

IC3JM



ESTUDIO / WORKING PAPER

2014/282

ISSN: 2341-1961

‘You can vote but you cannot choose’: Democracy and the Sovereign Debt Crisis in the Eurozone

Sonia Alonso

Series: Estudios = Working papers
Number: 2014/282
ISSN: 2341-1961
Publisher: Instituto Mixto Universidad Carlos III de Madrid – Fundación Juan March de Ciencias Sociales

Series available on <http://hdl.handle.net/10016/18284>

Address: Instituto Carlos III – Juan March de Ciencias Sociales
Universidad Carlos III de Madrid
Edificio 18
c/ Madrid 135
28903 Getafe (Madrid)
SPAIN

Web: <http://www.uc3m.es/ic3jm>
Email: secretaria@march.uc3m.es



Rights: Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Spain (CC BY-NC-ND 3.0 ES)

‘You can vote but you cannot choose’: Democracy and the Sovereign Debt Crisis in the Eurozone

Sonia Alonso
*WZB (Wissenschaftszentrum Berlin
für Sozialforschung)*

Abstract

The objective of this paper is to analyze the alleged unfolding of ‘democracy without choices’ in Europe and its consequences for the quality of national democracies, particularly those of the Eurozone periphery (GIIPS – Greece, Ireland, Italy, Portugal and Spain). The argument is, in a nutshell, that the lack of responsiveness of GIIPS national Governments to their respective national constituencies is the reverse of the medal of an excess of responsiveness in core Euro countries, particularly Germany. Governments are trapped between the pressure to be responsive at home and the need to be responsible to their European partners and the European project. If the trade-off of all democratic politics is between responsiveness and responsibility, Euro core countries have clearly opted for responsiveness (to domestic constituencies) and Eurozone peripheral countries have been forced to be responsible (towards their EU partners and the EU as a whole). As a result, the 2008 financial crisis has led to a three-fold breach inside the EU between core and periphery concerning the pace of economic recovery, the degrees of governmental autonomy and, most important of all, democratic legitimacy. Eurozone peripheral countries are at the losing side of this three-fold breach.

Key words

Eurozone, GIIPS, Euro periphery, Euro core, responsiveness, responsibility.

Biographical note

Sonia Alonso Sáenz de Oger has been Senior Researcher at the Wissenschaftszentrum Berlin since 2004, and is *Doctora Miembro* of the Juan March Institute. Between 1998 and 2004 she has taught and undertaken research at the universities of Salamanca, Carlos III, Instituto Universitario General Gutiérrez Mellado (UNED), St. Antony’s College, Oxford University, and Royal Holloway College, University of London. Her research interests include political decentralization and nationalist conflict; political parties; processes of democratization and the quality of democracy; and content analysis of political texts. Her latest book is *Challenging the State: Devolution and the Battle for Partisan Credibility* (Oxford University Press, 2012).

1. Introduction

The objective of this chapter is to analyze the alleged unfolding of ‘democracy without choices’ in Europe and its consequences for the quality of national democracies, particularly those of the Eurozone periphery (GIIPS – Greece, Ireland, Italy, Portugal and Spain). Governments in the Eurozone periphery are adopting a set of economic policies (the so-called austerity programme) that a majority of citizens reject and punish at the ballot box. Alternation in office, however, is not producing policy change. Upon taking office, former oppositions are implementing the very same (or very close) unpopular policies that caused the fall of the previous government. Therefore, threat of electoral punishment does not work as it should according to democratic theory, namely as a deterrent against unresponsive governmental action.

The view from the periphery, among national publics and elites alike (including national Governments attempting to elude responsibility), is that national Governments, as members of the European Union and the Eurozone, have no choice but to implement the austerity programme imposed on them by a combination of non-elected European institutions, creditor member states and international markets. The final implication of this argument is that national Governments lack policy autonomy and this, in turn, necessarily brings about an absence of policy alternatives. Therefore, although people vote they do not really get to choose.

The view from Eurozone core countries, particularly Germany, reflects the other

side of the coin of the Euro-crisis. According to this view, all EU member-states have been subject to the same rules of the game, democratically legitimized at the national level by either referendum or parliamentary ratification, and have been hit by the same financial crisis. The difference between countries is that some had done their homework (in terms of structural and economic reforms) previous to the outbreak of the crisis while others had used the Euro years to spend beyond their means by way of unsustainable levels of public and private debt. Therefore, the absence of economic policy alternatives that GIIPS countries now face is a self-inflicted consequence of previous irresponsible (and even fraudulent, in the Greek case) behaviour. Helping GIIPS countries out of their self-inflicted debt crisis risks institutionalising moral hazard or, in other words, a *carte blanche* for each member state to behave as it pleases with disregard to the consequences. In order to avoid moral hazard, core countries argue, debt-ridden countries that want help have to do their homework. There is no alternative to austerity.

The TINA (“There Is No Alternative”) predicament is common to both –core and periphery– views, but it is attributed to opposite causes. For the periphery, TINA is an external foreign imposition; for the core, TINA has been self-inflicted. The political consequences of maintaining one or the other point of view are not trivial. According to the periphery, responsibility for the present dramatic situation lies with core countries and EU institutions; accord-

ing to the core, responsibility is all on the side of the GIIPS countries themselves.

The problem with the view from the periphery is not so much what it says, for it is true that GIIPS populations do not really get to choose the economic policy that they prefer, but rather what it omits. National Governments have a dual role to play in the EU: as founding member states *severally* and as member states *jointly* (Van Middelaar 2013). As member states severally, national Governments represent –and are accountable to– their respective national publics and their main objective is the defence of national interests; as member states jointly, they have the responsibility to bring to the joint table (the European Council) the acquiescence of their respective national populations or parliaments to the decisions adopted jointly. In other words, EU national Governments wear two hats, one on behalf of their respective states and one on behalf of Europe (Van Middelaar 2013).

Back home, however, GIIPS Governments are often tempted to show only one hat, that of the nation-state, thereby avoiding assuming responsibility for what they do when they wear their other –European– hat. They declare themselves impotent, economic policy being imposed on them by Brussels and their EU partners, failing to acknowledge the part they have played in such result. GIIPS national Governments have autonomy to decide, if only because they retain the utmost expression of sovereign power, their ability to abandon the club¹. More-

over, they can also attempt to block *in extremis* inter-governmental resolutions in case of “threats to life and limb” (Van Middelaar 2013). If GIIPS national Governments do not do it is because they need to assume responsibility for decisions taken jointly by the European Council or else they run the risk of being left out of the negotiating table. During the Euro crisis, GIIPS national Governments saw the need to be part of the European Council negotiating table, but they did not take full responsibility for it. Back home, they neither said why they needed to be there nor did they ask their populations whether they still wanted to be there. Instead, they showed only their national hat and presented the TINA predicament as an imposition from outside.

The problem with the view from the core countries is, again, not so much what it says but what remains untold. As in the case of GIIPS countries, core countries do not show their populations what they do when they wear the European hat and, therefore, do not assume responsibility for their joint actions with GIIPS at the EU level. Whether GIIPS did what they did encouraged by a faulty Euro design that was jointly decided by *all* member states and with the core countries’ acquiescence or, at least, with their looking the other way, is not discussed by Eurozone core countries back home and, therefore, not assumed. The decision to frame moral hazard as a fundamental problem exactly in 2010, after ten full years of collective free-riding over EMU rules, was a

¹ According to article 50 of the European Union Treaty (also known as Treaty of Lisbon, 2007), “any Member State may decide to withdraw from

the Union in accordance with its own constitutional requirements”.

political one, driven by domestic, not European, interests.

The unfolding of ‘democracy without choices’ in Europe is widely interpreted as the victory of economics over politics, of technocrats over elected politicians. Herein, however, lays a paradox: how can we explain the heterogeneous effects of the same economic crisis across Eurozone national democracies if not as the result of political -not just technocratic- decisions? It is not economics that has produced the present situation but politics, and not just European politics but national –and nationalist– politics pursued by EU member states in defence of their exclusive national interests. Admittedly, at present there is little discretion in economic policy for those national Governments which have been very badly hit by the economic crisis, and this poses a major problem for the legitimacy of their democratic regimes. However, political autonomy at the national level is not completely absent. The EU is governed by its member states through inter-governmental negotiations and through membership of the European Council, not by the Commission or by the European Parliament. This means that a door is opened to nationalist responses to the economic crisis. In fact, EU member states have been acting with complete disregard to the level of interdependence among the Eurozone economies and the fragility that comes with it. Disregard has also extended to the level of interdependence of individual national responsibilities.

My argument in this chapter is, in a nutshell, that the lack of responsiveness of GIIPS national Governments to their re-

spective national constituencies is the reverse of the medal of an excess of responsiveness in core Euro countries, particularly Germany. These are two sides of the same coin. The coin is the unwillingness on the part of national Governments to wear their European hat back home. Democracies in the Euro periphery are being weakened and strained precisely because Euro core ones are flourishing under the application of austerity in the crisis-ridden countries. There is an illusion among the publics of core countries that the problems of the periphery are not their concern, that their national Governments share no responsibility in the unfolding crisis and that, consequently, they are not accountable for them. Given the huge economic imbalances inside the EU, it is impossible to be responsive simultaneously to two opposite and contradictory demands from below: the demand for austerity among the core countries’ populations, who suffer from bail-out fatigue, and the demand for fiscal expansion among the populations from the periphery, who suffer from austerity fatigue. One of the two opposing constituencies has to be prioritized and, in the predominantly intergovernmental world of the EU, it is the constituency of the most powerful member state, Germany, the one that has the upper hand: the pro-austerity constituency.

Governments, being accountable to their national constituencies and only to them, are trapped between the pressure to be responsive at home and the need to be responsible to their European partners and the European project. The sovereign debt crisis has left some member states at the mercy of others precisely due to the absence of EU-wide constituencies and inter-

ests or, lacking that, the presence of well-designed and well-enforced inter-governmental coordinating mechanisms. If the trade-off of all democratic politics is between responsiveness and responsibility, Euro core countries have clearly opted for responsiveness (to domestic constituencies) and Eurozone peripheral countries have been forced to be responsible (towards their EU partners and the EU as a whole). Prime Minister of Spain, Mariano Rajoy, bluntly expressed this at a press

conference: “I have not fulfilled my promises but I have fulfilled my duty” (*El País*, 13.2.2013).

As a result, the 2008 financial crisis has led to a three-fold breach inside the EU between core and periphery concerning the pace of economic recovery, the degrees of governmental autonomy and, most important of all, democratic legitimacy. Eurozone peripheral countries are at the losing side of this three-fold breach.

