European integration needs to be understood as a process of the Neoliberalization of the EU and the state, rather than intergovernmentalism, supranationalism or member statehood paradigms.

บทคัดย่อ

Neoliberalizing EUROPE : An Unfinished Project?

จิตติภัทร พูนขำ

บทความนี้เสนอว่า การเริ่มต้นใหม่ของการบูรณาการยุโรปตั้งแต่ทศวรรษที่ 1980 เป็นต้นมา พึงเข้าใจผ่านกรอบกระบวนทัศน์เสรีนิยมใหม่ แทนที่จะเป็นกระบวนทัศน์รัฐบาลสัมพันธนิยม เหนือชาตินิยม และรัฐสมาชิกภาพ ซึ่งเป็นความเข้าใจผิดที่อธิบายการเปลี่ยนแปลงรูปแบบของรัฐจากตัวแบบรัฐบรรษัทนิยมแบบเคนส์มาสู่ตัวแบบรัฐสมาชิกภาพ เนื่องจากในช่วงปลายทศวรรษที่ 1970 เป็นต้นมา ระเบียบทุนนิยมโลกเป็นระเบียบเสรีนิยมใหม่ ภายใต้การนำของสหรัฐอเมริกา ซึ่งประกอบด้วยกติกาเช่นการเปิดเสรีทางเศรษฐกิจ การแปรรูปรัฐวิสาหกิจ การลดระเบียบกฎเกณฑ์ และการเปิดเสรีทางการเงิน และส่งเสริมกระบวนการแปลงสหภาพยุโรปให้เป็นเสรีนิยมใหม่

บทความนี้แบ่งออกเป็นสามส่วนสำคัญ ส่วนแรกให้ภาพรวมอย่างสังเขปของกระบวนทัศน์เสรีนิยมใหม่ โดยเสนอว่าเสรีนิยมใหม่เป็นระเบียบของระบบทุนนิยมโลกที่ครองอำนาจนำ ซึ่งสหภาพยุโรปแบบเสรีนิยมใหม่ก่อตัวและพัฒนาขึ้นมา ในส่วนที่สองอธิบายกระบวนการแปลงสหภาพยุโรปให้เป็นเสรีนิยมใหม่ผ่านความร่วมมืออย่างใกล้ชิดระหว่างพลังทางสังคมของทุนข้ามชาติ และคณะกรรมาธิการยุโรป ส่วนที่สามพิจารณาวิกฤตเศรษฐกิจของกรีซ โดยนำเสนออรรถาธิบายต่างๆ เกี่ยวกับสาเหตุของวิกฤตเศรษฐกิจนี้ และเสนอว่าวิกฤตเศรษฐกิจของกรีซเป็นวิกฤตและความย้อนแย้งภายในของตัวแบบยุโรปที่เป็นเสรีนิยมใหม่เอง ไม่ใช่วิกฤตหนี้สาธารณะที่เกิดขึ้นภายในรัฐเท่านั้น และบทความสรุปทิศทางแนวโน้มของโครงการที่ยังไม่สิ้นสุดของสหภาพยุโรปที่มุ่งไปสู่เสรีนิยมใหม่

Neoliberalizing EUROPE: An Unfinished Project?

Jittipat Poonkham[1]

I. Introduction

The evolution and transformation of the European integration as well as its repercussion on global political economy has been vigorously studied since the onset of the community. The pertinent debate is predominantly regarding a theoretical polemic between supranationalism[2] and intergovernmentalism[3]: whether the

[1] Jittipat Poonkham is a lecturer in International Relations, Faculty of Political Science, Thammasat University.

[2] For Functionalism and Neo-Functionalism, see, for example, David Mitrany, *The Progress of International Government* (London: Allen and Unwin, 1933); Ernst Haas, *The Uniting of Europe: Political, Economic, and Social Forces, 1950-1957* (Stanford: Stanford University Press, 1958); Ernst Haas, *Beyond the Nation-State: Functionalism and International Organization* (Stanford: Stanford University Press, 1964); Leon Lindberg, *The Political Dynamics of European Economic Integration* (Stanford: Stanford University Press, 1963).

[3] For Neorealism, see, for example, Joseph Grieco, "States Interests and International Rule Trajectories: A Neo-Realist Interpretation of the Maastricht Treaty and European Economic and Monetary Union", *Security Studies*, Vol. 5: No. 2 (1996). For Liberal intergovernmentalism, see, for example, Stanley Hoffman, "Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe", *Daedalus*, Vol. 95: No. 3 (1966): pp. 862-915; Andrew Moravcsik, *The Choice of Europe: Social Purpose and State Power from Messina to Maastricht* (Ithaca: Cornell University Press, 1998); Alan Milward, *The European Rescue of the Nation-State* (London: Routledge, 1992).

European Union (EU) project has been driven by the supranational institutions or the nation-states. As Andreas Staab puts it, "At the beginning of the postwar European project, two concepts emerged about how integration could be implemented: supranationalism and intergovernmentalism. With supranationalism, institutions and policies supersede the power of their national equivalents. ... Intergovernmentalism, in contrast, minimizes the creation of new institutions and policies, and conducts European integration through cooperation between national governments".[4] The question of "Who rules Europe?" underpins and lingers on the European integration project.

Recently, an International Relations scholar Christopher J. Bickerton, challenging the dichotomy between intergovernmentalism and supranationalism paradigms, profoundly introduces the member state paradigm, claiming for European integration as a process of state transformation – the shift from one form of state i.e. the nation statehood to another i.e. the member statehood, which is the associative, consensus-seeking, and rule-binding dimensions of statehood.[5] The member states, unlike the nation states, became less bound by domestic rules and constituencies, and more dependent upon internationally- and EU-agreed rules, norms and conditionality for their identities, interests and

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[4] Andreas Staab, *The European Union Explained: Institutions, Actors, Global Impact*, 3rd Edition (Bloomington and Indianapolis: Indiana University Press, 2013), pp. 5-6.

[5] Christopher J. Bickerton, *European Integration: From Nation-States to Member States* (Oxford: Oxford University Press, 2012).

preferences. For Bickerton, member statehood is a fundamentally unstable and weak form of state, vulnerable to domestic and international challenges.[6] He emphatically asserts:

> European integration is best understood as a process of cooperation undertaken not by nation states jealous of their sovereignty and their national prerogatives but by member states, entities whose self-understanding is inseparable from pan-European-level cooperation and policymaking. These member states are characterized by national executives and administrations whose main orientation is towards the cooperative decision-making process itself. [7]

In other words, the EU is what member states make of it. Tracing their origin, Bickerton specifically suggests that member states have emerged since the late 1970s and 1980s onwards out of the conflicts and contradictions of the post-1945 Keynesian corporatist welfare states. The crisis and the "dismantling of the Keynesian and corporatist states", he claims, "laid the basis for the shift towards member statehood. This shift lies behind the relaunch of European integration in the 1980s and the development of the EU which is familiar to us today".[8] It is a structural transformation from national Keynesian national states to member states that has precipitated a restructuring of the EU integration afterwards.

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[6] Bickerton, *European Integration,* pp. 16, 75.

[7] Bickerton, *European Integration,* p. 49. His emphasis.

[8] Bickerton, *European Integration,* p. 16.

The article argues that Christopher Bickerton's recent engagement is a step in the right direction, but ultimately not critical enough. While it is necessary to transcend the traditionally dichotomous paradigms, he misunderstands the process of relaunching and restructuring of the European integration after the demise of the Keynesian economic consensus, thereby inescapably misusing the terminology of the "member state". The crisis and contradictions of global capitalism in the late 1970s and 1980s put an end to Keynesianism and brought about the rise of so-called Neoliberalism, and the emergence of the Neoliberal states and EU. The article propounds the Neoliberalism Paradigm and a process of Neoliberalization of the EU (and the state). It is not a rule-binding, norm-generating consensus that socially constituted member states. Rather, they are the Neoliberal states (and transnational actors), instead of member states, which reactivated and revivified the process of the EU deepened and enlarged integration. In order to rescue Bickerton's project, it necessitates bringing "Neoliberalism" back into the European studies.[9]

The article is then divided into three main parts. The first part provides a brief overview of the Neoliberalism paradigm. It argues that Neoliberalism is a global capitalist hegemonic project in which the Neoliberal EU has emerged and developed. The second part elaborates the process of Neoliberalizing in the EU by transnational capitalist social forces, in collaboration with the

[9] Though Bickerton himself is aware of the concept of Neoliberalism and its difference with Keynesianism, he merely puts it in his footnote. See Bickerton, *European Integration*, p. 17 (fn44).

