Is there an alternative to the austerity policies in the Eurozone?

Analysis of the legitimacy and sovereignty challenges in the Euro Governance after the 2008 financial crisis

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# Table of Contents

1. Chapter I: General Introduction and Background of the Study ........................................... 6
   1.1. Introduction ..................................................................................................................... 6
   1.2. Background: The Financial Crisis of 2008 and the Euro Crisis of 2010......................... 7
   1.3. Aim of the Research ....................................................................................................... 9
   1.4. Literature Review ....................................................................................................... 10
   1.5. Research Problem ....................................................................................................... 10
   1.6. Research Questions .................................................................................................... 11

2. Chapter II: Theoretical Framework .................................................................................... 12
   2.1. Neoliberal Theory ....................................................................................................... 12
       2.1.1. Delegation of Power and Fiduciary Principle ......................................................... 14
       2.1.2. There Is No Alternative (TINA) ............................................................................. 15
   2.2. Critical Theory ........................................................................................................... 16

3. Chapter III: Methodology ................................................................................................. 18
   3.1 Critical Discourse Analysis ......................................................................................... 18
   3.2 Limitations .................................................................................................................... 20

4. Chapter IV: The Economic and Monetary Union ............................................................ 21
   4.1. The Creation of EMU ................................................................................................. 21
   4.2. Characteristics of EMU .............................................................................................. 23
   4.3. New Instruments of EMU ........................................................................................... 25

5. Chapter V: Theoretical Debate on EMU ........................................................................... 27
   5.1. Introduction ................................................................................................................ 27
   5.2. Legitimacy .................................................................................................................. 29
       5.2.1. Pro Status Quo .................................................................................................. 32
5.2.2 Critique of the Status Quo ................................................................. 39
5.2.3 Conclusion Legitimacy .......................................................................... 47
5.3 Sovereignty ................................................................................................... 49
  5.3.1. Pro Status Quo ...................................................................................... 52
  5.3.2 Critique of the Status Quo ................................................................. 57
  5.3.3 Sovereignty Conclusion ......................................................................... 67
6. CHAPTER VI: General Conclusion ................................................................. 70
Bibliography ........................................................................................................ 76
**Keywords**

**List of Acronyms and Abbreviations**
CDA: Critical Discourse Analysis.
EC: European Commission.
ECB: European Central Bank.
ESM: European Stability Mechanism.
EMU: Economic and Monetary Union.
EU: European Union.
GDP: Gross Domestic Product.
GIIPS: Greece Ireland Italy Portugal Spain.
GIPS: Greece Ireland Portugal Spain.
SGP: Stability and Growth Pact.
TINA: There Is No Alternative.
Abstract

The European Union, and especially the Eurozone, has experienced a period of political and economic difficulties after the Financial Crisis of 2008, and Debt Crisis of 2010. Austerity measures have been presented by the EMU’s elite as the only possible way to end the actual crisis, however many of the policies produced non-desirable side effects. However, the negative economic outcome in countries like Greece or Ireland questioned the vision of the status quo in the EU.

These complications produced a questioning of the ideological assumptions behind the creation of the Euro due to the social and economic problematics that the crisis provoked. Moreover, some of the outcome of the subsequent policies of austerity produced political and social unrest, with a deep economic consequence for some Euro members. Besides, the rise of “Eurosceptic” parties all over Europe shows a deep mistrust from the population on the actual management to the crisis, some of the issues rise to critique present the opposition to the actual policies claiming against the lack of democracy on the decision making process.

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Chapter I: General Introduction and Background of the Study

1.1. Introduction

The European Union (EU) referendum in 2016 in the UK and the subsequent win of the leave option, shows how important elements such as sovereignty and legitimacy can shift the willingness of citizens to be part of the EU. The case of the UK is not totally comparable to the Euro members, due to the historic Euroscepticism of British politics; however, the rise of anti-Euro parties similar to UKIP around Europe is a side-effect of mistrust on the actual EU and its ability to handle the economic crisis. This mistrust drives some to question the capacity and validity of traditional parties in Europe, and creates the conditions for the growth of extreme right parties such as Alternative Für Deutschcland in Germany, Front National in France or Freiheitliche Partei Österreichs in Austria. The last two with real prospects to gain tangible power in their respective national governments.

The crisis of 2008 is important to the study of the Economic and Monetary Union (EMU), since the financial crisis and later bank bailouts in the EU triggered a negative development of the sovereign debt of the Euro Members in 2010, which consequently provoked a spiral of mistrust among the member states (Gustavsson 2014:114). This mistrust among the members produced an enormous political turmoil, which even questioned the existence of the Euro.

As a result, the Financial Crisis of 2008 and the Euro Crisis of 2010 are the inflection points in the governance of the Euro. After these events, European Integration suffered a big deal of economic and political challenges which questioned the structures of the European project. Additionally, the subsequent austerity and fiscal consolidation policies produced the rise of criticism in the Eurozone by some sectors due to the straitjacket of the austerity policies. Moreover, the increase in unemployment and the intensification of social and economic inequalities produced social unrest and the subsequent rise of populist parties in Europe, which are a symptom of the challenges for the status quo to govern the actual period of crisis.
In order to understand the logic of such policies it is important to study the premises behind the creation and governance of the actual Eurozone. For this reason, in this study I analyse the ideas behind the governance of the Eurozone, mainly focusing on legitimacy and sovereignty challenges.