2. Democracy, choice and the autonomy of governments

Democracy is about choice. Even so-called minimalist conceptions of democracy would make no objection to this: “Only voting that facilitates popular choice is democratic” (Riker 1982: 5). In the absence of choice between programmatic alternatives, voting only serves to “ratify choices made elsewhere” (Przeworski 2010: 117). The very logic of electoral competition encourages parties to offer alternative platforms at election time in the hope of maximising their votes. Even if the structure of competition is such that parties appeal to the median voter, the logic of voting generally impedes that party platforms are completely identical (Downs 1957: 41-45). The responsible party government model is even more explicitly based on the idea that elections provide voters with a meaningful choice. Parties compete in elections standing for different policy platforms, voters choose between them and the party that gets elected carries out its mandate: “This congruence between promise and performance is at the heart of what we mean by

‘democracy’” (Klingemann, Hofferbert and Budge 1994: 2).

Choice in democracy does not belong exclusively with elections; elected governments must also be autonomous to act upon their mandate by choosing among alternative policy paths (see Introduction in this volume). Downs’ economic theory of democracy presupposes a government that is “able to carry out the social functions of government” (1957: 21). In a similar vein, Dahl and Lindblom state that “[w]hoever controls government usually has the ‘last word’ on a question” (1953: 42). Writing in the mid-1950s, before the neoliberal turn of the world economy, Downs, Dahl and Lindblom were obviously thinking about domestic constraints on governments’ autonomy. Economists and political scientists have since redirected their attention towards the external constraints on governments’ autonomy. There are three main sources of external constraint: globalization, the spread of neoliberal beliefs and supranational organizations.

Globalization changes the balance between the costs and benefits of diverse policy alternatives (Held 2000: 423) and, for this reason, it constitutes a major autonomy-constraining factor (Rodrik 2011, Stiglitz 2012, Chang 2012). Economic policy is probably the area of government that has been most affected by the last round of internationalization of domestic markets. Globalization “reduces the extent to which democracy can pursue populist and highly majoritarian policies” (Acemoglu and Robinson 2006: 40). It “implicitly excludes politics as an arena of choice” (Tony Judt 2010: 193). Market integration is thought to affect national policy autonomy through three basic mechanisms: trade competitiveness pressures, the multinationalization of production, and the integration of financial markets (Garrett 1999: 793). According to Garrett, the integration of financial markets is, of the three, the one that is more constraining on national policy options (Garrett 1999: 823).

The power of globally integrated financial markets lies in the fact that “if the policies and institutions of which the markets approve are not found in a country, money will haemorrhage until they are” (Garrett 1999: 793). Stiglitz concurs: “The surrender to the dictates of financial markets (...) applies not only to those countries on the brink of disaster but also to any country that has to raise money from capital markets. If the country does not do what the financial markets like, they threaten to downgrade the ratings, to pull out their money, to raise interest rates; the threats are usually effective. The financial markets get what they want” (2011: 139).

Thus macroeconomic stability becomes the absolute priority of national governments because, without it, governments will not find the money they need to carry out their policies. Until the 1970s, the objectives of macroeconomic policy were full employment or improving the quality of life (Mitchell and Muysken 2008, Judt 2010, Chang 2010, Arias and Costas 2011, Skidelsky and Skidelsky 2012). Now the objectives are short-term and less ambitious: price stability, fiscal balance, market flexibility, balanced exchange rates.

More autonomy-constraining than globalization is the neoliberal idea that if economic policy is to be optimal it must be moved away from the temptation that elected politicians face to respond to the preferences of voters. This is what Friedman (2012) called the “Golden Straitjacket”. There is an extensive literature in modern economy and political science that defends the need to insulate politicians from citizens’ demands as expressed at the ballot box. This literature strand originated in the work of two Nobel-prize winners in economics, Kydland and Prescott (1977), and it has demonstrated that, under certain conditions, it is socially optimal to restrain the policy discretion of elected officials. These works are behind many of the institutional reforms that modern democracies have experienced during the last three decades. Two are the basic mechanisms that have been used to isolate economic policy from citizens’ demands. On the one hand, the establishment of fixed rules of behaviour that either limit or eliminate governmental discretion; on the other, the delegation of economic policy to public agencies independent from political control, such as central banks. Democratic politicians face a

trade-off between responsibility and responsiveness which, ultimately, refers us to the more worrying challenge of making capitalism and democracy compatible.

The third, and probably the most, autonomy-constraining factor is membership in the European Union because it combines a neoliberal institutional framework (fixed rules of fiscal policy and delegation of monetary policy to an independent central bank) with wholly integrated markets.

To sum up, a well-functioning – embedded– democracy is one in which citizens are offered clearly differentiated programmatic alternatives to choose from and in which governments have an effec-

tive power to carry out the policies for which they are elected. Moreover, in a well-functioning democracy it is “unlikely in the extreme that a government will long pursue policies that deeply offend a majority of citizens” (Dahl 1989: 223). If the external constraints on national governments’ autonomy were such that despite making clearly differentiated electoral promises elected governments would have to apply the same policies “citizens would vote but they would not choose” (Maravall 2013: page?). In other words, if party platforms are identical or if, upon taking office, parties are compelled to carry out the same policies that voters rejected at the ballot box something is amiss with representative democracy.

3. The EU 'Golden Straitjacket'

The European Union is designed according to the neoliberal belief that politicians have to be protected against their primary instincts to be responsive to their constituents. This neoliberal approach suited well the interests of export-oriented member states, which were, understandably, wary of fiscal profligacy as it leads to real exchange appreciation and reduced levels of competitiveness. The Maastricht world is “one of strict and impartial rules, a living monument to the market-liberal wisdom” (Martino 2008: 267).

The initial idea was that economic union would eventually lead to political union²

but somewhere along the process this expectation failed to materialize. The first and only attempt to establish a political union, the Constitutional Treaty signed by the EU member states in October 2004, was derailed by the populations of France and the Netherlands, who rejected it in referendum. Political union is still a dream. The mismatch between economic rationality and democratic politics led EU member states to an inconsistent institutional design: a monetary union without a fiscal union. The Euro is therefore “a currency without a state” (Panagiotarea 2013). Eurozone national Governments have incentives to prioritize responsiveness to their domestic constituencies rather than respon-

² “Just as the Customs Union had to precede Economic Integration, so Economic Integration has to precede European unity” (European Commission, *Completing the Internal Market. White Paper from*

the Commission to the European Council, COM (85)310, 14 June 1985).

sibility towards their Eurozone partners and the EU as a whole.

3.1 The only game in town

Member states of the European Union have their fiscal and monetary policy autonomy limited through the use of two main instruments: the Stability and Growth Pact (SGP) and the European Monetary Union (EMU) under the control of the European Central Bank (ECB). Fiscal policy concerns state revenue and expenditure whereas monetary policy deals with interest rates and the amount of money in circulation. Together, fiscal and monetary policy are the two major instruments of economic policy with which governments can tackle collectively desired objectives such as economic growth and full employment. In this sense, they are among the most important things that governments get to decide upon and also among the most important worries in the lives of citizens. Inside the EU, macroeconomic stability is 'the only game in town', even if socially costly³.

Concerning fiscal policy, all twenty-seven member states are automatically members of the SGP. The main objective of the pact is fiscal balance. Governments should not be free to decide how much they want to spend and how much debt they are willing to incur. Instead, governments' discretion should be limited by fixed external rules: a maximum budget deficit-to-GDP ratio of 3% and a maximum sovereign debt-to-

GDP ratio of 60%. Under these rules, national Governments lost a great deal of discretion in fiscal policy. Debt and deficit are not a free option for governments that want to spend money. The only real option to finding money once these limits have been reached is by raising taxes.

The ECB sets monetary policy for all Eurozone countries. The terms of functioning of the ECB are based on three tenets: independence, a single mandate focused on price stability and a ban on the financing of EU members' budgetary deficits (no bailout clause). The combination of an independent authority that sets monetary policy and membership in the Euro has several implications for national Governments' policy autonomy. First, sharing the same currency is equivalent to having fixed exchange rates. Eurozone national Governments cannot engage in external devaluation in order to increase the competitiveness of national products. The policy instrument of the exchange rate therefore disappears. This implies that the only variable of adjustment to open competitive markets becomes wages. The expression used to designate policies of wage austerity is "internal devaluation".

Second, Eurozone national Governments that want to borrow money in order to be able to increase public expenditure, even if they want to do it within the limits of the SGP, have to do it in a currency that they do not control. If they want to borrow, national governments have to go to the open market and compete with businesses to obtain credit. This leaves Eurozone Governments at the mercy of international markets. When things go well these constraints are too easily forgotten, as the ex-

³ Article 3 of the Maastricht Treaty defines its guiding principles as those of stable prices, sound public finances and monetary conditions and a sustainable balance of payments. Therefore, the state interventionism implicit in article 2 (economic growth and high level of employment and social protection) is severely constrained (Moss 1998: 146).

perience of GIIPS countries demonstrates. When things go bad, however, national Governments are forced to run an increasingly large deficit until eventually investors lose confidence that they will be paid back. At this point the money will haemorrhage out of the country. Default, however, is not an option under EMU rules.

Third, Eurozone national governments are subject to the same monetary policy irrespective of the conditions and necessities of their national economies. This is what is called “one-size-fits-all” monetarism. The ECB sets nominal interest rates valid for all the Eurozone economies. If the level of inflation is different across countries, which it is, real interest rates will vary accordingly, being lower for those countries with higher levels of inflation and vice-versa. It is impossible for the ECB to set interest rates at a level that is optimal for all the economies of the Eurozone simultaneously. The implication is that when Eurozone national Governments want to cool down an overheated economy, increasing interest rates is not an option.

3.2 Room for manoeuvre

The SGP and the ECB rules fix the terms within which national Governments can move. During periods of economic contraction, national Governments have limited autonomy to apply their own solutions to get out of the situation. But, to what extent do these rules *really* limit Governments' autonomy? In order to answer this question we need to know, first, to what extent are the fiscal limits enforced upon national Governments and, second, how reasonable these limits are or, in other

words, how able are national Governments to cope with the type of economic situations that countries usually encounter without breaching these limits.

Let us start with the enforcement of the SGP. In case of non compliance, the European Commission initiates an excessive deficit procedure (EDP) to force the national Government back into line. In practice, enforcement has been very weak. Only one country has never breached the deficit limit (Estonia), while another has done it continuously since 2000 (Greece). Only five countries have never breached the debt limit (Estonia, Finland, Luxembourg, Slovakia and Slovenia) while four of them have continuously done so (Austria, Belgium, Greece and Italy). Estonia is, therefore, the only country that has never breached either the deficit or the debt limits set under SGP rules. Germany and France were among the earliest to breach the pact in 2001 and 2002 respectively (European Commission, Economic and Financial Affairs). The effort to punish France and Germany in 2003 came to nothing, as Germany outmanoeuvred the Commission to avoid sanctions. This set the tone of future enforcing actions. Weak enforcement meant that autonomy restriction was a political decision rather than a technocratic one; it belonged to what Van Middelaar calls the “intermediate sphere of member states” (2013: 18) and their mutual power relationships, not to the “inner sphere” of EU institutions (Commission and Parliament). Enforcement depended not just on a country's macroeconomic situation (the technocratic decision) but also on political considerations that fell outside the pact (the political decision). In sum, weak enforcement and soft

sanctions “rendered economic policy-making ‘national’ and therefore susceptible to the usual political calculations” (Panagiotarea 2013: 163). This conclusion is reinforced by looking at Greece, an extreme case but by no means a unique one. Greece should never have been admitted inside EMU, for it did not fulfill the necessary conditions, and yet it was. The decision was clearly political, not technocratic. Keeping Greece in the Eurozone has required another political decision (Panagiotarea 2013: 8).