European Commission. And the third part considers the Greek economic crisis. It provides different explanations and narratives regarding the causes of the crisis and argues that the Greek debacle is a crisis and contradiction of Neoliberal Europe itself, rather than a home-grown sovereign debt crisis. The article ends with the prospect of an ongoing unfinished project of Neoliberalizing EU.

II. The Neoliberalism Paradigm

What is so-called "Neoliberalism"? First, the Neoliberal ascendancy was a response to the global economic crisis of the 1970s. During the 1970s, global and European economic growth fell and confronted the stagflation (high unemployment plus high inflation), which immensely challenged the Keynesian welfare state model at home. Over the following years, three important changes of international circumstances jeopardized the Bretton Woods System since 1944, spearheaded by the Gold-dollar Standard and fixed exchange rates. First, on August 15, 1971, US President Richard M. Nixon made a decision to float American dollar, thereby ending the Bretton Woods system. Second, the oil prices rose dramatically and the Middle Eastern oil exporting states cut oil production in retaliation to US support for Israel in the Yom Kippur War.[10] Third, by the end of the 1970s, the Chairman of the US Federal Reserve Bank Paul Volcker launched a draconian rise in interest rates so as to curb inflation, thereby destabilizing the glob-

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[10] Peter Gowan, *The Global Gamble: Washington's Faustian Bid for World Dominance* (London and New York: Verso, 1999).

al economy and precipitating the debt crisis in the Third World.[11] All in all, the global economy in the 1970s was in severe crisis, and in return, it delegitimized the post-war Keynesian consensus.

Second, Neoliberalism is an economic idea. The project focuses on the primacy of markets and its intention to open up and deepen market economies around the globe. This idea or ideology of free market has been promulgated by a group of like-minded scholars in particular economists at the Chicago School led by Milton Friedman. The group ideologically adhered to the free-market principles and deeply opposed the Keynesian interventionist orthodoxy that at that time dominated academic economics and policy making.[12] Stagflation undermined the credibility of New Deal-style welfare Keynesianism. This gave an opportunity for the Chicago School as a new emerging economic paradigm and answer to the chronic state of stagflation. Friedman treated inflation as a purely monetary phenomenon resulting from "too much money chasing after too few goods." He argued that capitalist economies have a "natural rate" of unemployment, and any attempt to bring the actual rate of unemployment below the "natural" would merely lead to inflation. And, if the governments wished to avoid

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[11] David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005), p. 23.

[12] See Richard Cockett, *Thinking the Unthinkable: Think-Tanks and the Economic Counter-Revolution, 1931-1983* (London: Harper Collins Publishers, 1994); Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton and Oxford: Princeton University Press, 2012).

inflation, they had to restrain the growth of the money supply: "the supply of money greatly affects not only prices but economic outputs. It redeemed the free market."[13] In other words, state should stop the demand-side Keynesian budgetary deficit policy, and exit from the market economy. Some scholars argue that in practice, a "Neoliberal laboratory experiment" for taming high inflation through monetary control first occurred in Chile under General Augusto Pinochet, before embedding in the capitalist core states such the US and the UK.[14]

Third, Neoliberalism has become a global economic policy since the 1980s, and is inseparable from the US hegemony. These policies include:

(1) liberalization of trade, investment, finance and so on;

(2) privatization of state-owned enterprises;

(3) deregulation or the elimination of the regulatory rules and laws abiding the private sectors; and

(4) monetary stabilization or tightening fiscal and monetary policies (i.e. austerity programs)

Many times, Neoliberalism needs a strong state to facilitate the establishment of market economy and environment as well as

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[13] Ben Stein, "Milton Friedman, Freedom Fighter," *Time*, November 27, 2006, p. 34.

[14] See Greg Grandin, *Empire's Workshop: Latin America, the United States, and the Rise of the New Imperialism* (New York: Metropolitan Books, 2006).

to suppress demands from society, in particular from trade unions.[15] In the international capitalist order, the US and global financial institutions imposed these Neoliberal policies throughout the world. In the age of Neoliberal globalization, states can either voluntarily adopt the Neoliberal policy or be coerced to apply it after the financial crisis through structural adjustment programs of the global financial institutions such as the IMF and the World Bank.[16] Some might call it the so-called "Washington Consensus".[17] In the postsocialist states such as Russia and Central-Eastern Europe, Neoliberalism is called the "shock therapy".[18] In short, Neoliberalism has transformed into a global capitalist hegemonic project.[19] In Europe, this project has shaped the European integration since

[15] Wolfgang Streeck, *Buying Time: The Delayed Crisis of Democratic Capitalism* (London and New York: Verso Books, 2014), pp. 55-57.

[16] Nicholas Guyatt, *Another American Century?: The United States and the World After 2000* (London and New York: Zed Books, 2000); Gerard Dumenil, and Domique Levy, *The Crisis of Neoliberalism* (Cambridge and London: Harvard University Press, 2011).

[17] See John Williamson, "A Short History of the Washington Consensus," Paper commissioned by Fundacion CIDOB for a conference "From the Washington Consensus towards a New Global Governance," Barcelona, September 24-25, 2004, pp. 1-14.

[18] Jeffrey Sachs, "What is to be Done?" *The Economist*, 13 January 1990.

[19] I argue elsewhere that the EU and the US have a Neoliberal convergence, instead of Robert Kagan's Hobbesian American vs. Kantian European divergence. See Surat Horachaikul and Jittipat Poonkham, "Kantian Europe or Neoliberal Europe?" in *Asia and Europe: Dynamics of Inter- and Intra-Regional Dialogues*, eds. Jose Luis de Sales Marques, Reimund Seidelmann and Andreas Vasilache (Baden-Baden, Germany: Nomos Verlagsgesellschaft, 2009), pp. 143-164.

the 1980s onwards, when at the time there were two major goals: the completion and deepening of the single market, and the creation of monetary union.

III. The Neoliberalization of Europe

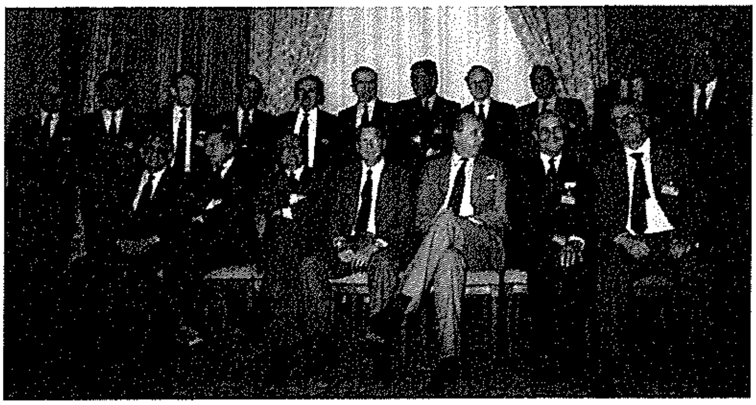
In this section the article illustrates the construction of Neoliberal Europe in accordance with the global capitalist order. Here it focuses on the way that the ruling socio-economic and political forces in Europe have shaped the European economic integration, ensuring and reproducing the hegemony of Neoliberal policies and ideas within the EU. This section provides an overview of the most influential corporate players in Brussels, the policy roles and implementation of the Commissions within the union, and the union treaties among the EU states aiming at legitimizing Neoliberalism as the means for European unification par excellence.