1.2. Background: The Financial Crisis of 2008 and the Euro Crisis of 2010

Due to the trigger effect of the 2008 financial crisis in the present Euro crisis, it is necessary to have a bit of background to the chronology of the crisis. In the first place, the crash of the investment bank Lehmann Brothers in 2008 triggered a financial crisis with global long-term effects. Moreover, it created a lack of confidence in financial markets which reduced the volume of borrowing globally, resulting in the so-called credit squeeze. In a global economy highly dependent on financial transactions, this stop of the financial flow could have provoked a total collapse of the western economic system (Talani 2014:162). Therefore, in order to avoid this risk in the short-term, the central banks pumped big amounts of money into the financial markets and reduced the price of the money. For this reason, some countries had to nationalize private banks in order to avoid major bankruptcy, arguing that this was a necessity to avoid a domino effect in national economy (Talani 2014:163). In other words, the private sector triggered a major risk situation, which consequently needed the financial aid of the public sector. Consequently, the theoretical approach of the neoliberal theory about the infallibility of the free market in a deregulated economy started being questioned by the outcome of this crisis, the biggest after the end of the Second World War (Talani 2014:171).

In this context of global crisis, the Eurozone has suffered an additional economic problem: The Public Debt Crisis of 2010. What is more, the magnitude of this crisis made it evolve into a political crisis in Europe (Talani 2014:164). By the same token, the economic recovery in the EU after 2010 has been modest compared to the USA. Given these disparities, some scholars (Talani 2014:180) focus their criticism on the differential factors of governance between the USA and the EU, particularly the EMU.
As a matter of fact these authors (Stiglitz 2014; Streeck 2014a; Schäfer & Streeck 2013) question the design and suitability of the Euro, because they understand that this economic framework is a factor of instability. On the other hand, other scholars (Majone 2005) emphasize the positive effect of the EMU, which is then seen as a factor of security against financial shocks. In the debate regarding the role public institutions have to play in the economy, the Euro framework adds another element of complexity to the economic governance, namely, the challenge to find a proper equilibrium between effective and legitimate decisions in the context of the multilateral and asymmetrical political construction of the EU.

At the same time, the EMU has been positive to maintain low inflation rates all over the Eurozone, and under those circumstances the original precept of the ECB has been fulfilled (Talani 2014:167). Yet, many questions can be raised over the importance of the EMU governance during the crisis and the distribution of power within the decision making process. However, one result cannot be denied, the structure of the EMU produced differentiated outcomes within Euro members (Talani 2014:173).

In this scenario, public debt increased everywhere, and particularly in the most imbalanced countries dependent on capital inflows. These countries are Greece, Italy, Ireland, Portugal and Spain (GIIPS). In these countries, public debt increased in part due to the necessity to bailout the highly indebted banks, and it occurred abruptly (Scharpf 2014a:7). This increase in public debts over GIIPS made them vulnerable to speculative attacks, which amplified the interest of their public bonds, and therefore increased their public debt even more. At that point, the markets feared the possibility of some countries, like Greece, being in default and unable to fulfil their financial payments (Talani 2014:169).

The possible default of a member state was feared to become systemic in the Eurozone due to the domino effect of the financial sector (Scharpf 2014a: 8). As a result, a necessity appeared in the Eurozone to commit to save the Euro at all cost, which led to the creation of budget-supported funds to refinance the debt of financially vulnerable countries in the Eurozone. The credits received by these states had a rigid conditionality from the lenders,
mostly based on austerity measures controlled by the Troika (ECB/IMF/EC) (Scharpf 2014a: 8). Additionally, the austerity measures included in the credit concession produced a deeper decline in the debtor economies (Streeck 2014a:163). Moreover, these supply-side measures, based fundamentally on the reduction of public sector and salaries, increased the social and economic differences among economies of the Eurozone; and, as a side effect, increased the social unrest in the debt countries (Scharpf 2014a: 9).

Altogether, due to the different developments of the crisis within the member states, the Eurozone has been divided between creditor and debtor states (Streeck 2014a:86). Since the beginning of the Euro-crisis these asymmetries have created a relation of dependence between creditors and debtor countries. On one side there are the debtor countries: Greece, Ireland, Italy, Portugal and Spain (GIIPS); and on the other side there are the rest of the Euro countries, the creditors (Streeck 2014a:86).

1.3. Aim of the Research

The aim of this study is to gain a qualitative understanding of the logics behind the governance of the EMU after the financial crisis of 2008 and Euro crisis of 2010, and examine to what extent the normative framework of the EMU can be valid after the Euro crisis. Hence, the focus of this thesis is the ideas behind these policies, and deconstructing them in order to test them and see if they are the only possible alternatives in the actual political framework of the EU. Therefore, the main research framework will be constructed as a debate between the present ideas and justification of the status quo of the EMU, and the critical approach after the crisis.

Hence, the main focus of this study is to calibrate the real necessity of the austerity policies after the Financial Crisis of 2008 and the Euro Crisis of 2010; and to see to what extent the ideas behind the actual framework of the EMU can be valid to overcome the political crisis in the EU and at the same time to maintain acceptable levels of legitimacy, accountability and sovereignty in the EU.
1.4. Literature Review

As it has been mentioned before, this study is based on a critical analysis and the contraposition of the status quo positions. For the status quo perspective, *Currency of Ideas* by McNamara, has a fundamental role because it allows us to connect the EMU with the Neoliberal theory. Additionally, the book by Majone, *Dilemmas of European Integration* is the tool used to explain the reasons under the status quo position regarding the EMU institutions.

The critical approach takes as a point of departure the book by Wolfgang Streeck, *Buying Time: The Delayed Crisis of Democratic Capitalism*. In addition to it, a book by Fritz Scharpft, *Governing in Europe, effective and democratic*, has a central role to study the legitimacy challenges in Europe. There is also a small part from Colin Crouch and his work about the democratic deficit, *Post-Democracy*.