Being constrained in their policy discretion, therefore, is not equivalent to being totally devoid of choice. Weak enforcement of fiscal rules has guaranteed, at least until 2012, a wide room for manoeuvre to national Governments, just as member states wanted it to be, since they had to respond to their national constituencies (Van Middelaar 2013). This is demonstrated not only by the diversity of trajectories of Eurozone economies during the years previous to the financial and economic crisis but also by the diversity of responses to the contraction of their economies. In reaction to the economic contraction of late 2008 and early 2009, EU institutions could not do much in terms of fiscal stimulus since the EU itself, not being a fiscal union, has very little fiscal capacity⁴. The fiscal responses to the economic recession had to come, necessarily, from the EU member states. The absence of established institutional mechanisms of coordination meant that EU members followed their particular national interests and, as a result, there was no coordinated EU-wide re-

⁴ The EU budget comprises roughly 1 percent of the EU GDP and the EU cannot issue debt except for very limited purposes and in very limited amounts.

sponse to the economic recession (Cameron 2012, Schelkle 2012, Jordana 2013). A more coordinated action was demanded by French President Sarkozy but vetoed by the German Chancellor Merkel. All she was willing to accept was a “minimalist reconciliation of national measures so as to prevent negative side effects on each other” (Schelkle 2012: 146).

Given the diversity of economic conditions and political willingness or ability to incur in budget deficits, national Governments used their policy discretion in different ways, some relying on active fiscal expansion, others waiting for the automatic stabilizers to kick in without intervention, others applying pro-cyclical measures, and with different results (Ansell 2012, Armington and Baccaro 2012, Barnes and Wren 2012, Cameron 2012). Some countries abandoned the recession much earlier than others and with less social costs, thereby contributing to enhance the economic imbalances inside the EU (Cameron 2012: 124).

The crisis led most European economies to breach the limits of the SGP. In December 2009 there were twenty EDPs opened out of twenty-seven member states. Haunted by moral hazard and spurred on by Germany, the reaction of the European Council was to establish a new pact outside the treaty (and, therefore, an inter-governmental pact), the so-called Fiscal Compact, which is stricter than its predecessor, in the sense that it monitors countries much more closely, allows for automatic enforcement measures against shirkers and demands that all signing countries (the UK and the Czech Republic did not sign it) approve a constitutional law that

binds them to a policy of fiscal balance (*Schuldenbremse* or debt brake).

The Constitutional debt brake was first approved in Germany's parliament in January 2009. In late 2008 and early 2009, at the height of the economic recession in Europe, Chancellor Merkel had to struggle with opposition inside her own party because she had promised to lower taxes and public debt whereas now she was asking the parliament to pass fiscal stimulus legislation. The Constitutional debt brake was the price that Merkel paid to get the necessary consent by her back-benchers to Germany's second fiscal stimulus package (Schelkle 2012: 136). Chancellor Merkel insisted during the worst months of 2008 and 2009 that the fiscal stimulus was only temporary and that as soon as possible Germany would go back to the right path of fiscal virtuosity. In order to make this more credible to her constituents and to her own party, Merkel used the EU institutions as a platform for her domestic electoral politics. She pushed the Constitutional debt brake upon all EU partners in the Fiscal Compact. This is one more indicator of the extent to which national politics have dominated the member states' positions at the European Council throughout the crisis.

The Fiscal Compact was signed on 2 March 2012 and entered into force on 1 January 2013. The EU straitjacket was now tighter; national Governments' autonomy has been further reduced, economic policy has been further removed from democrati-

cally accountable governments. Once more, this removal has been self-inflicted and, once more, it has been a political response to an economic situation. As Schelkle has put it: "the reformed framework abdicates power, reinforces economic pressures, and lets market forces dictate policy choices, even though they are manifestly counterproductive and inconsistent" (2012: 151). The Eurozone core countries do not feel the bite of the Fiscal Compact yet, as their economies are slowly recovering from the economic shock, but one day they might.

Most EU national Governments, at one time or another, have not found space to breath within the fiscal and monetary limits of the EU, as demonstrated by the large amount of EDPs since 2000. It is not just a consequence of the financial crisis of 2008, since the number of EDPs was already high before then. The Maastricht deficit and debt limits proved to have been too tightly constructed. Even the country most fully supportive of fixed fiscal and monetary rules, Germany, had to admit to their rigidity during the years that followed the signature of the SGP. But instead of going in the direction of designing more flexible rules or questioning the necessity of rules altogether, European leaders are moving towards stricter rules and increased rigidity in economic policy (more technocracy, less autonomy for politics), and they are doing so for reasons of domestic electoral interest, not of economic rationality.

4. The sovereign debt crisis

The introduction of EMU preceded economic convergence among the EU economies and was not accompanied by a simultaneous fiscal union. As was to be expected, the monetary union not only did not eliminate the existing economic imbalances already existing in the EU, but created new ones (Scharpf 2011). Thus, when the financial and the economic crisis hit the EU countries at the end of 2008, the large variation of discretionary fiscal responses only served to accentuate, rather than soften, the economic imbalances between countries already at play.

4.1 Core-periphery divergence before 2008

The story is well known and has been told many times. During the 1990s and the first part of the 2000s economic growth in the Eurozone periphery mainly came from the expansion of private consumption financed by rising private (and public, in Greece) sector indebtedness. Credit was cheap as real interest rates in GIIPS economies were very low compared to those in core Eurozone economies. What was supposed to be a conservative monetary policy imposed on countries by the ECB became de facto an expansionary monetary policy in GIIPS countries given the heterogeneity of economic conditions within the Eurozone⁵. In Spain and Ireland, this cheap credit financed a real-state bubble that pushed upwards economic growth, together with

employment, per-capita incomes and prices. In Greece, public debt was used for fiscal expansion policies. Real wages and unit labour costs increased accordingly, resulting in growing imports and decreasing competitiveness and augmenting the gap between core and periphery.

The money for all this borrowing came, on the one hand, from Eurozone core countries with a surplus, predominantly from Germany, a country which was generating a considerable surplus through the government's policy of internal devaluation and of keeping domestic demand low in order to push exports, and, on the other hand, from the international financial markets. Financial markets systematically overestimated the creditworthiness of Eurozone peripheral economies (Argyrou and Tsoukalas 2010, Lavapitsas et al. 2010, Leao and Palacio-Vera 2011, Panagiotarea 2013). GIIPS Governments also underestimated the risks of the policy they were pursuing; membership in the Euro gave them a false sense of security.

GIIPS Governments could neither cool down aggregate domestic demand by raising interest rates nor ease the losses of competitiveness through currency devaluation, since these decisions belonged to the ECB. This means that membership in the Eurozone severely limited the GIIPS Governments' policy autonomy. For all the above reasons, GIIPS economies were particularly vulnerable to the 2008 financial crisis, a trait that they shared with other EU countries, such as for example UK. What was different between the UK and the GIIPS was Euro membership. Outside the

⁵ Average real interest rates between 1996-2007 in Germany (3.9%), Finland (3.4%), Austria (3.5%) or France (3%) were much higher than in Greece (2.3%), Portugal (1.8%) or Spain (1.4%).

rigidities of the Euro, the stories of the GIIPS economies would have looked much more like that of the UK (Armingeon and Baccaro 2012).

Admittedly, GIIPS Governments could have made better use of the autonomy they had during the period of economic growth that preceded the 2008 financial crisis. As Scharpf has rightly pointed out, the political crash programs implemented in the European peripheries in order to converge on the Maastricht criteria “had generally not addressed the underlying structural and institutional differences that had originally caused economic divergence” (Scharpf 2011: 12). The problem, however, has not been one of fiscal profligacy in all GIIPS countries, as it is commonly framed by politicians and mass-media in Eurozone core countries. Ireland and Spain had been running budget surpluses since 2003 and 2005, respectively, and public debt levels had been kept below 60% since the establishment of the Euro. Portugal had equally low levels of public debt. The fiscal profligacy story only fits Greece and Italy although, all too willingly, it has been applied to all GIIPS economies. Being fiscally virtuous, however, has saved neither Ireland nor Spain from needing to be bailed-out.

4.2 Austerity kicks in

The initial response to the financial meltdown and subsequent economic crisis in advanced developed economies was to apply anti-cyclical policies in the form of expansionary fiscal packages. The exceptions are Ireland and Greece (Bermeo and Pontusson 2012). Keynesianism did not last long in Eurozone countries. Among those countries engaging in active fiscal

expansion packages was Germany. Fiscal expansion, however, meant going against the electoral promises of the German governing coalition of CDU-CSU and FDP. For this reason, after one year of fiscal expansion, it was imperative for Germany’s electoral politics to return to fiscal virtuosity. This is when the Greek debt crisis came to help German electoral politics. In October of 2009, immediately after PASOK’s landslide victory in the Greek elections, the new finance minister Papakonstantinou said that the budget deficit would jump to 12.5% of GDP at the end of the year, more than double the previous government’s forecast.

This is precisely when orthodoxy over austerity kicked in. Following the discovery that Greece had been using false statistics, the Economic and Financial Affairs Council (EcoFin) imposed a radical budgetary adjustment program in February 2010. The ‘austerity’ policy package consisted of a combination of fiscal balance, wage cuts, and structural reforms aimed at producing an internal devaluation of GIIPS countries vis-à-vis the Eurozone core economies. Obedient to the EcoFin, in early February the Greek Government announced an austerity package that was expected to bring down the deficit to 3% of GDP in 2012. A month later, as S&P sank Greece’s sovereign debt rating to BBB+, Prime Minister Papandreou called on EU partners to help Greece. Meanwhile, Greece’s 10-year bond yield had jumped to 9.68%. In May Eurozone members agreed on a 110 billion-euro rescue loan for Greece at market interest rates (Euribor). In exchange, the Greek government committed itself to 30 billion Euros in austerity cuts over the following three years. When the Greek Par-

liament approved the austerity package on 6 May 2010, the 10-year bond yield had reached the dramatic and unsustainable level of 12%. Obviously, the financial markets did not see the EU loan as a solution to Greece's problems, and even less as a guarantee that Greece would be able to repay its debts. At this point, the ECB decided to intervene by buying Greek bonds in the secondary market in order to increase confidence and lower bond yields. This is the only thing that put a stop to the skyrocketing Greek bond yields, but only for a few weeks. In December 2010 the yield reached a new highest level, at 16.3%, and in September 2011 it was at 26.4%. As Schelkle has put it, “[t]o ask the Greek government to do the democratically impossible did not exactly calm nervous markets” (2012: 147).