III.I. Transnational Capitalists and the Creation of the Single Market and the Monetary Union

The "relaunch" of the European integration in the mid-1980s was the result of the Neoliberalization of the EU. In the process, transnational elites have played a pivotal role in shaping the Neoliberal project within the EU. They strongly advocated their Neoliberal economic policies via setting the European agenda and shaping European policy-making discourse and implementation by closely collaborating with the European Commission. To begin with, we can see the European Roundtable of Industrialists (ERT) as the key political and economic force aiming at the promotion of

Neoliberal policies and ideas within Europe.[20] The ERT, founded in 1983 by Umberto Agnelli of Fiat, Wisse Dekker of Philips and Pehr Gyllenhammer of Volvo, consists of some 45 "captains of industry", that is, the Chief Executive Officers of the most influential European transnational corporations (See Figure I). They have sought to coordinate their efforts to influence the course of European integration.

Figure I: The European Roundtable of Industrialists (ERT)



From left to right (top): Karl Beurle (Thyssen), Carlo De Benedetti (Olivetti), Curt Nicolin (ASEA), Harry Gray (United Technologies), John Harvey - Jones (ICI), Wolfgang Seelig (Siemens), Umberto Agnelli (Fiat), Peter Baxendell (Shell), Olivier Lecerf (Laforge Coppée), José Bidegain (Cie de St Gobain), Wisse Dekker (Philips).

From left to right (bottom): Antoine Riboud (BSN), Bernard Hanon (Renault), François-Xavier Ortoli (EC), Pehr G. Gyllenhammar (Volvo), Etienne Davignon (EC), Louis von Planta (Ciba-Geigy), Helmut Maucher (Nestlé).

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[20] Bastiaan van Apeldoorn, *Transnational Capitalism and the Struggle over European Integration* (London and New York: Routledge, 2002); Bastiaan van Apeldoorn, "The Struggle over European Order: Transnational Class Agency in the Making of 'Embedded Neoliberalism'," in *Social Forces in the Making of the New Europe: The Restructuring of European Social Relations in the Global Political Economy*, eds. Andreas Bieler and Adam D. Morton (New York: Palgrave MacMillan, 2001), pp. 147-64.

Since the end of the Second World War, there were two broad factions within the transnational corporations: (1) Protectionist or Neomercantilist, who preferred the nurturing of Euro-champions via protectionist industrial policies; and (2) Neoliberal, who favored global free trade policies. By the end of the 1980s, the ERT unanimously pushed for the opening of markets around the world and Europe in particular. The aim of the organization was "to revitalize European industry and make it competitive again, and to speed up the process of unification of the European market."[21] Or, as the Corporate Europe Observatory (1997) puts it, "more than just another lobby organization trying to benefit from the European integration process, the ERT was formed with the expressed intention of reviving European integration and shaping it to the preference of European transnational corporations."[22]

Since the early 1980s, the ERT has been a driving force behind all the major reforms at the EU level, pushing for deregulation, liberalization, and other measures to increase the international competitiveness of European industry, and more generally behind the institutionalization of Neoliberal policies and ideas within the EU. It not only does seek to set the political agenda but also shape

[21] Bastiaan van Apeldoorn, "Transnational Class Agency and European Governance: The Case of the European Round Table of Industrialists," *New Political Economy,* Vol. 5: No. 2 (2000), p. 161.

[22] Quoted in Guglielmo Carchedi, *For Another Europe: A Class Analysis of European Economic Integration* (London and New York: Verso, 2001), p. 31.

the discourse in which European decision making is embedded.[23] In so doing, the ERT has worked closely with the European Commission.

In January 1985, ERT chairman Wisse Dekker had launched a proposal for a five-year plan in Europe 1990: An Agenda for Action to eliminate trade barriers, harmonize regulations and abolish fiscal frontiers. Three days later, the newly appointed president of the European Commission, Jacques Delors, delivered a speech in the European Parliament, which closely paralleled Dekker's "agenda for action". Delors, together with Industry Commissioner Lord Cockfield, published a Commission White Paper, entitled "Completing the Internal Market", which became the basis of the 1986 Single European Act, aiming to achieve the completion of the single market by 1992.[24] The role of the transnational corporations is recognized by many European leaders. For example, in a 1993 television interview, Delors himself recognized the "continuing pressure" of the ERT, claiming that it was "one of the main driving forces behind the Single Market".[25] The single market program involved the removal of three kinds of trade barriers: physical barriers to trade, technical barriers to trade, and fiscal barriers to trade.

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[23] van Appeldoorn, "Transnational Class Agency and European Governance," p. 165.

[24] Belen Balanya, et al., *Europe Inc.: Regional and Global Restructuring and the Rise of Corporate Power*, (London: Pluto Press, 2003), p. 21.

[25] Belen Balanya, et al., *Europe Inc.*, p. 22.

The next important step for the Neoliberalization of Europe was the Maastricht Treaty and the Economic and Monetary Union (EMU). As early as 1985, the ERT had argued that the Internal Market must be completed with a single currency accompanying "low inflation and interest rates, exchange rate stability, and above all, public deficits and government debt no higher than 3 percent and 60 percent of gross domestic product respectively."[26] The sources for the adjustment in Europe was due to the global economic crises, including fiscal crisis, currency instability, and economic stagnation as well as fears of a loss of the EU's competitive edge relative to East Asia and North America. As Bastiaan van Apeldoorn argues, the EMU must be seen in the context of "the rising dominance of Neoliberal ideology within the European political economy and the appeal of Neoliberalism gained as an alternative strategy after the political failure of the Neomercantilist project."[27] Thus it is important to understand a monetary union as an institutional design aiming at reinforcing the Neoliberal governance.

The main lobbying force behind the EMU is the ERT's twin: the Association for the Monetary Union of Europe (AMUE). The AMUE was founded in 1987 by five transnational corporations (including Fiat, Philips, Rhone-Poulenc, Solvay, and Total), each of which was

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[26] John Milios, "European Integration as a Vehicle of Neoliberal Hegemony," in Alfredo Saad-Filho and Deborah Johnston (eds), *Neoliberalism: A Critical Reader* (London: Pluto Press, 2005), p. 210.

[27] van Appeldoorn, "Transnational Class Agency and European Governance," p. 169.

also represented in the ERT. Wisse Dekker, then CEO of Philips and ERT chair, was the AMUE's first chairman. To put it differently, the ERT and AMUE are two sides of the same coin of transnational capitalists with an obvious division of labor: while the ERT focuses on the internal single market and international competitiveness, AMUE represents the EU's financial and banking sectors. Like ERT, AMUE has the same privileged access to the Commission. The Commission not only provides financial support to the AMUE but also frequently consults it on monetary questions.[28]

From the outset, AMUE had a clearly defined mission: putting EMU on the EU's agenda. AMUE vigorously presented a detailed blueprint for a monetary union in April 1988 and then in the following years published annual surveys indicating wide business support across Europe. The former Commission President Jacques Delors launched the Delors Report in April 1989, proposing a roadmap or blueprint to EMU in three stages. The first stage of EMU began with the liberalization of capital markets, coupled with the beginning of free movement of capital among member states, closer coordination of economic policies, and closer cooperation among central banks. In the second stage, the EMU was completed in Treaty of Maastricht in 1991 to ensure an economic and monetary convergence among the member states as well as stability of prices and sound public finances. There is also the Maastricht "convergence criteria" as foundational rules on, among others, public debts, budgetary deficits, inflation and exchange rates. For example,

[28] Balanya, et al. *Europe Inc.*, pp. 51-2.

accumulated public debt should be no more than 60 percent of GDP, and budget deficits should be no more than 3 percent of GDP.[29]

The final stage of the EMU was launched in January 1999, establishing the new European Central Bank (ECB). On 1 January 1999 the twelve participating states turned their currencies into one, the euro.[30] The ECB is an independent central banking system, which is responsible for monetary policy in the "euro area", or eurozone, and for the single currency, by setting a key short-term interest rate, and monitoring money supply. Its ultimate aim is to curb inflation. The ECB, albeit its common monetary policy, is not allowed to bail out member states should they be unable to pay off its debts. Eurozone countries could no longer use the printing press to create money to service their debt, or the devaluation of the currency. Last but not least, despite a lack of common European fiscal policy, the ECB restricts and controls European states' fiscal policy via the Stability and Growth Pact (SGP), which includes financial penalties for the countries that violated the rules to keep their public debts and budgetary deficit low.[31] To sum up, the

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[29] Amy Verdun, "The EU and the Global Political Economy", in *International Relations and the European Union*, eds. Christopher Hill and Michael Smith, 2nd Edition (Oxford: Oxford University Press, 2011), p. 254.