The three main authors have been selected under the idea to have a comprehensive and coherent social study of the austerity measures after the Euro crisis. To this extent, I choose critical authors under the orbit of the Max Plank Institute for the Study of Societies (MPIFG), based in Cologne, specialized in the study of the European Union. These authors not only share links within the same institute, but collaborate in the edition of articles and books. Neither these authors, nor the pro status quo authors are economists by formation, rather sociologist and political scientists. I choose this approach in order to have a proper distance from the determinist analysis of the general economic methodology, although the element of study is closely related to the economic theory. I defend the utility of a sociological and political approach, given the importance of the epistemological approach of the EMU for this study. In order to be have a general understanding of the assumptions behind the defence of the status quo, academic and official sources mainly from the EC will be used.

1.5. Research Problem

The research problem is based on the analysis and the consequences of the economic ideas in the economic framework of the Eurozone and its problems after the financial crisis of 2008 and the Euro crisis of 2010. Hence, I want to investigate the validity of the neoliberal
approach in the governance of the Eurozone, and evaluate the assumptions of this theory applied in the policies of austerity. With this in mind, the way to research this problem is to investigate if the austerity policies of the Eurozone are a political choice based on the ideological assumptions of the EMU governance, or on the contrary, the policies of the EMU have no alternative in the actual framework of the European Union. Consequently, the EU is a main element on this study.

The study of such elements can be too broad, therefore this thesis will focus on the legitimacy and sovereignty challenges of the economic governance of the Eurozone. The subjects of analysis are not necessarily only states and public institutions, but also private agents and private citizens. Therefore, the market has an important role as element to take into account in this study because it touches upon the economic governance of the EU. However, the limitation of the study does not allow us to go deep into such complexity.

1.6. Research Questions

The main emphasis of the study will be on the institutional framework of the EU, concretely on normative dilemmas that the EMU faces after the crises of 2008 and 2010. In order to categorize these dilemmas, I propose to classify them into two general categories: legitimacy and sovereignty. The main questions to study are the following:

- Does the EU have political legitimacy to apply austerity policies to sovereign states?
- Is the actual EMU framework an ideological tool from the Neoliberal consensus which undermines national sovereignty, is this structure the only alternative within the EU integration?
2. Chapter II: Theoretical Framework

In order to study the normative framework of the Euro, two theoretical approaches will be used. Firstly, the Neoliberal perspective, which has been the mainstream economic theory in Europe since the 1980s, and very influential on the construction of the EMU and its governance (McNamara 1998). Secondly, in order to contrast this normative scheme, Critical Theory will be the theory chosen.

2.1. Neoliberal Theory

Neoliberal theory is important to the study of the EMU, because it is the major influence on the creation and management of the Euro before and after the financial crisis of 2008 (Talani 2014:165). In general terms, this theoretical approach has two major assumptions: firstly the need to ensure the separation between politics and economy in order to avoid the “tyranny” of the majority in democracy; and secondly, the idea that the goodness of the efficient market can operate only if the public sector is away from the economy (Talani 2014:85).

After the Keynesian period of embedded economy in the aftermath of WWII, concretely from the 1970’s, Neoliberal theory gained popularity as referent economic theory in western democracies (Talani 2014:84). This happened in parallel to the globalization of the economy, and it is an evolution from a classical Liberal theory of the economic doctrine of “laissez faire” (Brennan & Buchanan 1985:4).

Some of these ideas gain political influence in the so-called ‘Consensus of Washington’ during the 1970s and 1980s, fundamentally in contraposition to the Keynesian formula of an active intervention of the state in the economy, and the full employment as the main objective (Burchill & Linklater 2013:75). In contrast, Neoliberal theory claims for free market, a minimum state away from an active role on the economy, and a decrease of the welfare state (Burchill & Linklater 2013:75). Furthermore, this theory calls for the creation of International Organizations (IO) to take a role as coordinator actors among states, in order to encourage cooperation, monitor compliance with the rules, and sanction the cheaters when necessary in international relations (Burchill & Linklater 2013:67). This view
is founded on the idea that nation states are interested in increasing their relative gains, therefore international institutions such as the EU must take the role of supervisor to ensure cooperation.

For Neoliberalism, only free trade can ensure the most efficient use of resources, capital and persons due to the comparative advantages of each state. This theory discougaes national self-sufficiency, and promotes the use of states power endowments, so each state must specialize in the production of determinated products and services (Burchill & Linklater 2013:76). This distribution must be ruled by the ‘invisible hand’ of market forces, under the criteria of price and efficiency, where the self-interest of the individual becomes the general interest of the society (Burchill & Linklater 2013:76). By the same token, in order to facilitate the capacity for the private sector to choose the most profitable localization for its investment and commerce, the EU blueprints are based on the protection of the four circulation freedoms (goods, services, finance, labour); therefore, the priority of this framework is to increase efficiency and profits (Burchill & Linklater 2013:81).

In this context, the elements used to define the ideas behind the EU and within the Neoliberal theory can be categorized in three major sub elements. Firstly, the monetarist theory, based on Milton Friedman arguments, which can be summarized into the idea of the stimulus from the government to have full employment, despite the short-term positive outcome, only produces inflation in the medium and long-term, therefore is not sustainable (Blyth 2015:153). Secondly, Public Choice (Brennan & Buchanan 1985), claims that politicians act as any other private agent and just try to maximize their benefits using the power of the public institution seeking to maximize votes to be elected, which tends to undermine the efficiency of the market, and leads to higher and unstable rates of inflation (Blyth 2015:155). Lastly, the Ordoliberal perspective, which had a big influence on post WWII Germany and is an important element to understand the framework of the ECB(McNamara 1998:116). This theory, claims the need for a public structure to allow the markets to function efficiently, where the intervention of the government must rely on independent agencies and bodies to ensure an order and regulation of the economy (Blyth 2015:136).
One of the fundamental features of Neoliberalism is the preeminence of the private initiative in social relations. From the Neoliberal angle, markets are the best instrument to find the perfect equilibrium in the distribution of resources; so, the best wellbeing for society must be sought within the millions of private transactions in the free market (Brennan & Buchanan 1985:10). Moreover, the state is seen as the inflationary problem rather than the element to absorb economic crises. Therefore, public intervention produces worse outcomes than the proper recession, the so-called ‘idiocy of intervention’ (Blyth 2015:152); then, public intervention into the economy must be limited.