The Greek crisis soon infected the rest of the most fragile Eurozone economies. Ireland and Portugal had been applying austerity since the outbreak of the financial crisis but this fact did not protect them against an intervention a few months after the Greek one. Spain moved 180 degrees from fiscal expansion to austerity in May 2010, following the first Greek crisis, in an announcement that would cost Prime Minister Zapatero his political career. As with Ireland and Portugal, however, austerity would not save Spain from falling into disgrace with the markets.

In contrast to Greece, Ireland and Portugal, the Spanish and Italian economies were 'too big to be rescued'. Therefore the ECB decided to be proactive and to use the strategy of the carrot and the stick. In alliance with the Spanish and Italian Central Banks, the ECB sent a secret letter to the

Spanish and Italian Governments with a proposition: if they did as they were told (the stick), the ECB would in turn alleviate the pressure by a massive purchase of Italian and Spanish bonds in the secondary market (the carrot, not explicitly stated)⁶. The ECB knew this would stop immediately the speculation against the Italian and Spanish sovereign debts as it had been the only measure that had worked with Greece. The bond-buying program of the ECB, and the open window of liquidity to banks, benefited peripheral countries and prevented the euro from falling apart⁷.

The argument in favour of austerity runs as follows: GIIPS were having difficulties to borrow money in the global markets because markets did not have confidence in the capacity of GIIPS to repay their debts. In order to regain confidence, GIIPS had to demonstrate their willingness to be 'virtuous' by eliminating their deficits, reducing public debt, cutting wages in order to be competitive and engaging in structural reforms. Only then would confidence be restored and would GIIPS be able to find buyers for their bonds. The fact that strong pro-cyclical fiscal policies in this context could trigger a spiral of recession (Krugman 2009, Stiglitz 2010, Scharpf 2011, Cameron 2012) was conveniently

⁶ In contrast to Spain, where it was never made public, the letter in Italy did not remain secret for long. It was leaked to the press and published by *Corriere della Sera*. We know that the contents of the letter to the Spanish government were the same thanks to the testimony of Guindal (2012).

⁷ The ECB did this against the criterion of the German Bundesbank thereby demonstrating that it was not possible to have just one monetary policy for very different countries. The bond-buying program was *de facto* an unorthodox way of deploying asymmetrical monetary mechanisms for an asymmetric monetary union.

forgotten by austerity mongers although reality proved stubborn and the spiral of recession soon made its presence.

Despite enormous efforts in the direction of virtuosity, the markets continued to mistrust GIIPS' bonds after the bailouts and to demand high yields for the acquisition of Eurozone peripheral sovereign debt while simultaneously taking refuge in bonds from Eurozone core countries, particularly German ones. Thus while Germany and other core countries could borrow very cheap GIIPS Governments had to refinance the old debt into new debt at much larger interest. Being aware of this, financial markets' confidence in the capacity of GIIPS economies to repay their debt was even further reduced. Austerity was generating the opposite results of those for which it was intended. GIIPS economies continued to suffer an economic recession and soaring fiscal deficits and debt. Greece needed a second 'rescue package' in the summer of 2011, again conditional on applying a new set of austerity measures and economic reforms. Since the country was plunging further into recession, there was no growth with which to repay debts and new debts accumulated on top of old ones. The Spanish financial sector had to be bailed-out too. Even if GIIPS *economies* could be able to eventually create a large enough primary surplus through internal devaluation policies to repay their debts, GIIPS *democracies* would find it impossible, since the social costs would be simply too high.

When a Eurozone country can no longer borrow in the international bond markets, and it is neither willing nor allowed by its club partners to default on its debt, austeri-

ty is the only option, since it is the only policy that the lenders will accept as condition for their loan. Anyone who has read the Memoranda of Understanding (MoU) signed by debtor countries and their creditors (the so-called Troika: the EU member states as represented by the European Commission, the ECB and the IMF) understands that these agreements have replaced party manifestos as the roadmaps of policy. They specify the country's economic policy in great detail. The MoUs are contracts that bind future elected governments. If countries do not do as they are told they will not get the money they need which, on the other hand, is increasingly dedicated to the payment of debt interests and not to the running of their states. GIIPS citizens vote in elections but do not get to choose among alternative economic policies because economic policy has already been determined by the MoU contract. The Prime Minister of Spain, Mariano Rajoy, bluntly admitted that much to the Spanish parliament on 10 July 2012: "We Spaniards cannot choose, we do not have the freedom to do so" (*El País*, 11.7.2012). What he did not say is that although there is no alternative within the framework of the MoU and the EMU, nothing and nobody is limiting national Governments' ability to mobilize support, both at home and among its EU partners, against the orthodoxy of austerity and in favour of a complete renegotiation of the EMU pact. For some reason, they have chosen not to do so.

The TINA predicament is only valid –and only credible– within the rigid walls of EMU. However, the EMU rules are no more sacred than any other previous set of rules that the EU members have given themselves and then decided to change in

order to move forward the European project. All policy alternatives must necessarily deal head on with the fiscal and monetary rules of EMU. The distributional issues between debtors and creditors that lie at the bottom of the sovereign debt crisis need to be acknowledged and dealt with explicitly. GIIPS Governments are focusing on renegotiating the MoU, trying to extend the deadlines of compliance but conscious that compliance means, even with more flexible

deadlines, the loss of at least one generation in their respective countries. The choice that exists, therefore, does not concern alternative economic policies, since there is only one alternative on the table under EMU rules. It rather concerns whether to accept the rules of the game or to renegotiate them. The choice is again of a political, not economic, nature and of fundamental consequence for the future of the Euro and of the EU as a whole.

5. Elections and Choice

Schattschneider wrote in 1975 that “[t]he definition of the alternatives is the supreme instrument of power” (1975: 68). The European sovereign debt crisis is a good illustration of that. Choice is being artificially reduced to two alternatives by those who hold positions of power: austerity or economic meltdown, Euro/EU or chaos/anarchy. According to this view, rejection of the MoU falls into the second category, economic meltdown and anarchy. This reduction serves a double purpose. On the one hand, it shrinks the policy space to its minimal expression. One of the alternatives is so uncertain and its consequences are assumed to be so costly, both politically and economically, that, as a matter of fact, the choice is reduced to just one alternative: austerity. It is a way of transforming a clear positional issue, austerity versus fiscal expansion, into a valence issue (most people prefer austerity over chaos). On the other hand, it serves to delegitimize as irresponsible and populist all those political parties and social movements that believe that there is an alternative to austerity. (Notice, by the way, how populism is nev-

er applied to Merkel’s policy of extreme responsiveness at home at the expense of putting at risk the Euro).

Alternation in office cannot produce policy change in countries under MoU rules. Before the MoU, GIIPS Governments implemented the austerity package by their own initiative, sometimes willingly, as when right-wing parties were in office; other times under a lot of pressure by EU partners and institutions, as when left-wing parties were in office. After signing the MoU, GIIPS Governments are committed by the agreement to apply austerity irrespective of ideology.

Mainstream Left and Right parties that stick to this artificial reduction of the alternatives have seen their vote shares dramatically reduced. Unfortunately for the European project, the pressure on most GIIPS Governments is coming from social movements and radical parties, right and left, that are increasingly –if not outright– Eurosceptic. Parties are emerging and growing that claim to represent the people against a corrupt elite made

up of an alliance of politicians and bankers. Among the favourite targets of this anti-elitism are Brussels' bureaucrats although, as Schelkle rightly puts it, "it would be more pertinent to blame national democracies' imposition on each other for the diktat" (2012: 154). These parties' platforms claim for more and better democracy, for political regeneration. Their pledge as defenders of democracy is credible in the eyes of an increasing number of voters in bailed-out countries, for they are the only ones who openly criticize the primacy of economic interests over the fate of whole societies. In a way a *déjà vu* from the time of European negotiations over foundation, accession and economic union, the extreme right complains about the sovereignty loss of the nation-state vis-à-vis the EU institutions while the radical left emphasizes the sovereignty loss of the people vis-à-vis the financial markets.

The mainstream Left and Right are so discredited now in Greece that their combined vote share has fallen from 77% in 2009 to 32% in 2012. The implication is that if they want to be in office they have to share power, they have to engage in grand coalition tactics. In Italy the grand coalition between the left-wing PD and the right-wing PDL is a fact since March 2013. The PD lost eight percentage points in the elections and the PDL fell by sixteen points. With these results there was no alternative but to govern together. In Spain, the mainstream Left is extremely discredited, having lost 15% of its vote share between 2008 and 2011. Now is the turn of the Right's discredit, with the vote intention for the PP as low as 22.5%, according to the survey by *Metroscopia* for *El País* (11.5.2013), and even lower, 12.5%, according to the CIS Barometer (n° 2984,

April 2013). Unless the economic situation improves in the next three years, Spain is heading towards a Greek scenario, both mainstream parties losing dramatically and simultaneously. Portugal is not different. The Socialist Party (PS) has already discredited itself and in the 2011 general election lost eight percentage points. The incumbent right-wing PSD is unable to improve the situation with its pro-cyclical policies. The summer of 2013 has seen a crisis of government due to internal disagreements in the governing coalition about the way to implement the MoU agreement. During the crisis, the Portuguese President made a plea to the parties in office and in opposition to work together in a grand coalition to get out of the crisis. The Irish incumbent parties have not escaped the political earthquake of the crisis. In the parliamentary election of February 2011, Fianna Fáil, a party that seemed "almost irremovable from office" (Ó Muineacháin and Gallagher 2008: 154), lost twenty-four percentage points and slipped to the third place in terms of vote and seat share for the first time since 1932. The structure of the party system, fairly constant for the last eighty years, was totally realigned. "The dominant axes of differentiation between the largest and second-largest parties in the Dáil became a left-right one rather than the traditional centre-periphery cleavage that had separated FF and FG for nearly eighty years" (Hutcheson 2011: 11). The Labour party obtained its highest ever proportion of first preference votes and seats. Another winner of the election was Sinn Féin, which campaigned in favour of repudiating the MoU agreement (Hutcheson 2011).

The mainstream Right and Left still come first at the ballot box because thus far the

opponents of austerity agree on nothing but their opposition to it and, therefore, it is difficult to find a way to put together an alternative coalition that beats the austerity agenda (Rosanvallon 2008). But the tide is turning. New parties to the left and to the right of the mainstream Left and Right are growing, quite substantially in Greece (the fascist Golden Dawn and the radical left *Syriza*) and Italy (*Movimento Cinque Stelle*). In Greece in 2012, *Syriza* obtained 16.78% of the vote, coming second to *Nea Demokratia* (18.85%), the Pyrrhic winner of the election. Similarly, in Italy, Beppe Grillo's M5S was the most voted party in the last general election of February 2013, with 25.5% of the votes. The *Partito Democratico* obtained 25.4%, although the left-wing coalition surpassed M5S by four percentage points (29.5%) thereby obtaining the majority prize of the Italian electoral system. The common feature of these parties is their rejection of the MoU and their consideration of Euro-exit as something that is at least worth talking about. These radical parties do not accept the TINA predicament that is so popular among

European non-elected technocrats and among some European chancelleries and publics.