[30] The UK, Denmark and Sweden declined to participate in EMU, while other EU member states including Greece (2001), Slovenia (2007), Cyprus and Malta (2008), Slovakia (2009), and Estonia (2011) Latvia (2014), join the euro area respectively.

[31] Amy Verdun, "Economic and Monetary Union", in *European Union Politics*, eds. Michelle Cini, and Nieves Perez-Solorzano Borragan, 3rd Edition (Oxford: Oxford University Press, 2010), pp. 324-339.

monetary policy has been transferred from the member states to the ECB while the fiscal policy remains within the boundary of the member states, with certain EU-regulated constraints.

The role of transnational corporations is influential in the establishment of monetary union. In 1991, ERT demanded this creation in its report Reshaping Europe which favored "tight monetary and financial discipline in a rules-based economic constitution as a means to deliver low inflation and to protect savings." In the report, the ERT proposed a timetable for EMU implementation that bears remarkable similarity to the one incorporated in the Maastricht Treaty a few months later.[32] Importantly, when politicians could not agree about whether they should set precise dates for EMU implementation, the AMUE, the ERT, and other corporate lobby groups successfully pressed for the inclusion of a well-defined time schedule. Although the Maastricht Treaty had put Economic and Monetary Union firmly on the official political agenda of the EU, its practical implementation took place at the 1995 Madrid EU summit, where a speedy introduction of the euro was launched. Former ERT Secretary-General Keith Richardson even claimed that "We wrote a formal letter to all heads of government saying: 'When you meet at the Madrid Summit, will you please decide for once and for all that

[32] Stephen Gill, "Constitutionalizing Capital: EMU and Disciplinary Neo-Liberalism", in *Social Forces in the Making of the New Europe: The Restructuring of European Social Relations in the Global Political Economy,* eds. Andreas Bieler and Adam D. Morton (New York: Palgrave MacMillan, 2001), p. 50.

monetary union will start on the day agreed at Maastricht and with criteria agreed at Maastricht'. We wrote to them, we asked them to do that. And they did it. They put out an announcement in Madrid and said exactly that: 'We will do it'."[33]

As Commission President Jacques Santer acknowledged by himself later: "The members of the Association [for the Monetary Union of Europe (AMUE)] have been a major driving force behind the EMU project. Many of your companies have played a leadership role by clearly advocating the advantages of the single currency for the private sector and society as a whole." To sum up, during the 1980s, and particularly during the presidency of Jacques Delors, relations between Europe's corporate leaders and commissioners became closely entwined. According to one ERT member, "The Commission is the motor in Europe. An internal revolution has taken place under Delors. It is less bureaucratic now. It listens more".[34] Simply put, the European Commission listened more to the transnational corporations.

Above all, the introduction of the euro came together with economic deregulation so as to boost economic competitiveness in global political economy. European governments then pursued the policies of lower taxes, labor market flexibility and a more favorable regulation for business. Then, the introduction of the single currency has become a cornerstone of the process of financial liberalization in which money capital gained more freedom than ever; being able

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[33] Balanya, et al. *Europe Inc.*, p. 23.

[34] Balanya, et al. *Europe Inc.*, pp. 50, 24.

to go after any investment opportunity, ever searching for the highest rate of return, while often ignoring or downplaying growing risks. It could be argued that the Economic and Monetary Union has been accompanied by deregulation of financial markets, privatization of public assets and the cutting of social provisions.

III.II. Neoliberal Europe and Competitiveness: Towards Lisbon Strategy

As Karl Polanyi candidly points out, economic system is recurrently about the incompatibility between economic liberalism and social protectionism.[35] Within the EU, it has been a tension and contradiction between a Neoliberal competitiveness and social cohesion. Bastiaan van Apeldoorn called the EU capitalist system an "embedded Neoliberalism". However, the article argues that, from the outset, the social cohesion agenda is secondary to the competitiveness agenda defined in terms of Neoliberal project of liberalization, marketization, privatization and deregulation. The EU Commission, in particular Trade Commission, has followed Neoliberal footsteps and maintained even stronger ties with large transnational corporations. An example of their close relationship is the European Business Summit, which comprised a thousand business leaders and most of the European Commissioners together in both May 2000 and June 2002. The summit proposed for "improving European competitiveness."[36]

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[35] ee Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1944 [2001]).

[36] Balanya, et al. *Europe Inc.*, p. xx.

Competitiveness is increasingly being defined discursively, and socially constructed in Neoliberal terms within both the corporations and the Commission's policy discourses. [37] The ERT was very active in propagating and articulating this competitiveness discourse in its report, Beating the Crisis, in accordance with Delor's influential White Paper on "Growth, Competitiveness and Employment," which steadfastly claimed that the Single European Act could help "to restore the balance in the development of the single market by way of joining flanking policies as part of economic and social cohesion." However, in practice, Simon Lee argues that

> By endorsing further deregulation, liberalization and the transfer of the tax burden from the company and entrepreneur to the individual, the 'flanking policies' incorporated within the competitiveness agenda were threatening to undermine the drive for greater social cohesion by attacking the solidaristic principles of European welfare states in order to provide a more advantageous environment for businesses to operate. [38]

In February 1995, the EU Commission under President Jacques Santer set up a Competitiveness Advisory Group (CAG) so

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[37] van Apeldoorn, "Transnational Class Agency and European Governance"; and Ben Rosamond, "Imagining the European Economy: 'Competitiveness' and the Social Construction of 'Europe' as an Economic Space," *New Political Economy*, 7:2, 2002, pp. 157-77.

[38] Simon Lee, "Discovering the Frontiers of Regionalism: Fostering Entrepreneurship, Innovation and Competitiveness in the European Union," in Shaun Breslin et al. (eds) *New Regionalisms in the Global Political Economy* (London and New York: Routledge, 2002), p. 169.

as to produce a biannual report on the state of the Union's competitiveness and to advise on economic policy priorities and guidelines with the aim of stimulating competitiveness and reaping its benefits.[39] As a result, the competitiveness discourse has become the primary "benchmark" for Neoliberal restructuring of the EU.

Strengthening European industrial competitiveness within the global economy has always been the corporate main objective, and it lobbies for the Neoliberal promotion through the development of the Single Market into a steadily more integrated economic system. This was institutionalized in the 1997 Amsterdam Treaty, which the ERT demanded a completion of the Single Market, and was written into the Single Market Action Plan. The latter is now being implemented by the EU member states: The plan has led "to further liberalization of the telecommunications, transport and energy markets, the patenting of life, the granting of monopolies to biotech companies for products developed with biotechnological techniques, and movement towards the harmonisation of corporate taxation in Europe."[40]

One of the major goals in the Amsterdam Treaty was a thorough revision of voting procedures and national representation in EU institutions in order to prepare for the anticipated accession of Central and Eastern European countries (CEECs). The ERT vigorously lobbied for the speedy enlargement of the EU towards the East. European corporations regarded CEECs as enormous

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[39] Balanya, et al. *Europe Inc.*, p. 33.

[40] Balanya, et al. *Europe Inc.*, p. 27.

markets with plentiful resources and providers of cheap labors.[41] For the ERT, "enlargement is fundamental: It will bring great economic benefits. These countries will bring new people, a lot of skills, technology, education, know-how. They will bring material resources including land and energy, and they will bring markets for our products."[42] However, these countries necessitate stringent Neoliberal "structural adjustment" prior to accession. Thus the rationale for EU enlargement should be envisaged through the Neoliberal Europe paradigm; that is, the European corporations could move easily to the lower-income, labor intensive, and resource rich areas of the East.