This is so because Neoliberalism fears the downfall of capitalism due to the excessive intervention of politics into the market; since politicians have incentives to manipulate the normal function of the market, using their monopoly of power based on the rule of law (Brennan & Buchanan 1985:11). Consequently, this supposed excessive democracy can lead to the dictatorship of the majority and overcome the capitalist system (Streeck 2014a:61).

The tragedy of the commons is a paradox that can explain such mistrust on the public good. This paradox is based on the supposed tendency of misuse by regular citizens of non-owned property. Hence, when nobody controls the property of one element, the tendency is the over use of it, because the user does not pay for it. Making the simile with the economy, the public finance is the commons, and democracy the way politicians abuse of it. This happens mostly when the governmental powers are over the monetary policy, where the politicians have the incentive to pursue an inflationary process in the run-up to the election to increase the nominal growth of the economy, making the economy look better in the short run, in order to win the election. To avoid this phenomenon, the power of democracy over the economy must be limited (Streeck 2014a:48).

2.1.1. Delegation of Power and Fiduciary Principle

Neoliberalism has some distinction from the Liberal tradition, fundamentally in the understanding that the market needs a framework, which ensures free commerce among the private actor. However, due to the reluctance to trust politicians, the solution is to create constitutional frameworks which delegate the economic governance to independent
The reasons for delegation are mainly two. Firstly, to reduce the decision making cost; and secondly, to enhance the credibility of long term policy commitments (Majone 2005:81). These principles are the normative elements of the independent status of the ECB, and are a key element behind the justification of non-direct accountable institutions.

In the case of the ECB, the monetary policy is delegated to an independent and conservative central bank inflation-averse in order to enhance long-term monetary credibility and price stability (Majone 2005:83). Moreover, the ECB is by far, the most independent central bank in the world (Talani 2014: 143), and it is not just a normal bureaucratic delegate agent like the EC, but a fiduciary agent. Hence, the principal (Euro Members) delegate the monetary policy to the fiduciary agent (ECB), and this agent is independent to the principal’s directive (Majone 2005:96); and in the concrete case of the ECB the institution is insulated from any direct or indirect accountability.

2.1.2. There Is No Alternative (TINA)

The austerity policies of the EMU members after the crisis can be seen as a return of the TINA political vision of the 1980’s in some Western democracies. The first country in Europe to apply such policies was the British government of Margaret Thatcher in the 1980’s, under the paradigm of the inherent well function of the market, and the assumption of a better trade-off for society in the economic law of supply and demand (Blyth 2015:15). These policies of austerity are based on three main elements: combined cuts in transfers and welfare, wage moderation and non-raising taxes (Blyth 2015:172). These programmes can be described as supply-side policies, and are designated to increase the relative competition of the state, in order to overcome the crisis.

In general terms the understanding of the economic policies of austerity ruled by the Euro members have a common denominator in the following statements categorized by Blyth (2015:174). Firstly, the appliance of the TINA rules does not care about the origins of the crisis, it has a one-size fit all understanding. Secondly, the rational consumer sees the cuts of the government and estimates this into his consumption, more room for private consume, which in junction with the reduction of loan prices increases the consumption.
Thirdly, despite cuts to government expenditure, it drives to higher profits and investment, due to the public sector not knowing to optimize resources.

2.2. Critical Theory

In the process of globalization, nation states suffer a transformation, whereby the state becomes a tool to apply the disciplines of the capitalist global economy (Rodrik 2000:181). In this context, states compete with each other to increase their capacity to attract investment. Additionally, the state renounces its former role of managing the economy, and this role is left to the private sector principally. Therefore, the state becomes subordinated to the market logic of global capitalism, which increases the tension between sovereignty and interdependence among the states (Burchill & Linklater 2013:178). Thus, the capacity of the private sectors increases. In order to overcome this process of hegemony, Critical theory claims the need to analyse the inherent structures which produce the increase of polarization between rich and poor (Burchill & Linklater 2013:178).

Critical theory is built in opposition to the classic theories, the so-called problem-solving theories, which are based on the natural science methodology and founded on the positivism epistemology. This classic approach claims that the only possible basis of knowledge must be value free (Burchill & Linklater 2013:167). Hence, this doctrine assumes that it is possible to separate subject and object of study (Burchill & Linklater 2013:167). Moreover, this classical theory takes the world as it is, assuming as valid the current institutions and the power relations in society. Hence, it defends the status quo, and wants to make the current system work as smooth as possible (Cox 1981:128).

In contrast to these classical theories, Critical theory uses a more hermeneutic approach, which ‘conceives the structure as socially constructed’, and ‘they become a part of the objective world by virtue of their existence in the inter-subjectivity of relevant groups of people’ (Cox 1992:138). In addition, individualist ontology used for theories like neoliberalism and realism conceive states as atomistic, rational and possessive, and the ‘state exist prior and independently of social interaction’ (Reus-Smit 1996:100). Critical theory denies this positivist epistemological approach to distinguish between subject and
object of analysis (Talani 2014:59). In addition, it focusses on historic and social developments by tracing contradictions in the present day, and searching for built-up pathologies and forms of domination. Hence the object of this theory is not only to eliminate such abuses, but overcome the relations of domination that produce it (Burchill & Linklater 2013:163).