Ultimately, the ability to implement a fiscal adjustment program depends on people's willingness to tolerate it. These programs demand drastic changes in a short period of time and the longer they go without improving the economic situation of citizens, the more difficult it is for governments to call on society's support for - and patience with- austerity. The imposition of austerity has broken the link between citizens' demands and governments' performance. Increasingly, new parties and movements are representing this gap in terms of 'us' against 'them', the people against the elite, the people against Europe, and the irony is that, with their decisions, elected European Governments are rendering credible this depiction. The situation is inherently unstable, for it is unlikely that mainstream parties will be willing to commit political suicide election after election.

6. The unfolding democratic breach in the EU

What are the consequences for democracy, if any, of the enormous breach inside the Eurozone between creditors and debtors, strong and fragile economies? According to Panagiotarea, the debt crisis "has become a crisis of trust" (2013: 173). Eurobarometer data show that she is right. Citizens in debt-ridden countries have completely lost trust in the institutions of political representation, both national and European. Trust in non-elected European institutions such as the Commission and the

ECB have also lost the confidence of Europeans from the Eurozone periphery. More worryingly still, satisfaction with the way national and European democracy works has also sharply declined. This crisis of trust, however, has not affected core democracies.

In order to see this, let us look at Eurobarometer data between 2002 and 2013. I have grouped Eurozone countries into two non-exhaustive categories: on the one

hand, GIIPS countries; on the other hand, the Eurozone core country Germany and its pro-austerity allies (Finland, Netherlands and Austria). The figures presented are averages for each group. Figures 1 to 4 show the evolution of trust in national institutions (government, parliament and parties) and of satisfaction with national democracy. Trust is measured as the percentage of respondents that claim to trust the institution. Satisfaction with democracy is measured as the percentage of respondents that claim to be very or fairly satisfied with democracy.

The up- and down-peaks in Figures 1 to 3 indicate that levels of trust in representa-

tive institutions are highly affected by context. Proximity to elections, political scandals, economic and international crises are all of them factors that have a direct –positive or negative– effect on the levels of trust. Despite this “bumpy” trajectory, however, Figures 1 to 3 show the emergence of a gap in European public opinion between GIIPS and core countries since the outbreak of the crisis. In 2002, the differences in trust between core and periphery never amounted to more than 10%; ten years later there is a gap of 38% in trust of governments, 36% in trust of parliaments and 27% in trust of parties. This is what I call the “democratic breach”.

Figure 1: Evolution of trust in national government, Eurobarometer 2002-2013.

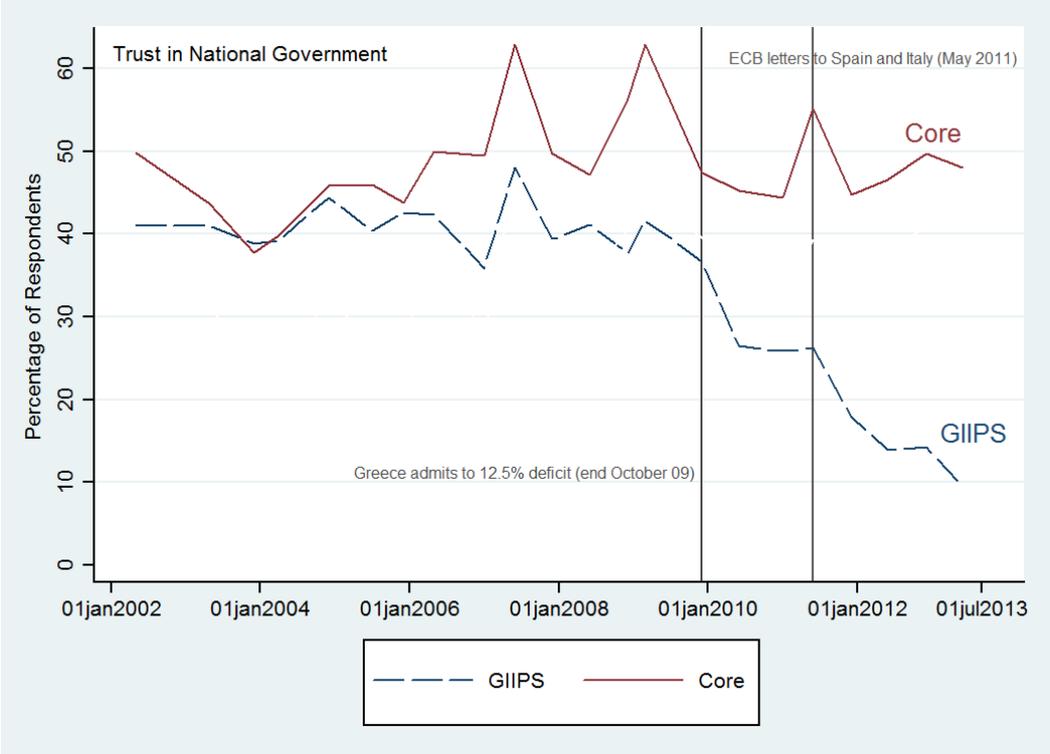


Figure 2: Evolution of trust in national parliament, Eurobarometer 2002-2013.

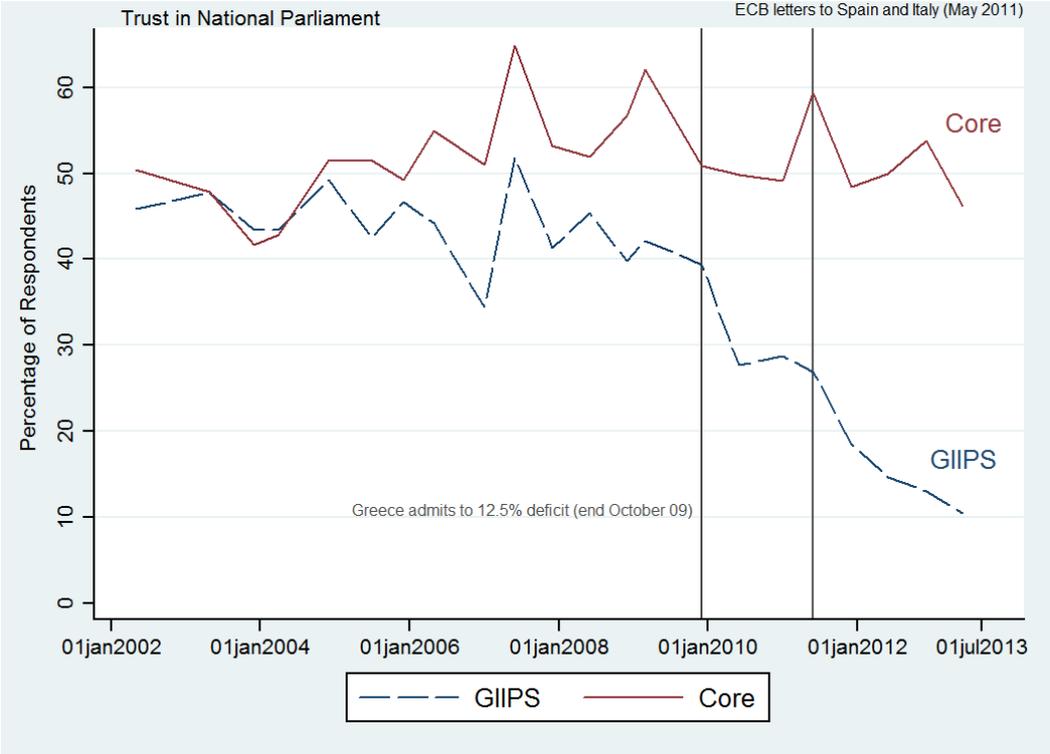


Figure 3: Evolution of trust in political parties, Eurobarometer 2002-2013.

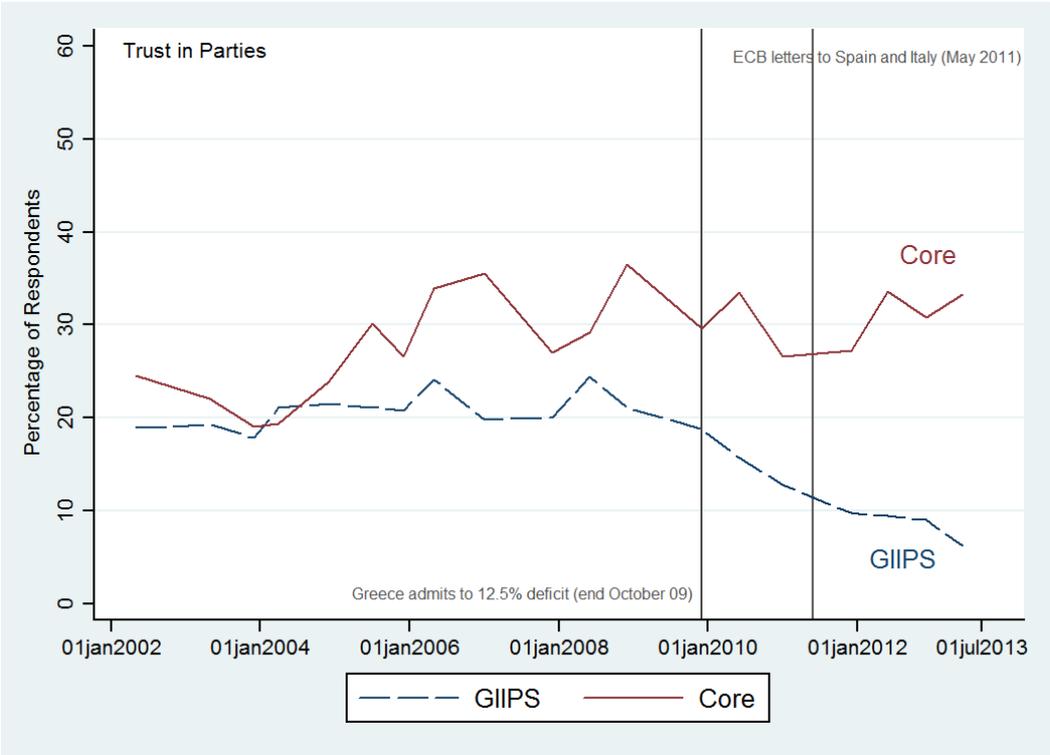
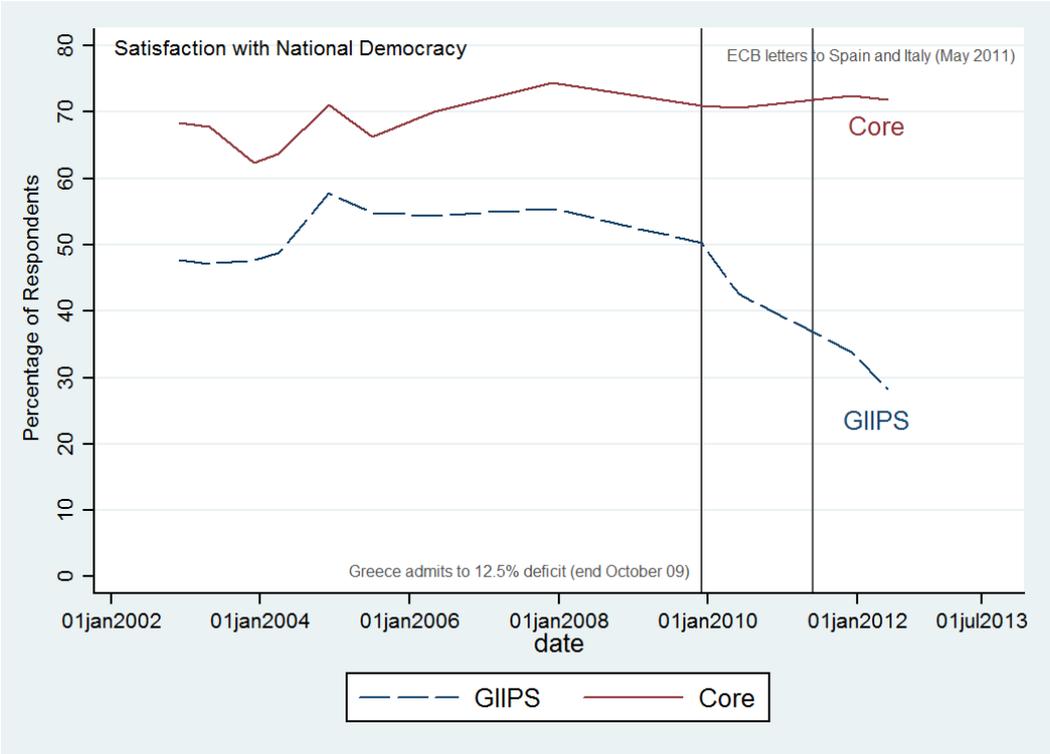


