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Democracy in Europe: a tale of two crises

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Abstract

This article addresses the issue of the relationship between 'the market' and democracy in the European Union from a critical political economy perspective. It argues that the way the European Union institutions and national governments are attempting to solve the current economic and financial problems of the Eurozone enhances the trend towards 'new constitutionalist' arrangement that were already present. A detailed analysis of the reforms is proposed, as well as an historical perspective on the relationship between 'the market' and democracy that has characterised Western political economies. The recent reforms of EU economic governance are thus seen as furthering the insulation of socio-economic policy-making from public's electoral accountability.

Introduction

Recent developments in the Eurozone, such as the formation of technocratic governments in Greece and Italy, the creation of new, more binding, European rules regarding public finances and the tough conditions posed in exchange for the granting of bailout packages, have been increasingly perceived by both public opinion and academia as a curtailment of the democratic principles that constitute the foundation of the European Union (EU) (McGiffen 2011; Streeck 2011).

The issue of the democratic deficit was and continues to be at the centre of academic attention (some classic works include Weiler et al 1995 and Coultrap 1999). While some scholars stress the inconsistency of the democratic deficit issue and, on the basis of arguments of efficiency and output legitimacy, reject the view of a democratic deficit problem that is specific to the EU (Moravcsik 2002; Crombez 2003), also on Pareto-efficient grounds (Majone 1994; 2006), others continue to underline that the EU is much less than an ideal polity in democratic terms. While a procedural electoral approach has focused on the lack of proper electoral institutions at European level (Decker 2002; Hix and Follesdal 2006; Lord and Beetham 2001), a deliberative 'Habermasian' approach stresses the weakness of a European 'public sphere' or 'strong public' (Eriksen and Fossum 2002; Meny 2002) and what can be termed a 'social legitimacy' analysis focuses on the issue of the lack of a European 'demos' (Bartolini 2006; Zielonska 2006).

However, from a critical political economy (Cox 1981, 1983, 1987) perspective, as the one adopted in this study, it is more interesting to study the current state of democracy within the EU by looking at its continually evolving relationship with the sphere of 'the market', itself the outcome of social and political struggles between classes that are constitutive of the capitalist mode of production. A crucial point regarding the debate on the democratic deficit is that it often takes as given fixed definitions of what 'democracy' as such is, while seeking to compare this ideal to the EU. A historicist critical political economy approach however, seeks to relate the historical manifestations of democracy

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and the possibilities of democratic participation with the current phase of integration, without needing to fix once and for all what democracy or human freedom are. Scholars working within the critical political economy approach have focused on a variety of issues regarding European integration (Bieler and Morton 2001; Cafruny and Ryner 2003, 2007; van Apeldoorn, Drahokopuil and Horn 2009; van Apeldoorn 2002; Bieler 2006; Overbeek 2003; Van der Pijl 2006b).

However, there has been no attempt so far to analyse the consequences that the recent reforms of European economic governance have had on democratic processes from this perspective. Here my aim is to apply Gill's concept of 'new constitutionalism' as a heuristic tool in order to shed new light on the European economic governance reforms. 'New constitutionalism' describes a neoliberal international governance framework whereby economic policies are increasingly separated from broad political accountability "in order to make governments more responsive to the discipline of market forces, and correspondingly less responsive to popular-democratic forces and processes" (Gill 2001: 47). The argument proposed is that the enacted reforms will in fact exacerbate the trend towards a 'new constitutionalist' framework by locking in a set of harsher constraints on the possibility of democratic processes to influence socio-economic policy making.

The focus here is neither solely on EU institutions nor on member states. Rather, what is stressed is the character of transnationalism of the process of transformation, which must not be juxtaposed to either national and supranational: "transnational processes are those that take place simultaneously in subnational, national, and international arenas" (van Apeldoorn, Overbeek and Ryner 2003: 39). A critical political economy approach thus goes beyond both state-centric and structuralist approaches, examining the social origin of state power in capital as a social force, a discipline over society and nature. As Van der Pijl has argued, "capital remains a force that by preference seeks to occupy the interconnections between separate political jurisdictions" (Van der Pijl 2006b: 15). Thus, the state-system and the logic of capital are interrelated and the current mode of production has been characterised by transnational social relations. For the purposes of this paper, the main actors behind the process of 'new constitutionalism' are identified in the transnational historical bloc of social forces that has been at the origin of the neoliberal 'comprehensive concept of control' (Van der Pijl 1998 ch.4) and the concomitant shift to financialisation as a mode of accumulation (McNally 2011; Fine 2009). This bloc, itself a political synthesis of interests and identities from different countries, is made up of a transnational managerial class, other elements of transnationalising productive capital in manufacturing – including many small and medium enterprises involved in sub-contracting – and elements of financial capital involved in banking, insurance and finance (Bieler and Morton 2006 p.18; see Van der Pijl 1998; Bieler and Morton 2001). Crucially, the European Monetary Union (EMU) is seen as a strategic project of globally oriented finance and industrial capital (Van Apeldoorn 2001). In brief, this study considers class agency within and across nations to be the central analytical category and thus as bringing about the transformations described.

