part, underpins the EU elite's response to the crisis we are now living through.

The current crisis: threat and opportunity

Fig. 1 - Evolution of nominal unit labour costs



Source: AMECO (2011 and 2012 are forecasts)

This chart (drawn from Lapavitsas *et al*, 2011: 15) illustrates the growing competitiveness gap between core and periphery Eurozone members from the mid-1990s onwards. German wages were deliberately restrained throughout this period as labour markets were liberalised and austerity lionised, trends that made Germany very much an outlier in terms of Eurozone trends (Bibow, 2013: 16).[3] Although the peripherals were become increasingly less competitive – relative to the outlier Germany – they no longer had available to them the 'traditional' response of currency devaluation. Instead the peripherals mostly ran up substantial balance of payment deficits that were financed by borrowing (Ireland was an exception by virtue of its unusually bouyant export sector, which is dominated by US multinationals). This, in essence, is what caused the European debt crisis – core country banks lending to the public and private sectors of the periphery, facilitated by a low interest rate policy[4] on the part of the ECB and by lax regulation of such cross-border lending by the ECB or any other authority. As Jorg Bibow (2013: 14) puts it:

> "Essentially, Europe created the single financial market, but was satisfied with minimum standards for national financial regulators and supervisors while otherwise practicicing mutual recognition (EU passport principle). This meant that financial institutions were let off the hook to roam freely in the common market (and beyond) without effective policy control. With banks facing heightened competition from deeply liberalized markets, incentives were set for adventurous excursions into new territories and innovative products".

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[3] Bibow (2013) makes the point that this German strategy could only work if other countries behaved *differently* to Germany and ran up debt in order to purchase German exports, highlighting the contradiction in German leaders now insisting other countries adopt the German template; the same point is made by Wolf (2013).

[4] Interest rates were effectively negative in Spain and Ireland.

What the peripheral countries used the borrowed money for differed from case to case. In Spain and Ireland, for example, money flowed into overheated property markets and created huge property price bubbles (Lopez and Rosriguez, 2011; O'Riain, 2012). In Greece, large public debt was incurred, but much of this was for dubious purposes such as armaments imports and infrastructural projects whose costs were bloated by corruption (Slijper, 2013). Most countries did not, prior to the crisis, have significant government budget deficits – this was not, for the most part, a crisis caused by irresponsible government spending, it was predominantly a crisis caused by irresponsible activities undertaken by private sector agents (Lapavitsas *et al*, 2010).

But it would *become* a crisis of government budgets, mainly because governments guaranteed the debts of the banks. Nowhere is this more striking than in Ireland where the September 2008 state guarantee of the banks has left Ireland footing the bill for the largest bank 'bail out' in history (Whelan, 2012). We now know that the Irish guarantee was probably not suggested or pushed by the ECB but was a catastrophe entirely of that state's own making (Brennan, 2013). But as the crisis developed the pressure from the ECB intensified, alarmed as it was at the prospect of 'contagion' spreading to the core country banks i.e., of German, French and other banks not getting back the money they had lent to the periphery, with potentially severe effects for their balance sheets. Preserving the financial sectors of their own countries was the first priority of core country leaders and it remains important today. This imperative was very evident, for example, in the run-up to the Irish 'bail out' of 2010 when the ECB insisted that Ireland continue all bondholder payments (Whelan, 2012).

However, those leaders have also recognised that the crisis is an opportunity as well as a threat, an opportunity to continue the longer-term EU project of shifting power further away from labour and towards capital, and further 'locking in' pro-corporate policies. They have adopted the dictum of former Barack Obama chief of staff Rahm Emanuel: "You never let a serious crisis go to waste. And what I mean by that it's an opportunity to do things you think you could not do before"[5] (see also Klein, 2007). Thus, from 2010 to 2013, Greece, Ireland, Portugal and Cyprus (in that order), finding themselves no longer able to borrow at affordable rates from the financial markets, were obliged to seek loans supervised by the 'troika' of the European Commission, ECB and International Monetary Fund (IMF). And those 'bail out' loans (partly intended, as discussed above, to ensure bondholder repayments) came at a price – public spending cutbacks, taxation increases, privatisation, deregulation, and so on. In the case of Cyprus, the price includes the expropriation of a portion of bank deposits.

As Zacune (2013: 3) puts it, "the dark irony is that an economic crisis that many proclaimed as the 'death of neoliberalism' has instead been used to entrench neoliberalism". The Commission has recently gone so far as to explicitly support water privatisation conditionalities for 'bail out' countries, contrary to its own supposed neutrality (as set out in Article 345 of the EU Treaties) vis-à-vis company ownership (Zacune, 2013: 8). In June 2011, a referendum in Italy saw 96 per cent of the electorate vote to overturn laws that promoted the privatisation of water management and the management of other local public utilities. Two months later Mario Draghi (yes, again not entirely

[5] See http://www.mrctv.org/videos/rahm-emanuel-dont-waste-serious-crisis

focused on inflation) sent a secret (subsequently leaked) memorandum to the Italian government calling for:

> "a comprehensive, radical and credible strategy of reforms, inluding the full liberalisation of local public services. This should apply in particular to the supply of local services through large-scale privatisations" (in Zacune, 2013: 11).

(This plan has since been stymied by the July 2012 judgement of the Italian Constitutional Court that any reintroduction of plans to privatise local public services would be unconstitutional).