Figure 4: Evolution of satisfaction with democracy, Eurobarometer 2002-2013.



The levels of trust in representative institutions are in free fall in GIIPS countries. Parties were never highly regarded and, for this reason, the fall in trust for parties is the smallest. Trust in parties was in mid-2013 below the 10% level: less than 1 in 10 citizens trusts her national parties. Confidence in the national parliaments and governments has suffered a spectacular fall, particularly since the first Greek bailout in 2010. They are now at 10%, nearly as low as parties.

In Germany and its allies, political trust has remained above its 2002 levels since Lehman brothers filed for bankruptcy in September 2008. Both trust in government and in political parties peaked between September 2008 and February 2009, when national Governments were implementing anti-cyclical reforms and when member states' politicians were talking about the

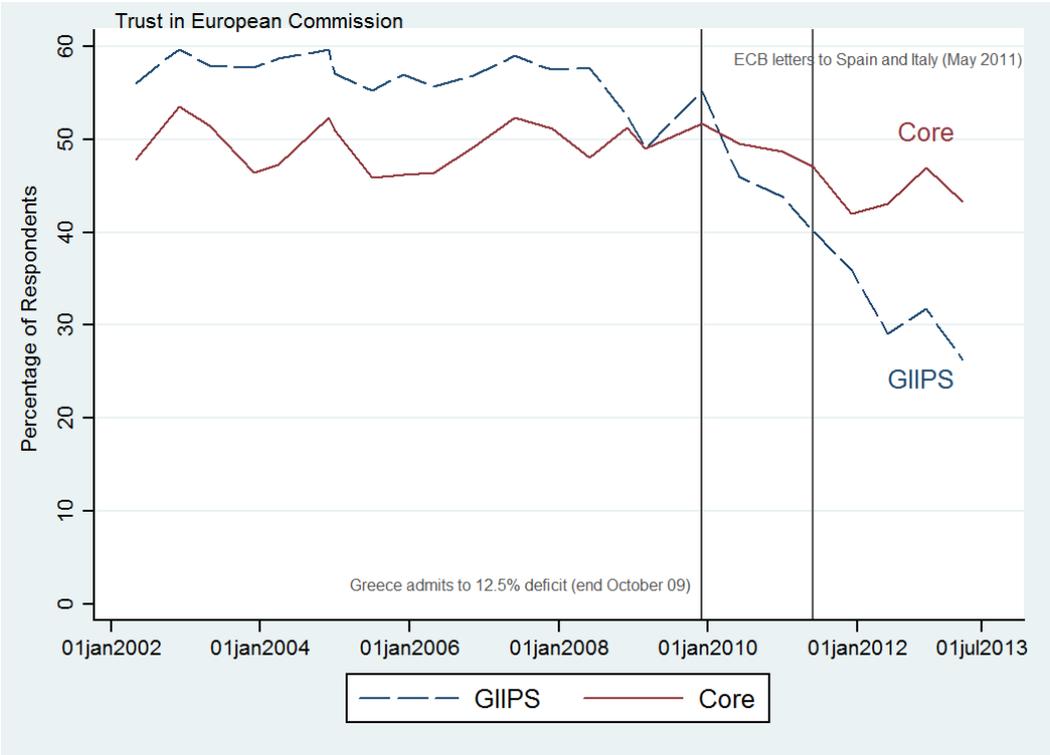
need to re-invent capitalism. After this peak in trust, levels went down in 2010 and 2011, the years of the GIIPS bailouts, but grew again in 2012, particularly trust in political parties, which increased from 25% in November 2011 to nearly 33% in June 2012 and again in June 2013. Satisfaction with democracy has evolved in a similar way. It is less “bumpy” than political trust, for it is less dependent on contextual factors, but the stable tendency in the core and the collapse in the periphery are clear, as shown in Figure 4. Core countries have recovered and even surpassed the levels of political trust and satisfaction with the political system that they enjoyed ten years ago.

This democratic breach finds no replica when we look at trust in European institutions. Figures 5 to 8 show the evolution in the levels of trust in the European Com-

mission, the European Central Bank, the European Parliament and, finally, the European Union as a whole. Although there is a gap between core and periphery, this is only due to the fact that the fall in trust levels is taking place at a faster pace among GIIPS countries than among Eurozone core ones. Nonetheless, the trend is clear for both groups. Trust in European

institutions is falling, irrespective of whether these institutions are representative (the European Parliament) or not. The most dramatic fall has been experienced by the European Union considered as a whole. Since 2010, when 1 in 2 citizens from both core and periphery trusted the EU, it has fallen to a mere 20% in the periphery and a 35% in the core.

Figure 5: Trust in the European Commission, Eurobarometer 2002-2013.



Before the outbreak of the crisis, GIIPS citizens trusted European institutions more than citizens from the Eurzone core countries (with the exception of the European Central Bank). After 2008, this has turned over. The core is now more Europeanist than the periphery. The positive news for the European project is that GIIPS citizens still have more trust in European institutions than in their own national institutions and that the most trusted institution among GIIPS citizens is the European Parliament,

perhaps because it is the less connected, in the eyes of citizens, with the imposition of high social costs by the austerity mongers and their willing executors. The highest of these costs is unemployment and its accompanying effects: poverty and exclusion. According to Eurostat, between 2008 and 2013 unemployment has increased in Greece by 19.3 points to 27.6, in Spain by 16.9 points to 26.3, in Portugal by 7.8 points to 16.5 and in Ireland by 7.4 points to 13.8. As Roth et al. (2013) have demon-

strated, these unsustainable levels of unemployment are the factors that best explain

the fall of trust in national and European institutions.

Figure 6: Trust in the European Central Bank, Eurobarometer 2002-2013.

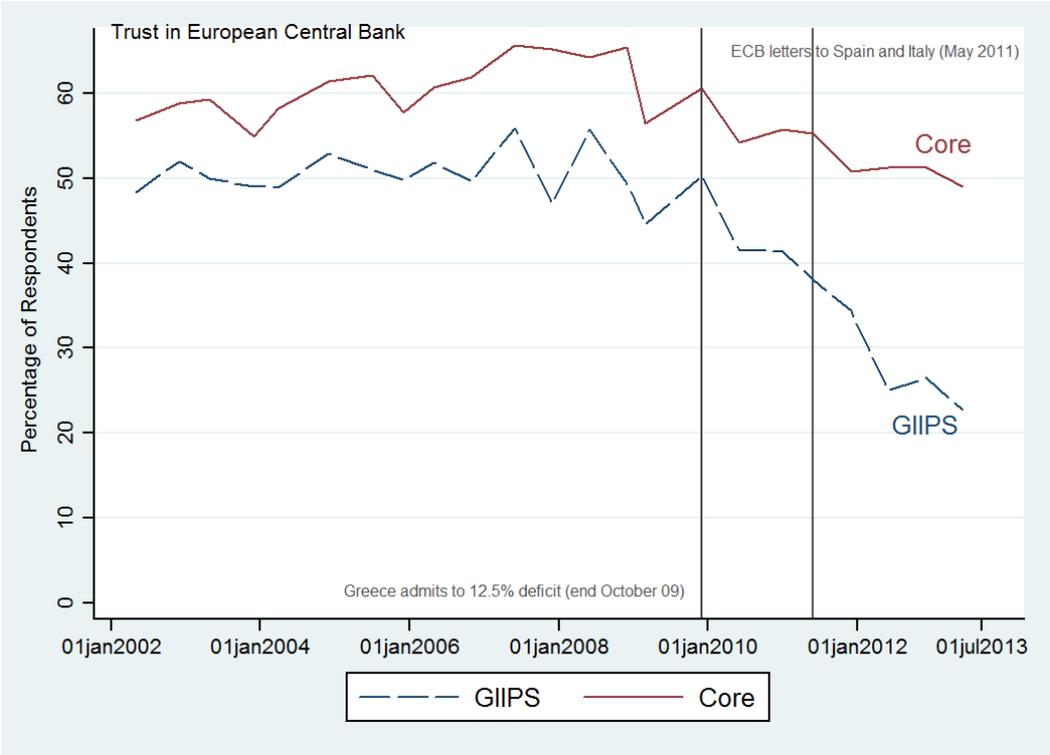


Figure 7: Trust in the European Parliament, Eurobarometer 2002-2013.