Traditional theories defend that any theoretical approach in order to qualify as such must be value free. Hence, it is possible to study this world in a balanced and objective way (Burchill & Linklater 2013:165). In contraposition, Critical theory denies the possibility of value-free social analysis, and as Robert Cox (1981:128) famously claims, ‘theory is always for someone and for some purpose’. Therefore, the free value on the study of society, cannot be neutral, even in the economic study of society (Burchill & Linklater 2013:165). However, this focus on the factum (something constructed) rather than the dictum (something given), faces the problematics of being very diverse depending on the different philosophical premises and assumptions taken into account as the explanatory phenomenon (Talani 2014:59).

The main subject of critical theory is society, and it exercises a theoretical criticism of the dogmatism from traditional theories (Burchill & Linklater 2013:169). In the case of this study, this theory is used to challenge the theoretical dogmatism of the status quo regarding the austerity policies of the EU. Hence, this theory is a tool to understand the hegemonic knowledge capacities of the status quo, which impose the ideology of TINA. Moreover, the emancipation tendency of Critical theory has an open-ended process rather than concrete destination, (Burchill & Linklater 2013:171); therefore it is a suitable tool of analysis for a non-static and constantly evolving institution such as the EU.

Touching upon the last theory regarding the role of the independence and effectiveness of the agent and fiduciary in neoliberal theory, the claim of this theory is to equal the decision making process of certain institutions as engineers of society. These agents, which claim to be value-free agents and therefore just technical, “implicitly accepts the prevailing order as its own framework” (Cox 1981:130).
3. CHAPTER III: Methodology

3.1 Critical Discourse Analysis

The construction of any political institution always needs some normative principles to create its structure. According to Rittberger: “[n]orms and rules are not only part of institutional structures that constrain the action of actors, but they constitute an ideational structure which in turn constitutes actors” (Rittberger et al. 2012:25). Hence, social actors are not only moved by interest orientation, but also by ideals, values and norms or their society (Rittberger et al. 2012:27).

The way the normative principles in the institutions legitimate themselves, is through official discourse. Hence, discourse contributes to the existence of systems of belief, and therefore is a key element to create institutions (Fairclough 1992:64). In addition, discourse is an element of discipline in the hands of political institutions that use it as a tool to naturalize particular power relations and ideologies (Fairclough 1992:67). The concept of institution can be quite broad; but in this concrete case it will be used it as a political institution, most specifically the EU and EMU.

In the context of the Euro crisis, the status quo discourse claims that it has the only right and capability to understand the economy, and anything besides it is dangerous for the economy (Blyth 2015:173). This pro austerity discourse uses power as an element for legitimating its truth, and making it the only “truth” (Blyth 2015:174). These elements are linked to the idea that “there is no alternative” (TINA). The discourse of TINA (Blyth 2015:173), is the ideological base which allows the policies of austerity to be seen as the only path to overcome the crisis of 2008 and 2010, despite the social and political unrest of such policies (Schäfer & Streeck 2013:16).

The statements of one institution have a significance far ahead of the concrete person that makes such a statement, so CDA uses the significance of the discourse formation to study the concepts used by such institutions (Fairclough 1992:44). Therefore, institutions are formed by different concepts which drive the significance and identity of these institutions (McNamara 1998:112). Concepts such as economic freedom, fiscal responsibility or
competiveness are constant elements on the EU politics, and influenced the shape of the economic policies in the Eurozone. These elements can be found in foundational documents such as One Market, One (Commission 1990) or posterior to the crisis in recommendation and studies of the EC (European Commission 2014) or the Memorandum of Understanding between the EC and Greece (European Commission 2015).

In this study, CDA will be used as a tool to study the ideological influences at work in the EU, and to examine the hegemonic approach among the agents responsible for the decision-making process in the EMU. The main reason for choosing CDA for this study is because it is a “discipline” designed to question the status quo; by detecting, analysing, and also resisting and counteracting enactments of power abuse as transmitted in private and public discourses’ (Hidalgo Tenorio 2011:187). Hence, this methodology is an instrument to deconstruct the intellectual assumptions behind the actual hegemonic economic ideology, and investigate if such assumptions are compatible with democratic legitimacy and national sovereignty of the Euro members.

In order to study these political challenges, I use two general approaches: the neoliberal theory and the critical theory. I choose the neoliberal approach as the status quo discourse because it is the base of the ontological understanding behind both the creation of the EMU and its reform in 2011, which makes it the ideological source of the status quo (Blyth 2015:168). I defend the relation between Critical Theory and CDA due to the fact that “Critical Theory urges social theory to be used to help social actors to emancipate themselves from domination through self-reflection, and to describe, explain and eradicate delusion by revealing structures of power and ideologies behind discourse, by making visible causes that are hidden” (Hidalgo Tenorio 2011:187) To this extent CDA, in junction with Critical Theory, offers a method to study the influence of the neoliberal discourse on the EU, and find to what extent this hegemonic neoliberal discourse in EMU is valid to manage the Euro crisis, or if on the other hand there is room for some alternatives to it.

The three main authors from the Critical approach are Scharpf, Crouch and Streeck. Each of them has a different grade of criticism towards the status quo. Hence, Schappf is the less
critical of the status quo, Crouch demands a change in the homogeneity of the official discourse, and Streeck has a deep critique of the inherent relation of dominance of the capital towards democracy. I choose these authors to have a more coherent element to analyse a concrete phenomenon, since having a different grade of critique concerning the status quo allows a more all-inclusive study.