To boost the EU's competitiveness, another road towards the Neoliberal transformation of the EU is the Lisbon Strategy, also known as Lisbon Agenda, of 2000. The summit set an action plan to transform Europe into "the most competitive and dynamic knowledge-based economy in the world by 2010", later delayed into 2020. The knowledge economy aimed to strengthen the position of the European economy in the age of globalization and global competition. The summit called for a series of economic and social reforms. From the outset, the social cohesion agenda is subordinated to the competitiveness agenda defined in Neoliberal terms of market liberalization and increased market discipline.

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[41] See Maria Ivanova, "Why There Was No 'Marshall Plan' for Eastern Europe and Why This Still Matters," *Journal of Contemporary European Studies*, Vol. 15: No. 3 (December 2007): pp. 345-376.

[42] Quoted in Balanya, et al. *Europe Inc.*, p. 65.

For the social reforms, social cohesion was exclusively defined as the flexibility and adaptability of labor force to global competitiveness and market conditions, rather than in terms of protecting workers from the vulnerability of the market. The Lisbon strategy entailed the adaptation of workers "for living and training in the knowledge society", involving among others enhancing "employability" and the acquisition of new skills as part of "life-long learning", which should become "a basic component of the European social model". It was a workfare, rather than welfare reforms.[43] Thus, the social protection that the Lisbon strategy offers is merely symbolic.

The core "reform agenda" of the Lisbon Strategy laid on a Neoliberal competitiveness – the marketization of services and capital markets, in particular the move toward the single financial market. The plan was to "promote liberalization reforms, increase R&D spending, and encourage the deregulation of labor and product markets across the continent. Similarly, the euro's proponents hoped that the single currency would not only increase cross-border trade but also, by imposing tougher price and wage discipline on its

[43] This Neoliberal Lisbon Strategy raised questions for many civil society organizations and ordinary European citizens. For example, European Trade Union Confederation (ETUC) openly expressed its worries that the balance between the "economic" and "social" pillars was being lost in favor of a "pure 'business' or 'market strategy'," and warned that if "Lisbon becomes equated with the dismantlement of social Europe, the 'ownership' of the Lisbon strategy as such will be refused". Bastiaan van Apeldoorn, and Sandy Brian Hager, "The Social Purpose of New Governance: Lisbon and the Limits to Legitimacy", *Journal of International Relations and Development*, Vol. 13 (September 2010): pp. 209-238.

members, speed up structural reforms in all European economies." [44] The Corporate Europe Observatory argues that the result will be a sweeping Neoliberal restructuring of European societies. The ERT reports (2002, 2004) strongly supported the reform agenda, prioritizing the areas of innovation, the creation of an integrated European capital market, full liberalization of services and public utilities, deregulation, pension reform, and labor market reform.[45] ERT member Baron Daniel Janssen describes this as part of a "double revolution," which consists of "reducing the power of the state and of the public sector in general through privatization and deregulation," and "transferring many of the nation-states' powers to a more modern and internationally minded structure at European level."[46]

European Commission President Jose Manuel Barroso did make the Lisbon Agenda his top priority. The new Commission relaunched Lisbon Strategy under the new name of the "Growth and Jobs Strategy", but explicitly prioritizing the goal of competitiveness over social cohesion and protection.[47] That is to say, the Barroso

[44] "A Special Report on the European Union", *The Economist*, 7 March 2007, p. 5.

[45] See ERT, *Will European Governments in Barcelona Keep Their Lisbon Promises* (Brussels: ERT, 2002); ERT, *Letter to the March 2004 European Council* (Brussels: ERT, 2004).

[46] Quoted in Balanya, et al. *Europe Inc.*, p. xx.

[47] Bastiaan van Apeldoorn, "The Contradictions of 'Embedded Neoliberalism' and Europe's Multi-level Legitimacy Crisis: The European Project and Its Limits", in *Contradictions and Limits of Neoliberal European Governance: From Lisbon to Lisbon,* eds. Bastiaan van Apeldoorn, Jan Drahokoupil, and Laura Horn (Hampshire: Palgrave Macmillan, 2009), p. 32.

Commission focused more one-sidedly on "competitiveness". The Lisbon Strategy was replaced in 2009 by the so-called EU 2020 strategy, and renamed the Europe 2020 proposal in March 2010.

Consequently, the disciplinary Neoliberalism has been continuously institutionalized within the European Union, while the major decision making is transferred into the hands of European actors and institutions regulating and facilitating transnational businesses.

III.III. Constitutionalizing Neoliberal Europe

Constitutionally, the EU in many ways is largely of Neoliberal category. The case becomes even bolder if one sees the relationship between the union treaties and EU enlargement. To be accepted in EU, the applicant states have to follow the restrictive policies linked with the Maastricht criteria and Stability and Growth Pact. In this sense, John Milios argues that "the 'Constitution' actually aims at making Neoliberal 'irreversible' in the enlarged EU" because "the Constitution aims at 'finalizing' the institutional framework of the EU for decades to come, so that the 'deepening' of the process of European (economic, political, and social) unification may be facilitated."[48] Milios further explains:

> The "Constitution" ascribes the character of "constitutional order" to two major pillars of Neoliberalism. First, deregulated markets. Article I-3 says that "The Union's

[48] Milios, "European Integration as a Vehicle of Neoliberal Hegemony," p. 211.

> objectives: a single market where competition is free and undistorted." Second, the priority of state security and "military capacity" over human and social rights. ...More specifically with regard to economic and social policies, after some "progressive" formulations concerning the economic and social "objectives" of the EU in part I of the constitution, ...disinflation, the main motto behind all Neo-liberal policies, is acclaimed as a major "constitutional" end. "The primary objective of the European System of Central Banks shall be to maintain price stability" (Article I-29).[49]

Although the prospect of the EU Constitution was jettisoned by the French and Dutch referendums of 29 May and 1 June 2005, the Lisbon Treaty of 2007, which was the Constitution under a different name, still remained its strong commitment to Neoliberal agendas and policies, which is the most fully developed in the European founding treaties such as post-Lisbon consolidated version of Treaty on European Union (TEU) and Treaty on the Functioning of the European Union (TFEU).

The clear adherence to the Neoliberal project is in its domestic restructuring of the EU, represented in, for instance, the Article 26 of TFEU, which outlines the principles of the internal market. It states that it "shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is

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[49] Milios, "European Integration as a Vehicle of Neoliberal Hegemony," pp. 211-2.

ensured in accordance with the provisions of the Treaties". The Article 119.1 of TFEU also reassuringly confirms that the adoption of an economic policy will be "conducted in accordance with the principle of an open market economy with free competition", while the Article 119.3 adds that the guiding principles of economic and monetary policy will be "stable prices, sound public finances and monetary conditions and a sustainable balance of payments".[50] In its foreign economic policy, the Article 21.2e of TEU, for example, mentions that the EU shall "encourage the integration of all countries into the world economy, including through the progressive abolition of restrictions on international trade". The Article 206 of TFEU also states that the Union will contribute "to the harmonious development of world trade, the progressive abolition of restrictions on international trade and on foreign direct investment, and the lowering of customs and other barriers".[51]

In conclusion, the Neoliberal restructuring of the EU has been set in by the relaunched European integration project in the mid-1980s via the internal market program, the monetary union, and the Lisbon competitiveness agenda, which has been institutionalized in the union treaties.

[50] Quoted in Stanislav Maselnik, "The European Neoliberal Union: Transnational Project of Embedded Neoliberalism", p. 12.

[51] Quoted in Maselnik, "The European Neoliberal Union: Transnational Project of Embedded Neoliberalism", p. 12.

IV. Neoliberalizing Europe and Its Discontents

In this last section, the article asserts the intertwined relationship between the Neoliberalization of the EU and the outbreak of the economic crisis in the so-called "PIIGS" countries (or the "GIPSIs" countries[52]) – including Portugal, Ireland, Italy, Greece and Spain – and the subsequent eurozone crisis since late 2009. The article uses the Greek sovereign debt crisis as its main case study. This section begins with three distinct discourses or narratives of Greek economic crisis. Then it proposes an alternative – fourth – narrative of the crisis by contending that European Neoliberalism as a structural environment rendered the crisis possible.