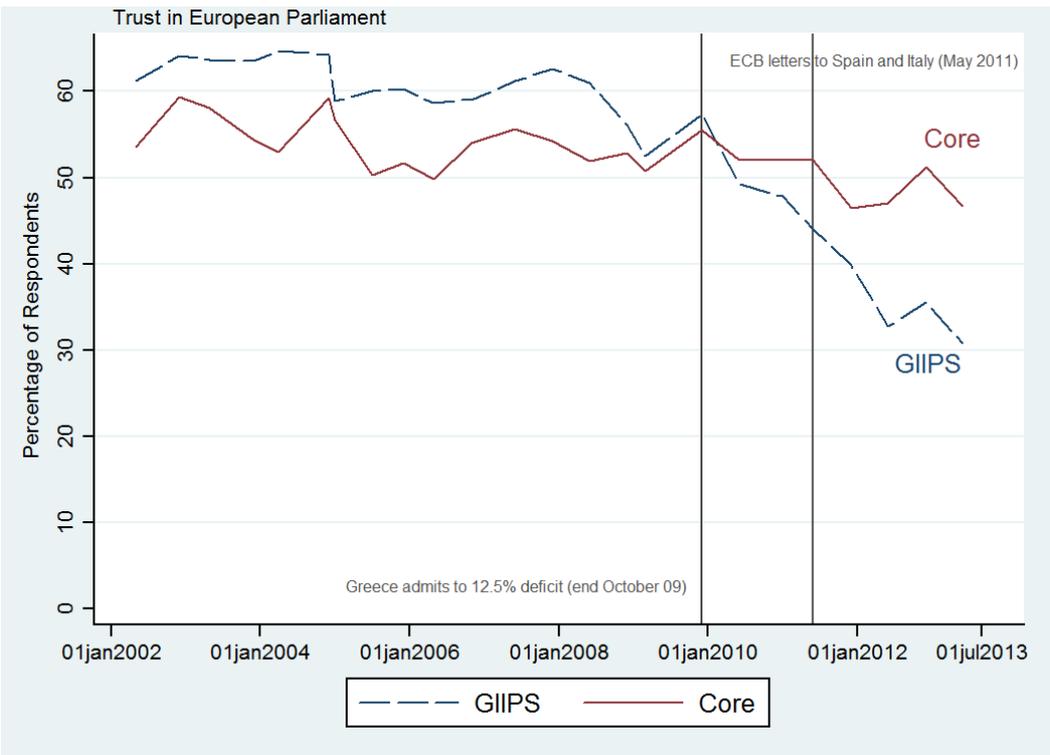
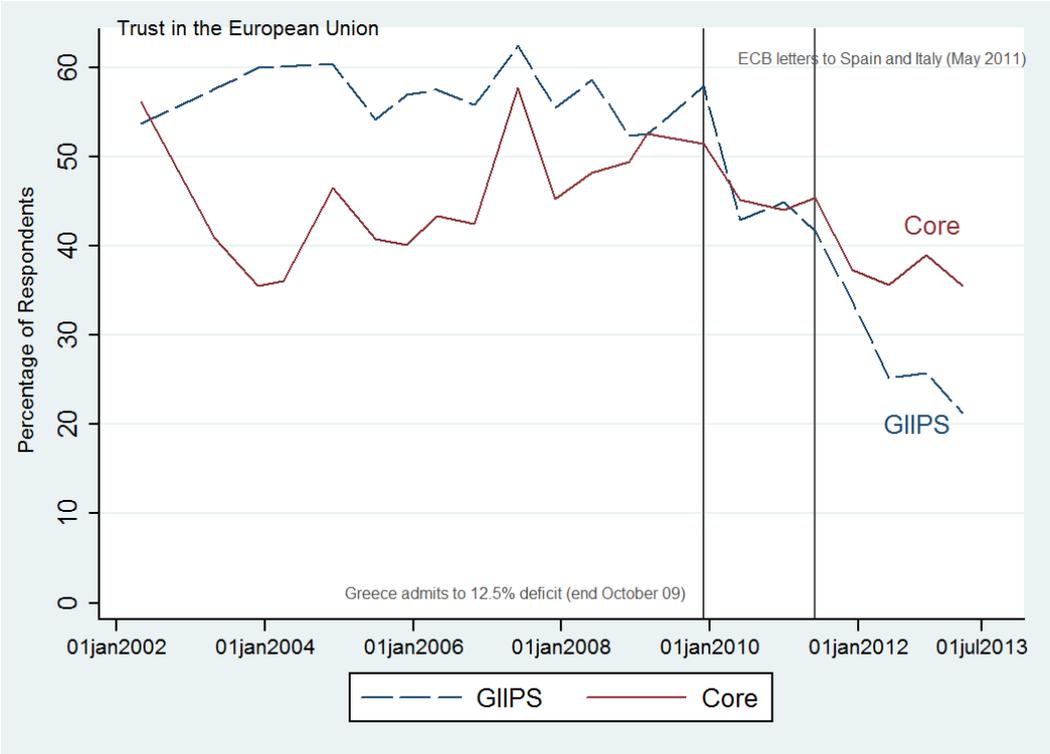


Figure 8: Trust in the European Union, Eurobarometer 2002-2013.



Let us now have a closer look at Europe’s economic locomotive, Germany. Here, we find a worrying development. While trust in national institutions has an upward – although bumpy– trend, trust in European institutions is going down (Figures 9 and 10). The lowest levels of trust in national government, parliament and parties occurred precisely between 2002 and 2004, the period in which Germany was the “sick man of Europe”, traversing an economic recession that led the country to breach the Maastricht Treaty and that only ended with the package of structural reforms implemented by the SDP/Greens coalition known as Agenda 2010. Since 2008, by contrast, there seems to be some sort of national vindication at play, by which German citizens reward their representative institutions’ for the defence of their interests and preferences vis-à-vis other European partners. The year 2009 was the

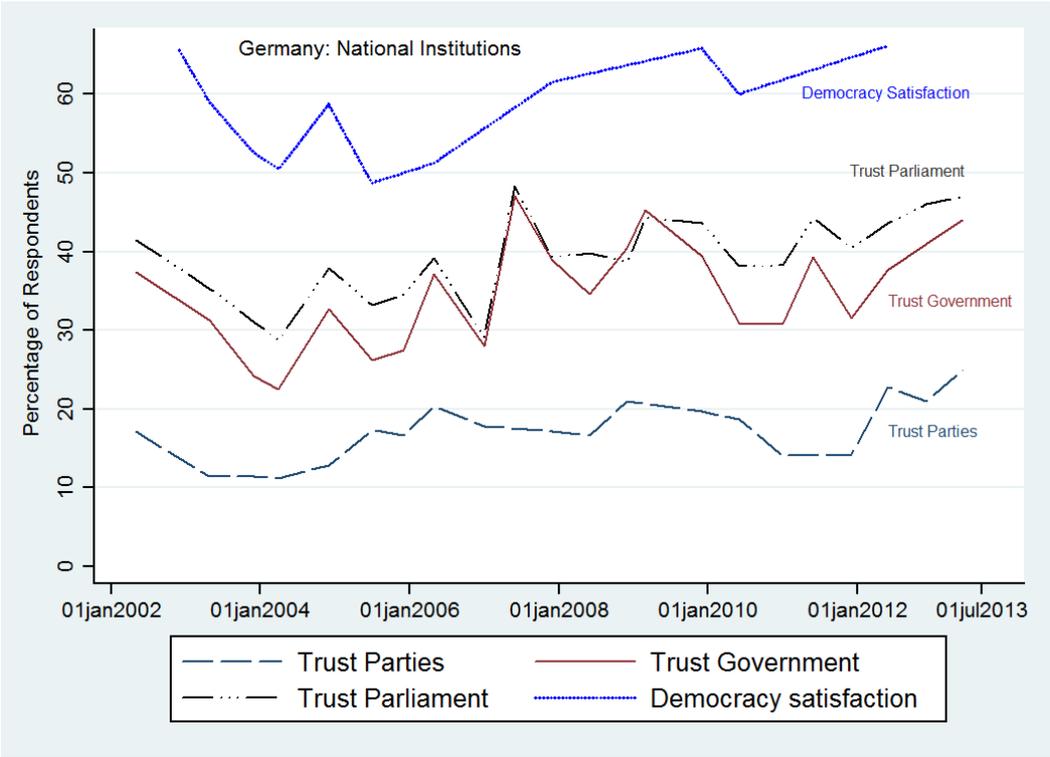
first in which the decreasing trend in vote shares for the combined two German *Volkspartei* (SPD and CDU-CSU), observable since the mid-1970s, has been reversed. In the last two general elections, 2009 and 2013, the combined vote share of CDU and SDP has grown considerably, even if the largest part of this growth is the CDU's.

German citizens feel represented by their national institutions and there is more than one reason why this may be so. First, macroeconomic indicators are good, even extremely good in comparison to those of other EU countries. According to Eurostat data, growth returned during the second quartile of 2013 (0.7%) and the country registers the second lowest unemployment rate in the EU after Austria (5.4%). This is vindicated in Germany as the harvest of the Agenda 2010 reforms. Second and closely

related to the first, the social costs of austerity are not as visible in Germany as they are in bailed-out countries. Therefore, austerity is seen as necessary because its bite is not yet felt at home. Third, Germans' main worries are public debt and inflation

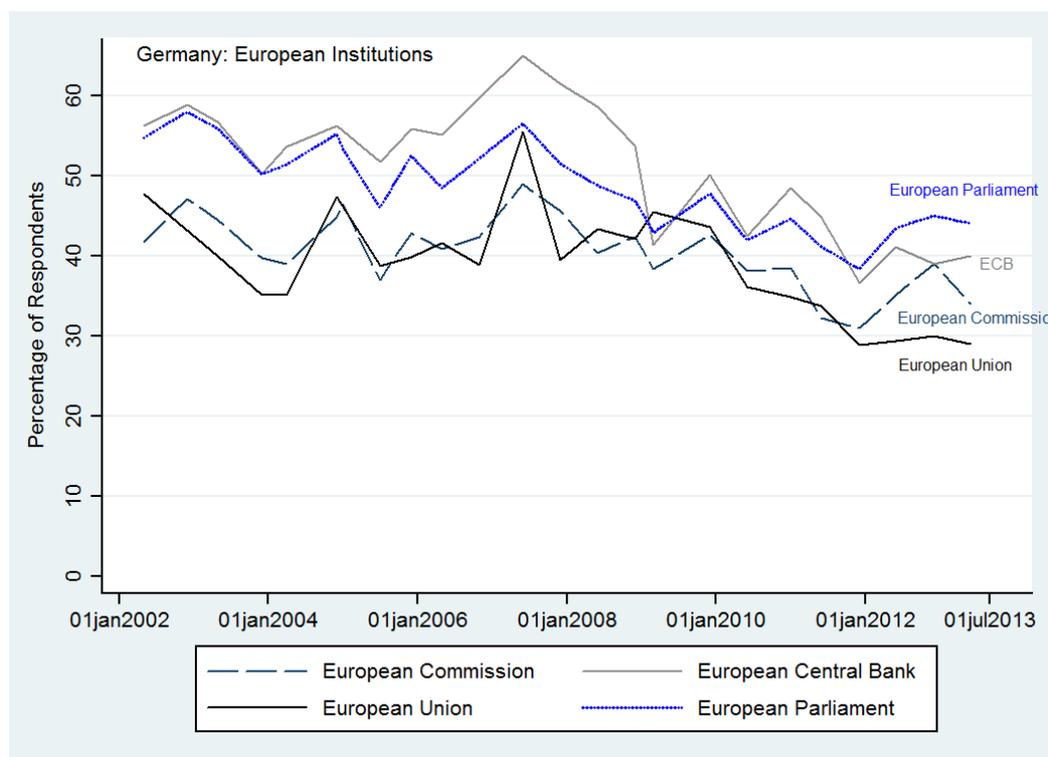
(Eurobarometer 79, July 2013), for which austerity policies are a perfect fit. Fourth, Germans suffer from bailout fatigue. They oppose further bailouts to debtor countries as well as the creation of Eurobonds⁸ and the German government obliges.