3.2 Limitations

CDA has some inherent limitations due to its inability to put into practice its social-based ambitions, particularly as it employs a mainly deconstructive analysis towards social constructions. Moreover, CDA produces critical material against the status quo, but fails to suggest practical actions and lacks in self-critical attitude (Hidalgo Tenorio 2011:197).

Besides the limitations inherent in CDA, this study has some specific limitations. Firstly, the neoliberal ideas behind the construction of the EMU are not homogenous. For example, some scholars of the Neoliberal school have rejected the suitability of the Euro, because the currency of the EU does not qualify to be an Optimal Currency Area. Secondly, Critical authors are used to have operational definitions of Neoliberalism, due to the difficulties to find general self-descriptions from the Neoliberal school. Thirdly, the reforms adopted in the governance of the Euro in 2011, did not have enough time to be tested, and thus the analysis can only be made by inference and normative critiques. Fourthly, the limitations among Euro and non-Euro countries are blurred in terms of economic governance, for instance the new EMU 2010 normative framework also includes some non-Euro countries. Lastly, the range of the policies and the heterogeneity of the actors involved in the economic governance of the Euro make it difficult to account for all the possible outcomes and the grade of compliance from concrete decision making in the Eurozone. These complexities cannot be ignored. Nevertheless, in the spirit of this study I will not go deep into the concrete differences in the appliance and compliment of rules among the actors, but rather focus on the general understanding of the economic ideas behind the broad framework of the governance of the EMU.
4. CHAPTER IV: The Economic and Monetary Union

4.1. The Creation of EMU

The functions and logic of the decision making process of any political institution are influenced by the original ideas and context of their creation (Rittberger et al. 2012:98). Consequently, the general normative principles behind the creation of the Euro are relevant to this study and will be briefly outlined. Nonetheless, the intention of this study is not to analyse the reasons for the creation of EMU.

In general terms, the creation of EMU can be described through four major accounts: economic rationality; intergovernmental bargaining; supranational politics; and the dominance of neoliberal ideas (Hix & Høyland 2011:254). Here will be used Hix & Høyland (2011) to overview the most widespread theories behind the creation of EMU.

- Firstly, the economic rationality, based on the theory of Optimal Currency Area (OCA) is an approach that claims that the creation of EMU is based on economic rational choice, for the purpose of enhancing the economic gains of the Single Market (European normative of free movement of capital, products, services and labour). The argument is thus that using the same currency increases trade, due to the elimination of transaction costs incurred from different currencies. Nevertheless, this approach recognizes that forming a currency entails costs, and that these costs depend on the level of economic integration and synchronism of the economic cycles of the members (Hix & Høyland 2011:254). As long as the outcome has more benefits than costs, the Euro is a rational construction. Other scholars, however, claim that the Euro does not have the objective features necessary for it to be considered under economic rationality, because it is not an OCA due to the divergent economies within member’s states and the lack of labour mobility among them (Hix & Høyland 2011:255). Therefore, economic rationality cannot completely explain the creation of the Euro, and nor can it explain, why states with objective economic problems such as Greece or Portugal, joined EMU.
Secondly, there is the Franco-German agreement, which accounts for the intergovernmental bargaining power of these countries for the creation of EMU (Hix & Høyland 2011:256). So, the settlement between these states is the fundamental element for the creation of the Euro. It seems logical due to the fact that both countries are the major economies in the Eurozone. Taking this into account, the intergovernmental bargaining power claims that EMU is essentially a German design, because it is based on criteria of convergence, an independent central bank and price stability (Hix & Høyland 2011:256). On the other hand, France is the other important actor in the agreement, because it extracted concessions to Germany with the institutional design: firstly, with the governance of the ECB executive board, which could be outvoted by national central bankers, and, secondly, due to the political control from the state members of the Euro in the management of the external exchange rate and the election of the ECB president (Hix & Høyland 2011). In addition, it can be inferred that Germany accepted these concessions as a quid pro quo to save European integration, where France accepted the German reunification, in exchange for Germany’s giving up the Deutsche Mark (Hix & Høyland 2011:256).

Thirdly, the monetarist policy consensus, is the thesis defended by McNamara (1998), who explains the importance of the Neoliberal ideas in Europe for the creation of EMU, due to the neoliberal oriented consensus among the member states. Hence, the neoliberal approach of the EU is a consequence of the failure in the 1970s of the Keynesian policies in many European countries, while the monetarist approach in the 1970s and 1980s produced a sustainable growth in Germany (McNamara 1998:94). From this period, more political parties in Europe started to embrace the monetarist ideas, and reject the hegemony of the Keynesian policies. In this case, monetarist theory insisted that fixed rates and flexible markets would offer a long-term solution to increase economic growth in Europe (Hix & Høyland 2011:259). To summarize, in this approach, the creation of EMU, with an independent central bank and price stability as the only goal, had been made
possible because the hegemonic ideas in economy changed from the Keynesian to the Neoliberal-Monetarist.

- Lastly, the supranational politic approach has emphasized the importance of supranational actors, such as the European Commission and central bankers for the ground of EMU (Hix & Høyland 2011:257). Consequently, EMU must be understood as a process of gaining power for these supranational actors. In this case, the Commission was a very active actor in the construction of EMU. Especially when the EC came under the presidency of Jaques Delors, former finance minister of France. He was ideologically committed to the creation of EMU, because he shared with the other members of the EC the neoliberal-monetarist idea about the creation of the Euro and the need for liberalized markets. Likewise, Delors’ Commission was responsible for the report used as the blueprint for the Euro (Hix & Høyland 2011:257).