With regard to the origins of the Greek economic crisis, there are at least three narratives or explanations:

(1) The "lazy Greek" discourse

(2) The "undisciplined Greek" discourse

(3) The "flawed design of the eurozone" discourse

The first and second narratives are the domestic sources of crisis while the third narrative is the international structural one. The first narrative – the "laze Greek" discourse – implies that the cause of economic crisis was inherently triggered by a unique southern European culture of corruption and inefficiency (in contrast with northern sobriety). This narrative is widely understood in European public opinion, in particular the German one. Their tabloid press

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[52] Paul Krugman, "Eurodämmerung", in *End This Depression Now!* (New York and London: W.W. Norton and Company, 2012), p. 175.

was against the lazy Greek, who after decades of indulging in a Mediterranean ingredient of indiscipline, extravagance and corruption, now turned to hardworking Germans to bail them out. For example, the Springer press's headline said: "Sell your islands, you bankrupt Greeks! And sell the Acropolis too!" Or, one of the CDU leaders Josef Schlarmann speculated that "Those in insolvency have to sell everything they have to pay their creditors. Greece owns buildings, companies and uninhabited islands, which could all be used for debt redemption."[53]

The second narrative, the "undisciplined Greek" discourse, postulates that the crisis was caused by excessive public spending in south European deficit countries. To solve the crisis, they required to tighten on government budgets and pursued austerity programs. The EU, in particular the European Central Bank (ECB), suggested the so-called Fiscal Compact or the Stability Treaty as a solution, attempting to enforce fiscal discipline and budgetary austerity across the continent. Mario Draghi, the president of the ECB, made a speech by blaming the eurozone crisis on the south European countries,

> [Y]ou have large parts of the euro area in a bad equilibrium in which you may have self-fulfilling expectations that feed on themselves. ... So, there is a case for intervening ... to 'break' these expectations, which ... do not concern

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[53] Quoted in Timothy Garton Ash, "The Crisis of Europe: How the Union Came Together and Why It's Falling Apart", *Foreign Affairs*, September/ October 2012, p. 8.

only the specific countries, but the euro area as a whole. And this would justify the intervention of the central bank.[54]

Contrary to the two former narratives, the third narrative stresses the flawed design of the eurozone and its contradiction within the euro system itself.[55] There are four interrelating issues within this narrative. First of all, it is a crisis foretold. Many scholars had argued the flawed design of the eurozone from the very beginning of the establishment of the currency. For instance, a prominent Harvard economist Martin Feldstein claims that the Euro is an "experiment that failed" noting that the failure of the euro was the result of the inevitable consequence of imposing a single currency on a very heterogeneous group of countries.[56] Oxford historian Timothy Garton Ash also raised some questions of those euroskeptics: "how a common currency could work without a common treasury, how a one-size-fits-all interest rate could be right for such a diverse group of economies, and how the eurozone could

[54] Quoted in Paul de Grauwe and Yuemei Ji, "From Panic-Driven Austerity to Symmetric Macroeconomic Policies in the Eurozone", *JCMS: Journal of Common Market Studies*, Vol. 51 (2013): p. 31.

[55] Andrew Moravcsik, "Europe after the Crisis: How to Sustain a Common Currency", *Foreign Affairs,* May/ June 2012, pp. 54-68; C. Fred Bergsten, "Why the Euro Will Survive: Completing the Continent's Hal-Built House", *Foreign Affairs,* September/ October 2012, pp. 16-22.

[56] Martin Feldstein, "The Failure of the Euro: The Little Currency That Couldn't", *Foreign Affairs,* January/ February 2012, pp. 105-116. See also Martin Feldstein, "The Case Against the Euro", *The Economist,* 1992; Martin Feldstein, "EMU and International Conflict", *Foreign Affairs,* November/ December 1997.

cope with economic shocks [asymmetric shocks] that varied from region to region".[57]

Second, there is a divergence, rather than convergence, among the eurozone countries after managing the exchange rate problem. According to Moravcsik, there are two groups of the euro countries: (1) the strong-currency countries, or the "Economists" such as Germany and the Netherlands, of which economic policies needed to be coordinated before fixing exchange rates or introducing a single currency; and (2) the weak-currency countries, or the "Monetarists", such as France, Belgium, and Luxembourg, of which by fixing the exchange rate the necessary cooperation of the adjacent economic policies would naturally start to occur. Moravcsik asserts that the grand bargains or compromises between European countries, playing a gamble, hoped for the convergence between their economic policies. In fact, policy divergence occurred.[58]

The third issue is the "euro-induced disequilibrium", which has precipitated the rise of trade imbalances within Europe after the introduction of the euro. The PIIGS or GIPSIs economies moved into huge deficits in their current accounts while Germany moved into a trade surplus[59] (See Figure II). According to Moravcsik, bankruptcy in southern Europe and prosperity in Germany are two sides of the same coin. The North (in particular its bankers and financiers) helped

[57] Garton Ash, "The Crisis of Europe: How the Union Came Together and Why It's Falling Apart", p. 7.

[58] See Andrew Moravcsik, *The Choice of Europe: Social Purpose and State Power from Messina to Maastricht* (Ithaca: Cornell University Press, 1998).

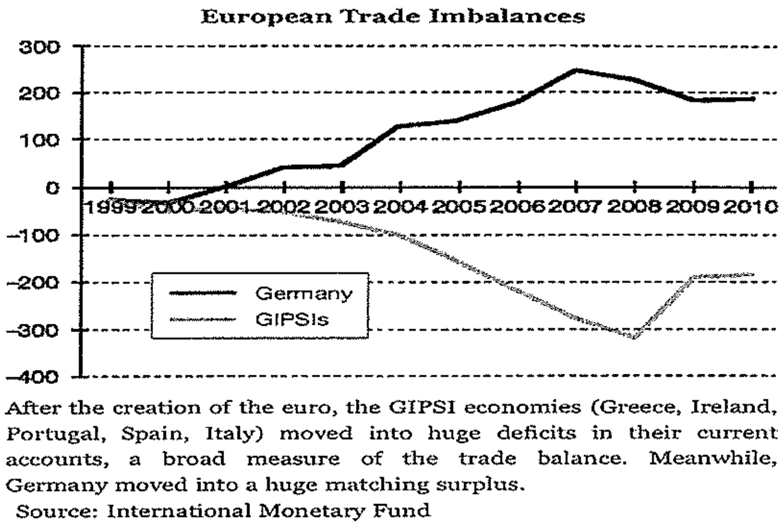
[59] Paul Krugman, "Eurodämmerung", pp. 174-5.

finance the South with low-interest loans. This is a structural environment that the ability to borrow cheaply produced massive capital inflows to the economies that had possessed the highest interest rates before entering the single currency. Cheap foreign money urged the peoples to consume and the corporate to speculate. And financial excesses generated speculative bubbles and inflationary consumption growth, thereby the bursting of the bubbles left a large number of private debt. For Moravcsik, Germany is acting '"like the China of Europe".[60] German banks and investors lent money to south European countries at low interest rates, ignoring the longer-term risk. Therefore southern Europe's deficits are as much the fault of northern European lenders as they are the fault of southern European borrowers. Above all, deregulation, or lax regulation, of private sectors, rather the public profligacy, was the main cause of the crisis in the southern Europe.[61]

[60] Andrew Moravcsik, "Europe after the Crisis: How to Sustain a Common Currency", p. 60.

[61] Andrew Moravcsik, "Europe after the Crisis: How to Sustain a Common Currency", pp. 57-8.

Figure II: European Trade Imbalances



Source: Paul Krugman (2012: 175)

Fourth, a failure of institutional design, what the then British Foreign Secretary William Hague described as a "burning building with no exits"[62], made an institutional deadlock. There are at least three factors here. Firstly, the desire of the EU was launched with its absence of fiscal integration: a monetary union, without a fiscal union.[63] There are merely fiscal restraints for the national governments. Secondly, there is no bail-out clause at the European

[62] Quoted in Nathaniel Copsey and Tim Haughton, "Editorial: Edging Away from the Abyss = the EU in 2012", *JCMS: Journal of Common Market Studies*, Vol. 51 (2013): p. 2.