However, in an attempt to overcome the reductionist and economicist trends in Marxist political economy, a neo-Gramscian approach stresses the fundamental discursive dimension of class agency and power. Thus, ideas and discourses are not simply complementary aspects to be added on in an ad-hoc fashion to the analysis; they are constitutive of our world, they contribute to the very production and reproduction of capitalist social relations and of the wider historical structures. Historical structures (a particular configuration of power in the dimension of ideas, material capabilities and institutions) are not seen as determining the actors' choices but as influencing them (Cox 1981). This frames a dialectical relation between agencies in structures that is well summed-up by Marx' oft-quoted phrase: "men make their own history, but they do not make it as they please; they do not make it under circumstances of their own choosing, but under circumstances existing already, given and transmitted from the past" (Marx 1963 p.15). Every social force aims at making its view of the world the dominant one, thus creating 'limits of the possible' in political terms that condition the way people and classes can understand their social world and the possibilities for change. Ideas, in this conceptualisation, have a material structure (Bieler 2001). Thus, one must conceive the logic of action as constituted by both material interests and ideas as inseparable elements of human agency and historical transformation. It is precisely the role of 'organic intellectuals' to develop ideas that create a framework of thought for the social force they are the expression of.

Critical theory differs from problem-solving theory ontologically, epistemologically and methodologically (see Cox 1981 for the classic argument). Adopting a critical theory approach, the article will not formulate

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or test hypotheses here. This work is conceived as an instance of a descriptive interpretive case study. The latter "interprets or explains an event by applying a known theory to the new terrain. (…) Although this method may not test a theory, the case study shows that one or more known theories can be extended to account for a new event" (Odell 2001: 163). My aim is to apply Gill's theoretical concept of 'new constitutionalism' to a new case: post-reform European Union. The empirical material used includes documents of EU institutions accessible through the official websites, as well as legislative proposals and a variety of academic and journalistic commentary.

The article is divided into five parts. It begins by providing a historical reflection on the relationship between capitalism and democracy within neo-liberalism. It then presents Gill's notion of 'new constitutionalism' and briefly engages with alternative theories of European integration, as well as with the critiques of 'new constitutionalism' that have been advanced within critical political economy itself. Parts three and four are devoted respectively to a description and an analysis of the reforms enacted. The fifth part reviews the origins and consequences of the economic and financial crisis in the Eurozone.

The de-politicisation of 'the economy'

In the post-war years, there was a widely held assumption that for capitalism to be compatible with democracy, it needed to be subjected to extensive political control. This was the golden era of the welfare state, what in France was known as the trente glorieuses of economic growth, rising standard of living for everyone and the creation of effective mechanisms of social protection. Liberalism incorporated the welfare state concept and thus recognised the power asymmetries that constitute 'the market', in turn legitimizing public intervention to guarantee social rights and entitlements following Polanyi's logic of 'social protection' (Polanyi 1957).

Since then, mainstream economics has however slowly but systematically aimed at undermining the idea of public intervention in the 'economy', and has become "obsessed with the irresponsibility of opportunistic politicians who cater to an economically uneducated electorate by interfering with otherwise efficient markets, in pursuit of objectives – such as full employment and social justice – that truly free markets would in the long run deliver anyway but must fail to deliver when distorted by politics" (Streeck 2011:6). In fact, economics as a discipline has arguably been an important vector in the advancement of neoliberalism, as neoclassical theory provides a micro-economic theory set against the state's intervention in the economy. It has become what Marx called a 'material force'. In Van der Pijl's (2006a: 160) words:

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

The social and economic crisis of 1970s was interpreted by the authors of the famous essay The Crisis of Democracy as stemming precisely from an excess of democracy. From democracy being carried over and invading the sphere of the economy, where it should not adventure itself (Crozier et al. 1975). The solution advanced was that microeconomic rationality should be restored to the individual's choices. 'Discretionary' political interference into the economy should be avoided.

Thus, by resurrecting the idea of 'the market' – the term 'market economy' gradually substituted the term 'capitalism' – as the regulator of each individual's freedom and capacity, capital is effectively hidden as a social force which acts within the market sphere, and what is instead promoted is the idea of a 'neutral' sphere regulating the merits and life-chances of individuals.

The trends described above have arguably been exacerbated by a situation of crisis, which – as the neoliberal economist Friedman himself remarked (Friedman 2002: 300) – is often a productive moment for the introduction of radical reforms. The dominant narration reflects a de-politicised naturalisation of the crisis. Thus, the new regulatory measures are, as Zizek points out, "presented not as decisions grounded in political choices

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but as the imperatives of a neutral financial logic – if we want our economies to stabilise, we simply have to swallow the bitter pill" (Zizek 2011: 85).