As this last example illustrates it is not just the 'bail out' countries that have been the subjects of the drive to entrench neoliberalism. Spain and Italy have also adopted programmes of austerity under EU pressure, while in Italy (as in Greece) an elected prime minister was replaced by a 'technocrat' to try and push through the required measures. (The ECB timed its purchases of Italian bonds on the secondary market to induce the collapse of the Berlusconi government). Similar trends – austerity and neoliberal policy conditionality – are evident in much of Central and Eastern Europe (Lutz and Kranke, 2010), and new Commission proposals for fiscal governance (going even further than the Fiscal Treaty) would extend 'bail out'-style economic austerity rules, and neoliberal reform more generally, to all member state governments of the Eurozone.[6] Echoing Rahm Emanuel, Paul Krugman has observed that "the drive for austerity was about using the crisis, not solving it" (in Zacune, 2013: 3).

For example, in late March 2013, the Commission presented two communiques, one of which – on 'structural reforms' – envisages the Commission signing a contract with each Member State to implement agreed reforms: "measures addressing competitiveness, promoting financial stability and improving the functioning of labour, product and services markets" (in Corporate Europe Observatory, 2013b). These are well known Commission euphemisms for advancing privatisation, and dismantling collective bargaining rights and other labour protections.[7]

At the same time as this policy conditionality was being imposed, so also was a *narrative* of the crisis being imposed – that the crisis had been caused by fiscal profligacy on the part of the peripherals and that the Fiscal Treaty, etc. would ward off future such crises by preventing countries running up excessive deficit and debt levels.[8] But, as discussed above, government spending was *not* the primary driver of the crisis – rather, that spending has been discursively constructed as a scapegoat in order to advance the long-term process of locking in neoliberal policies and insulating them from democratic debate and alteration. This is what Hugo Radice describes as "the

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[6] By stark contrast, proposed new regulations for the banking sector are weak and undermined by loopholes (Corporate Europe Observatory, 2013a).

[7] All this is couched in the language of 'partnership', and the proposal says that enforcement of the contract "would be triggered by an invitation to a participating Member State" (in Corporate Europe Observatory, 2013b). An invitation?! There is an unmistakeable echo of the famous *Godfather* line here: "I'll make him an offer he can't refuse".

[8] A related myth is that German and other core taxpayers are 'bailing out' the peripherals: in reality, Northern Eurozone citizens have lost none of the money lent, and they have in fact saved money because borrowing costs for Germany, Finland, Austria, the Netherlands and France have fallen as the markets perceive them as the safest bets in the context of the current crisis (Strupczewski, 2013).

reallocation of blame towards the working classes of the Eurozone, i.e., austerity policies and the protection of creditor rights rather than workers' living standards" (2013: 8, emphasis in original).

Steve McGiffen's prescience regarding the impact of the euro on welfare states was noted earlier. He also correctly observed (2011: 64) that the *raison d'etre* of EMU was to remove "the tiresome influence of popular, democratic institutions on macro-economic policy". And a fine example of that are the words (see Storey, 2012) of German chancellor Angela Merkel during the 2012 debates on the Fiscal Treaty:

- "The debt brakes will be binding forever. Never will you be able to change them through a parliamentary majority";
- The new fiscal rules will have "eternal validity";
- "Europe would not function any more if it changed course after every election".

The EU elite's unwavering commitment to neoliberalism is matched only by its contempt for democracy.

Conclusion

Of course there *has* been resistance to the imposition of neoliberalism and to the assault on democracy. We have seen massive strikes in Greece and protests in Portugal, the rise of the indignados movement in Spain, electoral gains for the anti-neoliberal Left in the Netherlands and Greece, and many more. Even in Ireland there has been more protest than is sometimes assumed, and more of it than might be expected has been directed against the overall iniquities of the crisis and the 'bail out' rather than concentrated on purely local grievances (Naughton, 2013). But there have been setbacks also, including gains for the Right in some countries and even the rise of fascist groups in Greece and elsewhere. Perhaps a factor that would help make our mobilisations more successful is an acknowledgement that, as this paper has argued, we are not living through a crisis caused entirely by the stupidity and misguided policies of our elites – they may well be stupid in some respects, but they know what they are trying to do and they have been working on it for decades now.

And they plan to plough on even when the evidence overwhelmingly demonstrates that the current strategy is not working on its own claimed terms; EU Commissioner Olli Rehn dismissed even an IMF economist's study showing the limitations of austerity as contributing to "a debate which has not been helpful" (Portes, 2013). That does not mean the strategy will succeed *even for them* as the project is beset with its own contradictions and tensions (Bibow, 2013; De Grawe, 2013). But opponents of the project cannot call for us to go back to where we were before the crisis broke. To resolve the current crisis and prevent another we need to radically transform the entire European system of governance.

This in turn begs questions about what exactly such a transformation would entail and what agents one might expect to help bring it about. Broadly speaking, proposals here range from a reformist programme for policy reversal (EuroMemo Group, 2013), that even proponents of which now see as unlikely to happen (Palley, 2013), to the claimed need for countries to exit the Eurozone, ideally in an orderly and negotiated manner (Lapavitsas *et al*, 2011). My own feeling is that the latter option is now the only viable means of creating a more humane and sustainable European society as well as one that might act in a less exploitative manner towards the environment and towards the rest of the world (Brand and Wissen, 2012) . The logic of neoliberalism and exploitation isalmost certainly too deeply rooted in the rules of the Eurozone, and indeed within the EU as a whole, for it to be dislodged. In a much quoted (and criticised) recent speech[9] on the European Union, Irish President Michael D Higgins spoke of "the risk that an economic crisis will lead to a crisis of legitimacy for the Union". In response, it may be time to say – 'bring it on'.

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[9] Available at http://www.thejournal.ie/michael-d-higgins-speech-european-parliament-873314-Apr2013/

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