[63] C. Fred Bergsten, "Why the Euro Will Survive: Completing the Continent's Hal-Built House", *Foreign Affairs*, September/ October 2012, pp. 16-22.

level. And while a common monetary policy is set up in the independent ECB, the ECB is not a lender of last resort.[64] Finally, the Maastricht Treaty constrained the policy option. The euro membership eliminates the traditional policy instruments such as currency devaluation in the time of economic crisis. In brief, from the third discourse of the flawed architecture, the eurozone system is like a "ticking time bomb" just waiting to explode.[65]

The first two narratives seem to be metanarratives, or conventional wisdom, in the European Union. Paul Krugman called these narratives as Europe's "big delusion": "It is the belief that Europe's crisis was essentially caused by fiscal irresponsibility. Countries ran excessive budget deficits, getting themselves too deep into debt – and the important thing now is to impose rules that will keep this from ever happening again." [66] Both narratives compel the "Hellenization" of discourses that generalized, if not oversimplified, the deep root causes of the crisis in the PIIGS countries. The third narrative convincingly disproves these metanarratives by maintaining that the crisis was not generated by a crisis from within, but by the contradiction within the euro system itself that rendered the crisis plausible and even inevitable.

To a certain extent, the article agrees with some arguments of the third narrative, but argues further that the crisis happened

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[64] Michel Aglietta, "The European Vortex", *New Left Review,* Vol. 75 (May-June 2012): p. 23.

[65] Moravcsik, "Europe after the Crisis: How to Sustain a Common Currency", p. 57.

[66] Paul Krugman, "Eurodämmerung", p. 177.

due largely to the contradiction and crisis of a Neoliberal Europe, of which the eurozone system was a part. In this section, it discusses the Neoliberalization of the crisis and then the EU's responses to the crisis by promulgating the austerity programs and initiating the fiscalization of the EU. It argues that these EU's institutional reforms are leading to more, not less, Neoliberal Europe, as an unfinished project.

In the case study of Greece, the crisis was shaped by two key factors. The first factor is Neoliberal policies of the EU. As this article argues, the EU economic policies are fundamentally a form of Neoliberalism. It is characterized by a strong belief in the efficiency of the market, a distrust of state regulations, and an anti-labor bias. The policies include:[67]

First, the EU monetary policy, targeting inflation, is centralized within the independent ECB. The ECB has set the inflation target close to or below 2 percent.

Second, the ECB is not a lender of last resort: no bail-out clause within the EU level. Neither other national governments nor the ECB will support individual countries which are facing problems in financing themselves. In the eurozone, the member states are not allowed to devalue the currency, thereby leaving the only option of austerity. Otherwise, they might decide to exit from the eurozone system.

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[67] Engelbert Stockhammer, "Euro-Keynesianism? The Financial Crisis in Europe", *Radical Philosophy*, Vol. 175 (September/ October 2012).

Third, through the Maastricht convergence criteria, the EU restricted national fiscal policy: the budget deficit must not exceed 3 percent of GDP, and they must aim at a balanced budget in the medium term, with accumulated public debt no more than 60 percent of GDP.

Fourth, the EU fiscal policy is very limited, and is not designed to be able to provide an expansionary stimulus. The EU budget, restricted to 2 percent of GDP is too small, too inflexible to serve a macroeconomic function. Above all, fiscal policy is essentially national policy.

Fifth, labor markets are supposed to be flexible. Wage flexibility, according to the Lisbon Strategy, meant lower-wage, non-unionized flexible labor so as to be competitive in European economy.

All these economic policies provided an incentive for the European states, in particular the southern Europe, to be vulnerable to debt-driven and crisis-laden economies. When the crisis erupted in 2010 and thereafter, the second policy – no bail-out clause – is the only area which there is change in the policy set-up, while the rest of the Neoliberal economic policies remain intact and even intensified.

The second factor is a financialization of European economy, which is an effect of Neoliberal deregulation and liberalization of the finance. From the single market, the EMU, and the Lisbon Strategy, the EU turned into a single financial market, open to capital flows. The large European banking corporations have provided the expansion of credit, supported by low interest-rate policies. Debt-based housing spending allowed consumption to grow at a faster rate than incomes and wages. These corporations played an active part in the expansion of debt and toxic assets.

In practice, it meant the free flows of massive capital and banking within the EU, and in particular from Germany, France and the UK to the peripheral European countries. As Moravcsik maintains, fast-growing southern European countries ran current account deficit that allowed for German export surpluses. These surpluses were recycled as private credit flows back to the southern European countries.[68] These massive capital inflows briefly fostered manufacturing investment (in the cases of Spain and Ireland), but soon turned into a property boom and bubble, rising housing debts, and speculation in the financial markets. In the PIIGS countries, the financial crisis was deepening. In Ireland and Spain there was a property bubble or real-estate bubble that had burst, leaving households with a huge debt burden, and banks with losses (due to mortgage defaults and failure of construction firms). Greece was the only country with a huge public debt – that is, the sovereign debt crisis.[69]

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[68] Moravcsik, "Europe after the Crisis: How to Sustain a Common Currency", pp. 54-68. The situation differed by country, but a massive increase in private household debt in the Southern Europe is the hallmark of the growth. With the exception of Greece, public debt was declining.

[69] When Greece entered the eurozone, Goldman Sachs helped the then Greek government to camouflage the country's debts in 2001. Aglietta, "The European Vortex", p. 24.

In Greece, budget deficit was 12.7 percent in 2009, and $400 billion debt of which German and French banks hold approximately 70 percent.[70] In addition, transnational financial corporations eagerly suggested the government to use derivative swaps; that is, sovereign credit-default swaps (CDSS), as a form of insurance against government default, on its sovereign debt. As the then Greek Prime Minister George Papandreou admitted, "Unprincipled speculators are making billions every day by betting on a Greek default".[71] Greek economic crisis busted in late 2009. Within the euro system, Greece cannot devalue its currency, thereby leaving with a very few alternative options.

Many European states in particular Germany were reluctant to help Greece from the outset due to their national interests.[72] At first, the Economic and Financial Affairs Council (Ecofin) had responded by suggesting that Greece should sort itself out of crisis. It required Greece (under Article 126(9)) to cut its deficit and correct its divergences, thereby "removing risks of jeopardizing the proper functioning of EMU". It turned a "deaf ear" to calls for a rescue plan. The situations in Greece rapidly deteriorated. It was not until 26 March 2010 that the euro area leaders, meeting at the European

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[70] *The Economist,* 13 March 2010.

[71] Quoted in "Sovereign Credit-Default Swaps: Smokescreen", *The Economist,* 11 March 2010.

[72] William E. Paterson argues that Germany's role in Europe is a "reluctant hegemon". See his article, "The Reluctant Hegemon? Germany Moves Center Stage in the European Union", *JCMS: Journal of Common Market Studies*, Vol. 49: No. 1 (2011): pp. 57-75.

Council, agreed the principles of a rescue deal for Greece (based on funding being shared between the IMF contributing one-third, and EU member states two-third).[73] In other words, the EU responded too late, and then with too little money. Subsequently, the EU proposed at least three major policies, as follows:

First, in response to Greek economic crisis, the EU via the Eurogroup, after a long delay, agreed with the IMF to instigate a €110 billion to "rescue" Greece with its strict and harsh austerity conditionality on 2 May 2010. These Neoliberal austerity programs included budget cuts (from 12.7 percent of GDP to 8.7 percent within 2010), a freeze in wages and pensions for three years, an increase in value added tax (VAT) from 19 percent to 21 percent, tax increases (such as on fuel, tobacco, and alcohol) and a 30 percent cut in civil servants' (Christmas, Easter, and summer) bonuses to address Greece's fiscal and debt problems, along with deep reforms designed to strengthen Greece's competitiveness and revive stalled economic growth.[74] These programs brought about deteriorating economic situations and anti-austerity movements in Greece.