'New Constitutionalism': bracketing 'the economy'

One of the main elements of neoliberal governance, theorised by Stephen Gill, is what has been termed 'new constitutionalism'. It consists of a tendency to insulate significant aspects of economic policy from popular-democratic accountability, and subordinating them to technocratic management. In Gill's words, we are witnessing the "imposition of new constitutional and quasi-constitutional political and legal frameworks – with respect to the state and the operation of strategic, macroeconomic, microeconomic and social policy" (Gill 2000). This process entails the proliferation of constitutionally guaranteed arrangements for macroeconomic policies, such as the creation of independent central banks and of balanced budget laws, leading to a form of 'sanitised democracy' (van der Pijl 2006b). In essence, new constitutionalism enshrines, in Gill's words, "the discipline of capital in social relations", that is the "politico-legal dimension of the wider discourse of neoliberalism" (Gill 2000:47) and makes alternative models of development more difficult to bring about democratically (Gill 2012).

Within the EU framework since Maastricht, several elements signal the move towards a 'new constitutionalist' settlement (the following is partly based on Gill 2001). First, the institutionalisation of strict fiscal discipline in order to make governments more 'credible' to investors and de-socialise risk provision through the welfare state. Second, the management of the monetary policy by the European Central Bank (ECB) since the modification of its status would require the agreement of all national parliaments. Moreover, its main task is to fight inflation, with other goals being subordinated to this objective. Third, the creation of the Single European Market based on the constitutionalisation of market freedoms (the four freedoms) within the EU that makes it more difficult for member states to implement demand management or public intervention policies. For instance, competition policy and the rules of the internal market are guarded by the European Commission and the European Court of Justice (ECJ). Fourth, the unelected Commission has the exclusive power of legislative initiative, and within a relatively broad mandate laid down by member states, exercises day-to-day control over external trade. In addition, the development of a 'juridical Europe' (Holman and van der Pijl 2003), spurred by the constitutionalisation of the internal market with its four freedoms, has increased the power of the ECJ on socio-economic governance, thus furthering its insulation from democratic control. Moreover, as Van Apeldoorn (2000) has argued, EU-level labour market and social policies have been framed within a 'new competitiveness discourse' sponsored by transnational business organisations such as the European Roundtable of Industrialists.

The general outcome is that, within the framework of EMU, governments become more responsive to the discipline of transnational market forces, expressed in the need to maintain freedom for capitals, low inflation and low corporate taxes, to balance national budgets and keep public spending under control, while deregulating the labour market (Gill 2009). Thus, "public policy has been redefined in such a way that governments seek to prove their credibility" to capital, their policies judged "according to the degree to which they inspire the confidence of investors" (Gill 2000: 47).

Van der Pijl (2006b: 29) usefully sums up the thrust of the 'new constitutionalist' framework. He argues that "just as economic competitors are not supposed to challenge the nature of the market economy itself (which is why the state has to be separate from the economy and refrain from taking on any activity which private subjects can handle), the participants in the democratic competition must accept the 'level playing field', that is the existing socio-political order". Thus, the boundaries of the 'political' and the 'economic' realms are redesigned in order to lessen short-run political pressures on the formulation of economic policy so that many redistributive policies, let alone a radical change in socio-economic policy, are rendered more difficult, or even illegal (it could even be argued that 'inequality' cannot become an election issue).

Mainstream integration theories are largely unable to account for such changes as they focus on the form rather than the content of European integration. Neglecting the capitalist nature of the European polity, which is embedded in a world capitalist totality, mainstream theories also lack the conceptual tools to analyse the social content and social purpose of the recent phase of integration. Behind mainstream theories of European integration there is an unspoken assumption that "market forces are expressions of an inner rationality of universal human nature that is held to be the

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essence of the realm of freedom in political affairs" (van Apeldoorn, Overbeek and Ryner 2003: 17-18). A critical political economy approach – grounded in a Marxist-Gramscian perspective – on the other hand, by focusing on the social power constitutive of a 'market economy', stresses the embedding of institutions into wider historical structures (Cox 1981), which are produced and reproduced through class struggle and hegemony. In extreme synthesis, within a historicist perspective, what is refused is also the idea that human freedom has found its ultimate realisation in liberal political institutions (Bobbio 1955).

Neofunctionalism (the classic reference here is Haas 1968) and intergovernmentalism (Moravcsik 1991, 1993; Milward 2000), as well as recent attempts to modify the theories to respond to critiques and take into account new developments (Sandholz and Zysman 1989 and Moravcsik 1998) all adopt utilitarian and individualist assumptions that are not able to understand the nature of social power relations, grounded as they are in the asymmetries generated by the mode of production. In these accounts, power as such is seen as the realm of the state or of supranational institutions, while civil society is viewed as the sphere of freedom, of free interactions among human beings. Neo-functionalist analyses could argue that the pooling of decision-making power on fiscal policy in the recent reforms (see below) is the outcome of a 'spillover effect' in times of crisis. However, they would be unable to grasp the fundamental social purpose that lies behind these reforms, as they lack the instruments to conceptualise social power as such, and thus to contextualise the shifting boundaries between 'the market' and democratic participation.