Figure 9: Evolution of trust in national institutions in Germany, Eurobarometer 2002-2013.



⁸ Only 26% percent of Germans are in favour of Eurobonds (Eurobarometer 79, July 2013), the lowest figure in the EU-27, followed by the British (33% in favour). By contrast, 94% of Greeks and Spaniards, 94% of Dutch and Austrians, 93% of Fins and 90% of French are in favour of Eurobonds.

Figure 10: Evolution of trust in European institutions in Germany, Eurobarometer 2002-2013.



The same as we can talk of an economic core and periphery in the Eurozone, we can also talk of an emerging political core and periphery. Citizens in GIIPS countries have lost trust in representative institutions at all levels, national and European, and they are highly unsatisfied with national and European democracy. The debt crisis

has given birth to a profound political crisis. Citizens in Eurozone core countries, by contrast, have recovered trust in their national institutions while their trust in European institutions is decreasing. The debt crisis has given a push to national democratic politics at the expense of Europe and the European project.

7. Concluding remarks

Behind the sovereign debt crisis in the Eurozone hides a historical irony. Greece, Portugal and Spain wanted to be part of the EU convinced that this would protect their incipient democracies. At that time, Greece, Spain and Portugal identified the EU with everything they did not have: stable democracies, economic prosperity and social justice. Herein lays the irony. Membership in the European Union is now un-

dermining the very same democracies it was supposed to stabilize. A 'democracy without choices' has been established in the Eurozone periphery under MoU rules (though even countries that have not signed a MoU yet, such as Italy, are hardly pressed to follow austerity). This is so because alternation in office cannot and does not produce policy change. Elected governments are neither free to choose among

economic policy alternatives nor strong enough to force their Eurozone partners into a change of gear. As a result, all GIIPS Governments have left to decide is the details of the cuts and how they are going to deal with street opposition. GIIPS democracies are on stand-by, waiting for ‘politics’ to do its job. Elections continue to be free and fair and alternatives to MoU (or to austerity) have been offered by smaller – old and new– parties to the GIIPS electorates. Therefore, there is still hope that democracy, paraphrasing De Tocqueville, will retrieve from its own mistakes.

A counter-argument could be that Governments’ lack of choice is not a product of the crisis. The reduction of choice has been part of the EU institutional design at least since Maastricht and complains about it were only marginal. A majority of the European publics, particularly in GIIPS countries, went along with it and even celebrated it. This is a fair point. As I have said from the start, the absence of choice in GIIPS countries has been self-inflicted with unblemished democratic procedures (all EU treaties and agreements were approved either by the national parliaments or via referendum). No matter how much GIIPS’ politicians like to frame the present situation as an imposition from outside, from foreigners, they know that they wear two hats and that, as EU member states, they are a constitutive part of those very institutions that are imposing austerity policies on them.

The reduction in national Governments’ discretion was not resented before the crisis because it never before came accompanied by such visible, widespread and deep social costs. During times of

economic growth, with low levels of unemployment and the illusion of wealth that came with debt-based consumption, the European publics did neither *see* nor *feel* their Governments’ lack of autonomy. National politicians conveniently contributed to keep their publics ignorant of what was really happening. The neo-liberal design behind the monetary union was discreetly disguised by tales of prosperity in a globalized world. The reduction of choice had the blessing of the European *demoi*. Only the euro crisis has demonstrated the extent to which democratic governments have renounced, in the EU case collectively rather than on an individual basis, to their autonomy vis-à-vis the markets and to their capacity to implement social policies in hard times. When the absence of choice causes social injustice and a sudden upsurge in inequality, the public turns against it, because it is then *seen* and *felt*.

The problem of austerity for democracy lies more in the fact that it has enormous distributive effects against the majority of the population than in the fact that it is imposed on member states by EU institutions. If the people were against imposition on national governments *per se*, they would have revolted a long time ago. What they revolt against is social injustice, widespread unemployment, poverty, exclusion, a lost generation, concurrent with a rich strata getting richer and not facing any consequences for their irresponsible behaviour, which brought about the financial meltdown. Let us think of a counterfactual for the sake of argument. Let us suppose that GIIPS Governments are captive of financial

interests and in reaction to the 2008 crisis they impose harsh austerity measures at home without attending to their publics' widespread opposition to it. Let us further suppose that, seeing the risk of this strategy for the political stability of these countries, and true to the European democratic and social values, the Troika forces these GIIPS Governments to change tack and introduce fiscal expansion measures that would ease the social costs of the crisis. Would citizens in GIIPS countries protest against fiscal expansion the way they have protested against austerity, even if it were equally imposed from outside? They probably would not. The problem is not imposition, for GIIPS countries are member states of the EU as much as any other country and are co-responsible of the decisions taken at the EU level. The problem is austerity and its consequences for social justice and eventually for the political stability of democracy.

Whether a democracy without choices but with popular support is really a democracy or not is open for debate. What is sure, however, is that a democracy with neither choices nor popular support is open for tumult and instability. The legitimacy of democracy is not only based on procedure but also on results. When procedure (i.e., free and fair elections) guarantees that there is a chance in the future that the party for social justice wins, then procedure and social justice reinforce one another as sources of legitimacy. Contrarily, when procedure does not give a chance to social justice, then democracy loses legitimacy on both fronts, as procedure and as content.

How can countries with levels of unemployment as those of Greece and Spain be required to raise taxes and cut social transfers without endangering their respective democracies has not yet been properly explained to the European publics neither by national nor by EU institutions. European institutions and the Eurozone core countries do not seem to worry about the political consequences of austerity for GIIPS democracies. They seem to act in the belief that instability will be short-lived and that soon everything will go back to normal. Even GIIPS Governments do not seem to worry. If they did, it is difficult to explain why they do not establish a united front against austerity in the EU. Instead, the economic crisis has intensified national - and nationalist- sentiments, strategies and solutions while, at the same time, the future autonomy of national governments has been further curtailed. Core Eurozone Governments are promoting conditionality (to exorcise moral hazard) at the expense of solidarity as well as an inter-temporal trade-off between responsiveness now and technocracy tomorrow. This oxymoronic mixture of populist nationalism and neoliberal technocracy does not strike as a well-thought and consistent instrument to deal with the unfolding economic and democratic breach in Europe. National Governments from *all* EU countries would do well to listen to the publics of the EU as a whole, and not just to their own publics, if there is to be hope for a democratic EU.

Bibliographic references

- Arias, Xosé Carlos and Antón Costas. 2011. *La torre de la arrogancia*. Madrid: Ariel.
- Barnes, Lucy and Anne Wren. 2012. "The Liberal Model in (the Crisis: Continuity and Change in Great Britain and Ireland" in Nancy Bermeo and Jonas Pontusson eds. *Coping with Crisis. Government Reactions to the Great Recession*. New York: Russel Sage Foundation.
- Cameron, David R. 2012. "European Fiscal Responses to the Great Recession" in Nancy Bermeo and Jonas Pontusson eds. *Coping with Crisis. Government Reactions to the Great Recession*. New York: Russel Sage Foundation.
- Friedman, Thomas. 2000. *The Lexus and the Olive Tree*. New York: Anchor Books.
- Kydland, Finn E. and Edward C. Prescott. 1977. "Rules rather than Discretion: the Inconsistency of Optimal Plans", *Journal of Political Economy* 85 (3): 473-491.
- Krastev, Ivan. 2002. "The Balkans: Democracy without Choices", *Journal of Democracy* 13 (3): 39-53.
- Krugman, Paul. 2009. *Return of Depression Economics and the Crisis of 2008*. New York: WWNorton.
- Garrett, Geoffrey. 1999. "Global Markets and National Politics: Collision Course or Vicious Circle?" *International Organization* 52: 787-824.
- Guindal, Mariano. 2012. *Los días que vivimos peligrosamente*. Madrid: Planeta.
- Judt, Tony. 2010. *Ill Fares the Land*. New York: The Penguin Press.
- Lapavitsas, C.; Kaltenbrunner, A.; Lambrinidis, G.; Lindo, D.; Meadway, J.; Michell, J.; Paineira, J.P.; Pires, E.; Powell, J.; Stenfors, A.; and N. Teles. 2010. "The Eurozone between Austerity and Default", *Research on Money and Finance Occasional Report*, September.
- Leao, Pedro and Alfonso Palacio-Vera, "Can Portugal Escape Stagnation without Opting Out from the Eurozone?", Working Paper N° 664, Annandale-on-Hudson, NY: Levy Economics Institute of Bard College.
- Maravall, José M. 2013. *Las Promesas Políticas*. Madrid: Galaxia Gutenberg S.L.
- Martino, Antonio. 2008. "Milton Friedman and the Euro", *Cato Journal* 28 (2): 263-273.
- Mitchell, William and Joan Muysken. 2008. *Full Employment Abandoned*.

- Shifting Sands and Policy Failures*.
Edward Elgar Publishing Ltd.
- Ó Muineacháin, Séin and Michael Gal-
lagher. 2008. “The Parliamentary
Election in Ireland, May 2007”,
Electoral Studies 27(1): 151-154.
- Panagiotarea, Eleni. 2013. *Greece in the
Euro. Economic Delinquency or
System Failure?* Wivenhoe Park,
Colchester: ECPR Press.
- Rodrik, Dani. 2011. *The Globalization
Paradox*. New York: W.W. Norton
& Company.
- Rosanvallon, Pierre. 2008. *Counter-
democracy. Politics in an Age of
Distrust*. Cambridge University
Press.
- Roth, Felix; Nowak-Lelhmann, Felicitas
and Thomas Otter. 2013. “Crisis
and Trust in National and European
Union Institutions – Panel Evidence
for the EU, 1999 to 2012”, EUI
Working Paper RSCAS 2013/31.
- Scharpf, Fritz W. 2011. “Monetary Union,
Fiscal Crisis and the Preemption of
Democracy” LEQS Annual Lecture
Paper n° 36/2011.
- Schattschneider, Elmer E. 1975. *The Semi-
Sovereign People. A realist's View
of Democracy in America*. Cengage
Learning.
- Skidelsky, Robert and Edward Skidelsky.
2012. *How Much Is Enough? Mon-
ey and the Good Life*. New York:
Other Press.
- Stiglitz, Joseph. 2010. *Freefall: America,
Free Markets, and the Sinking of
the World Economy*. New York:
WWNorton.
- Stiglitz, Joseph. 2012. *The Price of Ine-
quality*. New York: W.W. Norton
& Company.
- Van Middelaar, Luuk. 2013. *The Passage
to Europe*. New Haven and Lon-
don: Yale University Pres.