Some Neo-Keynesian and critical international political economists argue that Neoliberal austerity programs increase, not decrease, the problems of liquidity and solvency, coupled with

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[73] However, this would be only available to Greece if all states agreed it and if all other options had been clearly exhausted. Kevin Featherstone, "The Greek Sovereign Debt Crisis and EMU: A Failing State in a Skewed Regime", *JCMS: Journal of Common Market Studies*, Vol. 49: No. 2 (2011): pp. 193-217.

[74] Featherstone, "The Greek Sovereign Debt Crisis and EMU: A Failing State in a Skewed Regime", pp. 202-3.

capital outward flight and a lack of further capital inflows.[75] Paul de Grauwe and Yuemei Ji argue that the budgetary austerity imposed on member states such as Greece, Portugal and Spain "has been too intense and has been influenced too much by panic in financial markets".[76]

Second, the EU launched the Treaty on Stability, Coordination and Governance (TSCG) or the Fiscal Compact in March 2012 to bolster a balanced budget rule in member states' constitution: deficits must not be above 3 percent of GDP, nor debt over 60 percent. It also proposed assurances of "good" management, which mean further privatization and a review of important social security provisions such as pensions, unemployment benefits, and the minimum wages. In 2012, the Stability Treaty was signed by all members except the UK and the Czech Republic, and ratified by all eurozone members except Belgium, Malta, Luxembourg and the Netherlands.[77] The new austerity programs have precipitated the outbreak of mass protests on the streets of Spain, Portugal, Italy and Greece, and elsewhere. They called the new Stability Treaty as the "Austerity Treaty". To put it differently, the so-called troika of the Eurogroup,

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[75] Stockhammer, "Euro-Keynesianism? The Financial Crisis in Europe"; Paul Krugman, *End This Depression Now!* (New York and London: W.W. Norton and Company, 2012).

[76] Paul de Grauwe and Yuemei Ji, "From Panic-Driven Austerity to Symmetric Macroeconomic Policies in the Eurozone", *JCMS: Journal of Common Market Studies*, Vol. 51 (2013): pp. 31-41.

[77] Desmond Dinan, "EU Governance and Institutions: Stresses Above and Below", *JCMS: Journal of Common Market Studies*, Vol. 51 (2013): p. 93.

European Central Bank (ECB) and the IMF initiated new austerity measures or structural adjustment programs within the EU.[78]

Third, the EU led by the troika proclaimed a bail-out clause. Since May 2010, the EU set up temporary collective funds for member states that have lost access to market finance: the European Financial Stability Facility (EFSF) and the European Financial Stabilization Mechanism (EFSM). These funds provided countries with loans that are misleadingly called "rescue packages" and imposed strict conditionality, or structural adjustment programs, dictated by the troika. The collective funds allocated the financial package to Ireland and Portugal.

In terms of the union treaty, on 16 December 2010, the European Council agreed a two line amendment to Article 136 of the Treaty on the Functioning of the European Union (TFEU):

The member states whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard

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[78] It can be argued that the leaders of the troika are Neoliberals. The president of the ECB, Mario Draghi, was a former vice-president for Europe of Goldman Sachs, who was in charge of its "companies and sovereigns" department, which helped Greece and its then Central Bank governor to camouflage the country's debts in 2001, when Greece entered the Eurozone, and disguise the state of its national accounts with derivative swaps (sovereign credit-default swaps (CDSS) on its sovereign debt. Draghi himself was an ardent proponent of governments' use of derivatives. The chairman of the Eurogroup, Jean-Claude Juncker was a former Prime Minister of Luxembourg, who strongly supported the deregulation of financial sectors. He will be the President of the European Commission in November 2014 onwards.

the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality.[79]

The amendment authorized the eurozone countries to establish European Stability Mechanism (ESM), which was established on 27 September 2012 and located in Luxembourg. ESM, replacing the two existing temporary EU funding programs, such as the EFSF and EFSM, will provide financial assistance to members of the eurozone in financial difficulty.[80] ESM bailouts will be conditional that the member states are attached to a restructuring program for the needed reforms or fiscal consolidation to be implemented, in order to restore the financial stability. In other words, there is a bailout with string attached.

The Greek crisis, coupled with the eurozone crisis, is not dissimilar to other economic crisis in the world since the 1980s.[81] Neoliberal global hegemony has promoted the liberalization, privatization, deregulation and macroeconomic stabilization, and rendered debt-laden economy highly likely, thereby precipitating

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[79] Quoted in Bruno de Witte, "The European Treaty Amendment for the Creation of a Financial Stability Mechanism", *European Policy Analysis*, Swedish Institute for European Policy Studies, Vol. 6 (June 2011): p. 1.

[80] Dermot Hodson, "The Eurozone in 2012: 'Whatever Is Takes to Preserve the Euro'?" *JCMS: Journal of Common Market Studies*, Vol. 51 (2013): p. 195.

[81] Ivan T. Berend, *Europe in Crisis: Bolt from the Blue?* (London and New York: Routledge, 2013); Walden Bello, "Greece: Same Tragedy, Different Scripts", *Huffington Post*, 14 July 2010.

the plausibility of economic crisis. The Greek crisis is a part and parcel of the crisis and contradiction of global and European Neoliberalism. The latter is a single crisis of financialized capitalism. In addition, the global (IMF-led) or European (EU-led) policy responses to the economic crises in global political economy are the same: the austerity programs.

V. Conclusion

"What does Europe want?"[82] To resolve the eurozone crisis, the Chancellor of Germany Angela Merkel repeatedly called for "more Europe", meaning a massive transfer of sovereignty from the national to the European level: the solution is "not less Europe but more ... It is now the task of our generation to complete the economic and currency union in Europe and create, step by step, a political union".[83] As one leading scholar puts it, for Merkel, "deeper political integration, involving far-reaching institutional reforms, would complement the shift of responsibility for fiscal and economic policy-making to Brussels and Strasbourg".[84] Merkel's grand vision of a more Europe indicates not only a deepening and broadening Europe but, more importantly, a more Neoliberal

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[82] Paraphrasing Freud's famous question "What does a woman want?" Slavoj Zizek and Srecko Horvat asked the burning question "What does Europe want?" See their book, *What Does Europe Want? The Union and Its Discontents* (London: Istros books, 2013).

[83] Quoted in Berend, *Europe in Crisis: Bolt from the Blue?*, pp. 89-90.

[84] Dinan, "EU Governance and Institutions: Stresses Above and Below", p. 93.

Europe. In the article, we have already argued that European integration needs to be understood as a process of the Neoliberalization of the EU and the state, rather than intergovernmentalism, supranationalism or member statehood paradigms. It is misleading to describe state transformation from the Keynesian corporatist state to the member states, as Christopher Bickerton did attempt to, because since the late 1970s and 1980s onwards, the global capitalist order has been a Neoliberal governance under the tutelage of US hegemony, which provides a new rule of the game – including liberalization, privatization, deregulation, monetarization, financialization and so on – and propels a Neoliberal state transformation. The present-day EU has been a post-political union comprising transnational elite and European technocrats (or Eurocrats) at the European level and an increasing number of the Neoliberal states at the domestic level. The depoliticization of democratic politics, or what many might call it a "democratic deficit", within the EU can be explained as that the power structure, and decision making process, has been transferred to the Neoliberal agents, either at the supranational or national level. Moreover, the eurozone economic crisis and European-led harsh austerity programs can be interpreted as a legitimacy crisis of the Neoliberal governance, which has translated growing resentment and dissatisfaction into increasing resistance and contentious politics, culminated in the emergence of Euroskepticism, populism, nationalism, Islamophobia and so forth. For the moment, resisting Neoliberal Europe, despite its ongoing struggle, is highly unlikely to turn into a mass politicization and democratization of European integration. On the contrary, we are rather likely to witness a continuation of European Neoliberal governance, which has become increasingly deepening. In the foreseeable future, the EU has become an ever closer Neoliberal union.