Multilevel governance theory (see Hix 1999) goes beyond previous approaches by looking at the EU as a sui generis political system that can be analysed with the tools of comparative politics. However, as van Apeldoorn, Overbeek and Ryner point out (2001: 26-29), such approach can be subjected to the critique that the Marxists advanced to pluralist political science in the 1960s. The thrust of the argument was that the competition among interest groups within a state does not take place on equal terms, as the very structure of capitalism makes the state much more responsive to capital's interests. For instance, the state's dependence on state revenue and on the investment decisions of firms makes state policy skewed towards meeting the valorisation goals of capital rather than other objectives.

Within critical political economy, critiques that point to weaknesses in the concept of 'new constitutionalism' have been advanced. Bruff (2010) ha argued that the concept, together with the whole approach of 'transnational historical materialism', suffers from the assumption of institutional isomorphism: "the implicit argument is that this transformative project, once formulated at the European level, is able to penetrate the member states in a uniform manner because the national units fall into line what the supranational unit dictates" (Ibidem: 618). He points out that by subsuming the 'national' into the 'transnational', any change in the national political economies is seen as caused by the entrenchment of neoliberalism at EU level by transnational capital, and that this stance neglects the 'national' as a focus of analysis: "the impression that once gets – despite what the intentions may have been – is that national capitalisms are little more than functional to the interests of transnational capital as expressed through the EU's institutional architecture" (Ibidem: 619). This critique then warrants – according to the author – the development of a theory that analyses the national while remaining aware of the conditioning of the international. Strange (2006) has also advanced a critique of 'new constitutionalism', arguing that Gill neglects the politically contested nature of the concept of constitutionalism and thus adopts a determinist approach arguing that the single currency project is to be equated unequivocally with monetarism and neoliberalism: "for the new constitutionalists, European integration and the Euro (are) simply attempts by the transnational elite to consolidate economic globalisation politically" (Ibidem: 214); "Despite its explicit analytical emphasis on agency (especially the transnational global elite), new constitutionalism is substantively structuralist in its understanding of the relationship between the (structurally dominant) transnational capital, (facilitating) EU governance and (structurally dominated) broadly progressive/social democratic interests" (Ibidem: 226).

The point, however, is that 'new constitutionalism' is not an all-encompassing concept that describes the framework within which socio-economic policy is carried out and that completely subsumes the national unit. It is – in interpretation adopted by in this article – a tendency that is operative within neoliberalism, and as any form of political and social struggle, it is prone to counter-tendencies and resistance that are operative also at the national level. In both Van Apeldoorn's and Gill's analyses there is attention to forms of agency. The framework that was devised at Maastricht, for instance, is not seen as purely neoliberal, as it is the outcome of a skewed compromise between alternative political pro-

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jects for European integration, with the predominance of the neoliberal project (see Van Apeldoorn 2002). Thus, there are elements of social policy at European level, and fiscal transfers in the form of structural and regional funds do play a role. There are also channels for democratic accountability. The Commission is not entirely insulated from democratic control, as commissioners are nominated by the president in accordance with member states. The parliament does have a role to play in an increasing number of areas of policy-making at the European level. However, the general trend has been towards the limitation of popular-democratic accountability, as noted above.

According to Van Apeldoorn, since Maastricht, the EU witnessed the rise of an 'embedded neoliberal' hegemony in which European socio-economic governance subordinates member states to the interests of global transnational capital, at the same time committing itself to limited elements of 'embeddedness' (in the Polanyian sense) that are however almost exclusively rooted in national institutional frameworks (van Apeldoorn 2002). The author has also focused (2009) on the increasingly relevant problems of legitimacy of the European neoliberal project at the national level, thus incorporating an analysis of the different national class compromises within the European 'new constitutionalist' settlement. Accordingly, it is the national state that must guarantee welfare state entitlements in the face of European constraints. Moreover, Gill himself never argues – contra Strange – that a single currency is to be equated with neoliberalism. In fact, he acknowledges the possibility of devising alternative forms of monetary and political union that are based on alternative social forces and political projects (Gill 2001 pp.61-69). There is therefore no neglect of the national dimension and of the contested nature of 'new constitutionalism' and no structural determinism at work.

"A silent revolution"

Recent reforms of the Stability and growth pact (SGP) and economic governance in the EU and in the Eurozone in particular have been defined by President of the European Commission Barroso as a 'silent revolution' (Corporate Europe Observatory 2011: 2).

At the beginning of October 2011, the Council has agreed upon a package of six legislative proposals on economic governance, the so-called "six-pack", explicitly designed in order to strengthen "economic governance in the EU – and more specifically in the Euro area – as part of the EU's response to the current turmoil on sovereign debt markets" (Council of the EU 2011). These reforms make the SGP stronger in both the prevention and enforcement stages. The public deficit and public debt criteria are placed on equal footing for the first time, and a new voting procedure ('reverse qualified majority' voting) has been adopted.

The reforms have concerned how fiscal and economic policies are conducted in the EU member states. The innovations put in place can be broadly divided in two main areas: the new economic governance procedures and the initiatives taken apparently outside the formal institutional framework of the EU: the so-called Europe 2020 initiative and the Euro plus pact.[1] As will be shown, these two innovations are tightly linked and together constitute the new framework for dealing with socio-economic governance in the EU.