### 4.2. Characteristics of EMU

Since the treaty of Maastricht in 1992, the Eurozone’s members pooled monetary sovereignty with the goal of enhancing credibly towards the markets (Delors 1989:18). From the framework and goals of EMU stated in the Treaty of Maastricht in 1992, it is easy to envisage the influence of the neoliberal-monetarist school in the political elites, and consider EMU constructions as a consensual elite-level phenomenon (McNamara 1998:174); especially, when these neoliberal policies had not been subject to a mass political debate or electoral contention in its implementation (McNamara 1998:174).

EMU is a constitutionalized framework of rules among members of the EU in form of a treaty. Moreover, EMU normative framework and goals are inserted in the EU treaty, and these principles are source of primary law. As a result, based on the primacy of EU law, in case of conflict with the law in members states, EU law prevails (Piris 2010:81). Consequently, the economic policy on the Eurozone has to follow the economic mandates embedded in the Treaty, and only can be changed with unanimous agreement among the member states. These mandates are divided in their major categories (Hix & Høyland 2011: 258). Firstly, the monopoly of the monetary policy in the Eurozone by the ECB. Secondly,
the ECB has the mandate to maintain price stability between 0-2 percent. Thirdly, the mandatory compliment of the Stability and Growth Pact (SGP) by member states, so the government deficit must be 3 percent of the GDP, and public debt must be below 60 percent of the GDP. These constrains become means by which the member states incorporate long-term economic considerations in the current-period of decisions. From the Neoliberal perspective, in absence of this constrains, member states have incentives to adopt short-term economic inflationary policies (Brennan & Buchanan 1985:81); which can produce economic instabilities in a currency area. Hence, these constitutional constrains are necessary to create trust between the member states and towards the markets; in addition to avoid that the states have the incentive to become fiscal free-riders.

As a result, the constitutional framework of EMU is designed to seek economic centralized rational policies. This policy making process is mostly based on the idea of arriving at decisions by calculating the cost and benefits of the policies (Rittberger et al. 2012:104). For instance, the ECB decisions are based on technical rather than political reason, so the opposition of by any single government to the most rational choice for the whole Euro area is avoided. Furthermore, this design tries to ensure that decisions are not merely based on the interest of the most powerful states, but on the best general outcome (Rittberger et al. 2012: 104).

However, it is not possible to compare the national constitutional system of primary law with the EU primary law based on treaties, because the units of study do not have equivalent political actors. Still, this framework has some challenges at the EU level. Contrary to the national level, the idea of the constitutional framework is the tool to set a series of rules to allow actors to enhance a deliberative democracy within a legitimate political system. But, in the EU, the same categories cannot be applied for two main reasons (Dawson & De Witte 2013:11). Firstly, the difficulty in changing the treaties, which must be reformed by unanimity. While, at national level unanimity is not needed to change the constitution. Secondly, problems of legitimation in the input and output perspective due to the lack of direct accountability in the EU. Thirdly, lack of economic sovereignty of the states, due to the supremacy of EU law over national law (Dawson & De Witte 2013:11).
At this point, it is important to recognize the importance of other factors such as the historical context of the creation of the Euro (Lisenmann et al. 2007:47):

- Firstly, EMU is a creation based on the former European Monetary System (EMS) created in the 1980’s, which was an intergovernmental system of currency and interest control among some members of the European Community, and it was a successful tool to control the inflation during the 1980’s.

- Secondly, the former Keynesian policies based on demand-supply policies, with inflationary and unemployment problems, failed in the 1970’s as a tool to recover the economy. Therefore, the Keynesian policies had problems to be portrayed as an alternative to neoliberal-monetarist policies in the 1980s-1990’s.

- Thirdly, the structure of the EU makes it easier for integration policies to be based on neoliberal perspectives, due to the complexity in agreeing in more interventionist policies at the European level. Hence, negative integration based on market liberalization is more realist, because it represents less challenging problems to the national sovereignty of states, since any institutions take the role of the former national control, it is left to market forces (Lisenmann et al. 2007:47).

4.3. New Instruments of EMU

Another important element to notice is the institutional reforms of 2011 in the Eurozone. These reforms had emergency character due to the necessity of ensuring the viability of the Euro. To cope with this, the EU enhanced a new set of rules (Bellamy & Weale 2015:259). These rules included: the European Semester; the strengthened Stability and Growth Pact (SGP); the Treaty of Stability, Co-ordination and Governance; the European Financial Stability Facility (EFSF) and its replacement the European Stability Facility. In addition, the ECB shaped the outright monetary transaction (OMT) to increase bank liquidity and buy public debt (Bellamy & Weale 2015:259). In the period after the crisis, many European leaders claim a need for more economic government in the EU. However, there is not an integrated European governance nowadays, and most of the economic policy is based on intergovernmental policies, based on the agreements of the Council. Moreover, despite
some functional changes, the general framework of EMU is based on the same neoliberal approach to economic governance (Talani 2014: 175).

In general terms, many of these solutions have been described as “ad-hoc and lacking institutional depth and democratic legitimacy” (Talani 2014:181). Also, some institutional and regulate solutions such as Fiscal Compact which faced the blockade of the UK to include them into the EU treaties, have been shaped outside the Communitarian Law. Another element to show is the evolution of the ECB acting as a hidden/modern lender of last resort, which is forbidden by the treaties (Talani 2014:183). It is hidden/modern in the sense that, the ECB is using refinancing operations in the private sector using low interest rates, and the private sector is buying public debt, which in the last term decrease the level of borrowing cost for the country members of the Eurozone (Giannone et al. n.d.:4).