The changes to the 'economic governance' of the EU introduced with the so-called 'Six-pack' are essentially three (see: EU press release 2011a; Council of the EU 2011):

1. Stronger preventive arm. With regards to the SGP, each member state is assigned a medium-term budgetary objective (MTO) setting limits to expenditure growth, which should not exceed the medium-term GDP growth rate. Each member state commits itself to a Stability or Convergence Programme (SCP), including the structural reforms needed to achieve fiscal sustainability. If the member state fails to respect the programme, an enforcement procedure is activated which can lead to a sanction in the form of an interest-bearing deposit amounting to 0.2 percent of GDP (for Eurozone states), which can later be turned into a fine. It is important to note that the final decision can be taken by the Council following the so-called 'reverse majority' voting procedure (meaning that it will be adopted unless a simple majority of member states votes against it). This marks an important innovation, as to date countries could be punished only if a qualified majority of Eurozone countries voted to approve. The latter procedure has been a recent innovation and does not seem to have a secure legal basis in the treaties (Waterfeld 2011).
2. The excessive deficit procedure (EDP). This implements the obligations for member states

1 See: http://ec.europa.eu/europe2020/index_en.htm. See also: EU press release 2011b.

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to keep deficits below 3 percent and government debt below or sufficiently declining towards 60 percent of gross domestic product (GDP). The corrective part of the SGP is strengthened by imposing stricter rules and through better enforcement. Regarding the stricter rules, it will now be possible to open an EDP on the basis of the debt criterion: "member states with government debt ratios in excess of 60 percent of GDP should reduce this ratio in line with a numerical benchmark, which implies a decline of the amount by which their debt exceeds the threshold at a rate in the order of 1/20th per year over three years" (EU press release 2011a). If they do not, the country can be placed in an EDP. Crucially, also in this case the sanction (in the form of a non-interest bearing deposit of 0.2 percent of GDP) can be activated following the 'reverse majority' voting procedure. This deposit can then be turned into a fine in case of non-compliance, and extended – in the case of further non-compliance – to up to 0.5 percent of GDP.

3. The policing of so-called 'major macroeconomic imbalances'. The latter are judged according to a 'scoreboard' of around 10 indicators of macroeconomic imbalance, whose content is left unclear: "the composition of indicators may evolve over time. Thresholds will be identified and announced" (EU press release 2011b). If there is an imbalance – or if there is risk of the emergence of an imbalance - in a state which fails to implement the necessary corrective action plan, there is a semi-automatic decision making procedure (all the decisions in the procedure are taken by the 'reverse majority' voting procedure) which leads to a sanction and the potential fine of 0.1 percent of GDP.

The process is initiated by the adoption on the part of the Council of the Commission's proposal for the Annual Growth Survey of the Union, on the basis of which the member states draft their SCPs. The latter are then assessed by the Commission and approved by the Council in July. It is remarked that "draft budgets will continue to be sent from governments to national parliaments for debate in the second half of the year, since they continue to exercise fully their right to decide on the budget" (Ibidem). Throughout the year, the economic and fiscal policies of the member states will be surveilled on the basis of the recommendations, "including consideration of possible further/enforcement measures (Excessive Deficit Procedure/Excessive Imbalance Procedure)" (Ibidem).

The second wider area of intervention, which is strictly related to the first and partly uses the same procedures, incorporates the Europe2020 strategy and the Euro Plus Pact. The Europe 2020 strategy is the EU's common economic agenda. It sets out priorities and targets at the EU and national level in order to achieve – in a way akin to the failed Lisbon strategy of 2000 – "smart, sustainable and inclusive growth over the next 10 years" (Ibidem). Apart from the targets proposed, which often simply re-formulate the Lisbon strategy targets [2], the strategy also points to three priorities to guarantee macro-economic stability: 1.Putting public finances in order; 2. Taking action where there are large current account deficits or surpluses and 3. Ensuring the stability of the financial sector. Four further priorities are highlighted in order to "enhance structural reform: 1. Helping people get back to work or find new jobs by making work more financially attractive; 2.urgently reforming pension systems; 3.making sure that unemployment benefits provide an incentive to work and 4.better balancing flexibility and security in the labour market" (Ibidem).

Moreover, another group of EU member states has signed the so-called Euro plus pact. The pact commits the signatories to implement reforms in four areas: competitiveness, employment, sustainability of public finances and reinforcing financial stability. The Pact is embedded in the new 'economic governance' framework described above, and the commitments are included in the so-called National Reform Programmes (NRPs) of the member states. The SCPs indicate the measures – to be translated into concrete policy actions – that each state intends to take domestically to contribute to what has been decided at the EU level (with the annual growth survey). The Euro plus pact also strengthens the preventive arm of the SGP, as it commits member states to translating EU fiscal rules as set out in the SGP into national frameworks through a national legal vehicle of their choice. However, "this should have a sufficiently binding and durable nature

2 Seventy-five percent of the population between 20-64 is estimated to be employed; three percent of the EU's GDP to be invested in Research and Development; CO2 emissions to be reduced by 20 percent; The share of early school leavers to be less than 10 percent and at least 40 percent of the younger generation should have a degree or diploma; 20 million fewer people at the risk of poverty

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(e.g. a constitutional or framework law)" (EU press release 2001b), with the intention of, in the words of EU Commission for Economic and Financial Affairs, to "enshrine a balanced budget in the constitution" (EU press release 2001c). This latter goal is particularly important and has been repeated in, for instance, the recent letter that the European Commission has sent to the former Italian Prime Minister Berlusconi (La Repubblica 2011a).

Making sense of 'economic governance'

Thus, the innovations are basically three. Let us first analyse the procedure to correct 'macroeconomic imbalances'. The ambiguity of the 'scoreboard' for judging the 'macroeconomic imbalances' allows the Commission to touch upon fiscal policy, including taxation and spending, labour policy, the composition of debt and influences even domestic decisions such as the allocation of resources between sectors, and levels of consumption. Even decisions on wages and budgets can serve as benchmarks and be touched upon at EU level (Corporate Europe Observatory 2011: 6; Phillips 2011a). As clearly remarked, recommendations for member states can include both revenue and expenditure sides of fiscal policy and labour and goods markets. As one commentator put it, "it provides a leeway for demands for lower wages and for cuts in welfare" (Corporate Europe Observatory 2011: 7). Others have argued that it is practically an "open door to influencing all areas of national economic policy" (Vassalos et al. 2011).

Regarding the Europe 2020 strategy, the reforms are arguably more influenced by neoliberal economic thinking than even the 2000 Lisbon goals. In fact, the emphasis on 'getting people back to work' instead of creating useful and stable jobs says a lot about the extent to which socio-economic policy-making and thinking has abandoned the traditional 'de-commodifying' goals of European welfare states (Esping-Andersen 1990). What is also enhanced – although not new (Gray 2004; Bradanini 2009) - is the switch from a 'right to work' to a 'duty to work' discourse and practice, with the corresponding framing of the market as the regulator of each individual's competitive quest, and thus as a natural condition, as the 'realm of freedom' in human affairs, in contrast to a social-democratic or welfare-state conceptualisation of the market as a sphere of conflict, which must be regulated (through market-correcting measures, and not the current market-enabling social policies) (Jessop 2003). The way competitiveness is framed within the Europe 2020 strategy is clearly in the direction of more flexible labour markets, cutting public pensions and liberalising or privatising public services. For instance, the fact that competitiveness will be evaluated by the national unit labour costs (ULC) implies a pro-capital stance. In addition, it has been highlighted that labour costs are to be reduced by reforming the "degree of centralisation in the bargaining process, the indexation mechanism" (Council of the EU conclusions 2011) and reduce wages in the public sector. Productivity is to be achieved mostly by "deregulating industry" (Council of the EU conclusions 2011).

Among the policy suggestions, worth mentioning is also the classic neoliberal policy advice to increase productivity by "further opening of sheltered sectors to remove restrictions on professional services, to foster competition and efficiency, … improve business environment, … increasing pension age, limiting early retirement schemes" (Council of the EU conclusions 2011). Although these are not compulsory policies, as the commitments involve the goals to be achieved, the documents produced stress that these issues mentioned above will be given particular attention both in the recommendations and in the NRPs and SCPs mentioned above (Council of the EU conclusions 2011).

The innovations regarding the SGP have a significant influence on national economic policy. We have seen that if a country has not committed a budget to the scrutiny of the Commission before its parliament has seen it or is too slow in reducing debt or deficit, then the Commission can demand a financial guarantee it won't give back unless the government changes policy, or impose a fine. So, although formally the national parliament continues to have the last word on the budget, it is easy to see that the new economic governance framework strongly constrains the room of manoeuvre set to it, lest it face sanctions and fines for years (if it wants to adopt different economic and fiscal policies).

One of the main jobs of the government is precisely to produce a budget, and the power of the parliament in budgetary matters has traditionally been at the root of European democracy. Now, the democratically elected representatives of the people can have a look at the budget and vote on it only after the EU institutions have judged them (or have imposed a fine). Susan George calls this a coup d'état, coupled with the moral dimension that has been dominating the debate in public opinion, which is centred on the idea that 'you cannot live beyond your means' (Vassalos et al 2011; George 2011).

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We can thus see that there is an underlying economic logic unifying what EU commissioner for Economic and Financial Affairs Olli Rehn calls a "quantum leap of economic surveillance in Europe" (Phillips 2011a). Wage restraint, the reduction of social expenditure, competitiveness and fiscal sustainability are the wider goals to be achieved. What can be called a "permanent structural adjustment programme" is being implemented in the EU. As can be clearly seen, the issues that are dealt with in this new economic governance framework are and have been the object of political, social and class struggle for decades. Here they are viewed simply as subjects of debates among EU decision-makers, most of whom unaccountable to voters. This is highly problematic in terms of democratic legitimacy (Schmidt 2010) and is bound to generate resentment and disaffection (not least for the idea of democracy) among the electorate.

Whose Europe? Whose Crisis?

The current economic recession has been interpreted as a crisis of capital overaccumulation and profitability that has its origins in the 1970s (Callinicos 2010; Foster and Magdoff 2009). During the two-three decades before the financial crash, capitalism has been reproducing itself accumulating an enormous amount of debt. To avoid the collapse of the system, the states have taken over that debt, effectively privatizing public spending, thus transferring them from the private to the public sector. Now, the bill is presented to the majority of the citizens, who are forced to accept cuts in salaries, social spending and an increasing privatisation and liberalisation of the economies.

Moving from this abstract level of analysis to the actual concrete unfolding of the crisis, one can see that the economic crisis has exposed the long-standing problems of the Eurozone to strain and is now putting at risk the very existence of the common currency. While the monetary union had achieved the goals of eliminating currency fluctuations and interest rate differentials, it has done so only by shifting the problem elsewhere, namely in the difference in wage-setting mechanisms and wage levels. Exchange rates can no longer be used to counter economic differences within the Eurozone. Hence,

> if a deterioration in relative (unit) costs cannot be reversed by productivity improvements, unions in affected areas will be pressed to accept nominal wage reductions or low increases as well as cuts in nonwage costs, eroding bargained statutory social benefits. This may happen even without asymmetric shocks, insofar as employers (and governments) seek price advantages, no longer attainable by currency depreciation, through wage and benefit cuts instead (Martin and Ross 1999: 70)

What this stance implies is that the policy prescriptions produced by EU institutions for adaptation tended to include supply-side and market-enhancing policies such as liberalisation and deregulation. These were and are highly politically salient measures. The current reforms of economic governance - on which few if any national parliaments had a say (Vassalos et al 2011) – make these pressures for reform more stringent, as they are now linked with the possibility of sanctions and fines. Altvater summarises in this way the constraints imposed on member states of the EU:

> Within the Eurozone the expense side of government deficits is tightly regulated by the Maastricht criteria, even if the budgetary impact of the financial crisis has been to disrupt significantly the guidelines. The revenue side, on the other hand, is subject to regulatory arbitrage in favour of investors. Limiting wealth taxes frees up money wealth that is in turn used for speculation in financial markets (Altvater 2011).

In short, only wage restraint or government spending can vary in order to adjust the 'real' economies in the single currency area. What this means is a permanent pressure on workers and their organisation to adjust to the need for competitiveness. However, this effect materialised in a differentiated way across the Eurozone, fuelling the increase of private debt. What happened was that the imposition of a one-size-fits-all monetary policy in the Eurozone produced asymmetric dynamics in EMU economies. For low-growth countries, the ECB rates were too high, and viceversa for high-growth economies. In Germany, wage levels were effectively curtailed, thus inflation levels were maintained at very low levels. This economic slowdown in Germany in turn was effectively overcome through supply-side measures (the Schroeder reforms, for instance) that further constrained domestic demand and increased export competitiveness. This is another way of saying that German capital had found a way to permanently contain the wage demands of labour and thus acquire compet-

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itiveness (in Marxian terms, increase relative surplus value). Here, the real interest rates were much higher than in the rest of the Eurozone. In the periphery, and in particular in the so-called PIGS (Portugal, Ireland, Greece, and Spain) economies, high growth fuelled wage levels increases, in turn increasing inflation and thus lowering real interest rates. This caused a credit-financed economic growth that tended to generate speculative bubbles (as in Spain and Ireland). In this way, Germany increased exports and reduced imports, and export earnings were then profitably invested in peripheral economies, not for production but for speculation in real estate. The latter economies thus had an availability of cheap capital, also attracted by low interest rates. In short, the current account surplus of Germany was financing the current account deficits and growth of the peripheral countries (De Grauwe 2010a). Apart from the current account deficits, debts accumulated domestically in the periphery also as the banks took advantage of the homogeneous European money market to expand their credit operations (Lapavitsas 2011: 289). In fact, the public debt/GDP ratio of countries like Spain and Ireland was significantly lower than Germany, and in the 2000s they even maintained surpluses of the budget.

Relative wages in peripheral countries increased more than in Germany and this witnessed the largest slump in wages in Europe (Corporate Europe Observatory 2011: 12) – although there has been a general downward pressure on wages. In fact, even the fastest growing wages in the Eurozone, the Greek salaries, failed to keep pace with productivity growth (Flassback 2011). Hence, there is no folly, or greed by 'irresponsible' workers here. In fact, "it is not wage increases on the periphery per se which cost jobs in Greece and other poorer Eurozone countries…but the success of the German bourgeoisie in keeping down wages at home" (McGiffen 2011: 31; Scharpf 2011: 6-7). For instance, unit labour costs in Greece were 130 in 2010 if 2000 is 100, while the corresponding figure for Germany was 105 (Flassback 2011). According to the economist De Grauwe, the root cause of the sovereign debt crisis is precisely the accumulation of debt in the private sectors of the economy (De Grauwe 2010a). The public debts reached high levels only after the economic crisis (in fact EU government debts fell from an average of 72 percent in 1999 to 66 percent in 2007).

In fact, De Grauwe explicitly blames the European monetary authorities for these imbalances, because "bank credit is a more proximate cause of the bubbles and booms" and monetary authorities have the power to control bank credit by, for instance, setting up differentiated deposit requirements and the growth of bank credit. (De Grauwe 2010a: 8). However, in no official document there is any acknowledgment of the fact that the monetary policy of the ECB played a role in the crisis. What is implied is that member states have to deal with the imbalances produced by a common monetary policy by using their policy instruments, which however have been strongly limited by the Commission's interventions, for instance with the EDP. This phenomenon can be seen as a further instance of the mechanism of 'embedded neoliberalism', with its EU-level disembedding processes that constrain the member states' ability to continue providing elements of social protection (van Apeldoorn 2002).

The European response to the sovereign debt crisis was to approve a series of rescue packages conditional on the implementation of austerity measures. However, as many point out, such measures may in fact exacerbate the vicious circle of low growth – austerity – debt (Vassalos et al 2011; Lapavitsas 2011; Callinicos 2011). The recessionary impact of the austerity measures imposed by the EU makes it unlikely that the public deficits can be reduced (Altvater 2011: 273-274).

On the other hand, what these measures have done and are doing is constituting a wide market-enhancing 'structural reform' that is weakening unions, privatising and liberalising public services and professions and opening up education and health care to private providers. The structural power of capital is due to increase significantly, turning many European political economies from 'Social Market Economies' to 'Liberal Market Economies' (Scharpf 2009) perhaps confirming that we are going through a crisis in neoliberalism, instead of a crisis of neoliberalism (Saad-Filho 2010). Whatever the ultimate outcome of the Eurozone crisis surplus countries' capital is due to benefit from the ability to acquire peripheral countries' productive assets at reduced costs, thus enhancing the centralisation of capital (Brancaccio and Passarella 2012) and the power of German capital (Van der Pijl et al. 2011; Cesaratto 2011).

In addition, another serious problem is the fact that the ECB is the only central bank in the world that does not lend to governments but to banks. These banks, which borrow money from the ECB at low interest rates, then buy government debt neatly pocketing the profits. In fact, as long as a country is not defaulting the high-risk premiums are a formidable source of profits for banks. The rescue plans pour credit that is then handed down

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to the banks. And government austerity plans ensure that in the end it is the citizens who transfer an increasing part of their income to private banks.
Moreover, as Husson notes, since the crisis,

> the European governments and the European Commission have had one overriding goal: business as usual. This goal is however out of reach because everything that had helped manage the contradictions of the flawed form of European integration such as peripheral Europe's indebtedness and internal Europe's' trade imbalances, has been rendered unusable by the crisis (Husson 2011: 300).

The era of cheap credit is over. Peripheral countries will not have access to cheap borrowing from abroad to ease the pressures of monetary union because of the credit crunch. Perhaps we will effectively enter a period in which, as Zizek notes, a kind of economic emergency is becoming permanent, turning into a constant, a way of life (Zizek 2011).
The situation being developed is increasingly one of "politics without policies at national level, policies without politics at European level" (Bailey 2008). In turn, this creates a situation where economic power is perceived to have become political power, generating a condition of subalternity of workers and citizens, who are largely unable to project onto the political economy interests and demands that are incompatible with those of capital owners, that are increasingly constitutionalised at the European level. As Phillips rhetorically asks himself, "if a government doesn't control monetary policy anymore, and doesn't control fiscal policy anymore, what's left for a government to do? That's about all they do, other than foreign and judicial policy" (Phillips 2011b).
Perhaps one should go back to the famous argument advanced by philosopher Carl Schmitt: the sovereign is he who rules in the state of exception. And ask himself: who is it that 'rules' at the moment in Greece, Ireland and Portugal?

But what are the historical and social origins of 'new consitutionalist' neoliberal arrangements?

Conclusion

This article have proposed a reading of the recent European economic governance reforms by using the concept of 'new constitutionalism'. After having provided a short interpretation of the historical roots of neoliberalism, it has described the reforms and argued that they have exacerbated the trend towards the insulation of socio-economic policies from popular-democratic control by opening new doors for technocratic governance insulated from electoral accountability. Although these arrangements are now firmly in place, the forming of technocratic governments insulated from the electorate in some European countries, the increasing alienation of large sectors of the population from democratic politics[3] and the rise of radical left-wing or right-wing parties across Europe may signal that the consensus is eroding and that an 'organic crisis' (in its Gramscian meaning) is mounting. However, there seems be a lack of credible alternatives both at the national and European levels, so that it is difficult to imagine a sequel of the European project under new auspices.
We have been witnessing forms of mass protest and popular insurrection where people take to the streets to protest against austerity measures. In countries such as Greece, Portugal and Ireland, having 'new constitutionalism' eroded the possibilities of popular influence on socio-economic governance, is this the only form of political agency that people at the lower ends of the market hierarchy can have to project their interest in the political economy? And, should we hope, as in Streeck's provocative rhetorical question that "in the name of democracy we will soon have the opportunity to observe a few more examples?" (Streeck 2011: 28)

3 In Greece and Italy, respectively 20% and 30% of the population wants the country to be led by 'experts' (La Repubblica 2011b).

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