Broadly speaking, the Eurozone reacted to the challenge imposed by the financial crisis in Europe by short-term ad hoc policies, with more intergovernmental cooperation, a few more controls of the Commission and an increased role of the ECB in the economy (Talani 2014:185). However, no fundamental changes have been made in terms of enhancing the capacity of the European institutions to tackle the increase of economic asymmetries among the Euro members.
5.CHAPTER V: Theoretical Debate on EMU

5.1. Introduction

After the Euro Debt Crisis of 2010, EMU is confronted with three big dilemmas. Firstly, the dilemma between more centralized economic governance from the EU and the need to respect the economic sovereignty of the Euro Members. Secondly, the dilemma of how to increase efficiency in the decision making process and at the same time not undermine the level of accountability. Thirdly, the dilemma between free market versus social rights and the welfare state.

In order to tackle these dilemmas, this study is divided in two major topics, legitimacy and sovereignty. In addition, it is grounded on the acceptance that, the actual Euro crisis is a symptom of the inherent contradictions in the EU, subsequently EMU crisis has a difficult path to be ended without a critical debate on the actual framework of the EU. As a result, this approach is a tool to evaluate the two major tensions that we can find in the EU. These tensions can be described in two dimensions, vertical and horizontal (Gustavsson 2013:125). Firstly, the horizontal dimension is related to the political arena and divided between left-right policies. Secondly, the vertical dimension is related to the sovereign tension between self-determination of the nations and the EU constitutional framework based on the free trade regime of capital, good, services and labour (Gustavsson 2013:125).

However, the EU is a political construction without a clear constitutional structure able to articulate such tensions. Thus, contrary to federal systems such as Germany, where these tensions exist, there is no provision for such strains in the treaties on the EU. Furthermore, the lack of clear definition for such tensions has a side-effect: the constitutional framework of the EU is forcing the relations to one way, towards the primacy of the market (Gustavsson 2013: 124). Therefore, the result of that is a constitutional structure biased in favour of market liberalism, and consequently to the right pro-market and neoliberal policies (Gustavsson 2010:211). So, this is a vivid example of a game with marked cards.

Besides the biases toward market orientated policies, there is no ideological debate on the vertical dimension, and institutions such as the ECJ and the EU law are acting as promoters
of the market economy (Gustavsson 2014:117). Furthermore, as it was mentioned in chapter IV, the four economic movement freedoms are part of the treaties, but the social policies are not (Gustavsson 2013:126). This lack of social policies at the EU level can be a consequence of the sensitivity of these policies for the national electorate, so it is complicated for the member states to enhance integration in such policies. However, a critical perspective would claim that this is only due to the hegemonic capacity of the status quo standpoint, which portrays the neoliberal economic perspective as the only rational possibility, and denies any alternative to the austerity policies (Streeck 2014b:40).

The case of Greece is an example of how possible alternatives to the official discourse from the EU, were described as an attack to the system, crazy business or dangerous for the EU project (Blyth 2015:235). Moreover, any attempt from the legitimate elected government contrary to austerity, is described by the status quo as impossible and biased by populism (Blyth 2015:236).

As a result, the official discourse becomes a choice of knowledge and truth and uses discipline to impose its vision (Fairclough 1992:52). Consequently, the TINA perspective has been applied systematically in the Eurozone founded on the idea that “market knows better”. So, any idea contrary to this Neoliberal approach is systematically described as obsolete by the political elite. Thus, the creation of the discourse is delimited by the idea of opposing, to this extent anything but the official discourse is denounced as anti-European, and by definition must be out of the system. From the critical perspective, one of the main biases of the official discourse is to apply one-size must fit all policies in the Eurozone without taking into account the different economic and political systems within the member states (Blyth 2015:173). Thus, this economic solution becomes an element of truth rather than a consensual solution to the crisis.

The present study focuses on the governance of EMU grounded on the CDA of the neoliberal ideas which influenced the shape of the Euro and to some extent, open a subsequent debate about the inherent problems of governance in the EU. In the following sections the research is divided in two general items: legitimacy and sovereignty. Each of them are
divided in two analyses: pro status quo mainly based on Neoliberal theory, and against the status quo from the Critical Theory perspective. In addition to that, legitimacy analysis is divided in two pieces: input and output legitimacy.

5.2. Legitimacy

Legitimacy is an elusive concept, therefore under these circumstances, a useful functional definition in one founded on two general divisions: formal legitimacy and social legitimacy (Arnull & Wincott 2002:4). Firstly, formal legitimacy, grounded on the compliance with all the legal precepts present fulfilled when the political entity was formed. Secondly, social legitimacy, grounded on the authority which is exercised in a policy based on general social acceptance. This study will focus mainly on the former.

On the one hand the need for legitimacy can be explained by the following (Scharpf 1999:37): “In exercising its powers, governments must claim resources and contain action in ways that will often conflict with the interests and political preferences of their subjects. The decision making process of the governments sometimes demands actions which go beyond individual consensus, and more oriented the common good. Consequently, any political construction in order to have a long-term survival needs to have a proper structures of legitimization”.

In general terms, a distinction can be made between output-oriented and input-oriented legitimacy, these are the so-called government for the people and by the people (Scharpf 2014:1). Output-oriented legitimization is centred on the idea that the government needs executive control to apply coercive decisions which cannot be reached on a voluntary basis or in market interaction. The justification of these executive decisions are grounded on the pursuit of the common good, and the need to have normative constrains to exercise these powers (Scharpf 2014:2). On the other hand, input-oriented legitimacy is built on the contribution of citizens in the decision-making process by different channels, such as political competition, public debates or electoral accountability. In this sense, we see Lincoln’s distinction of the government by the people and for the people (Scharpf 2014b:18).
However, it is not possible to discuss the EU with the same concepts that we use for states; because it is an organization of corporate bodies, formatted by nation states and supranational institutions (Majone 2005:26). Likewise, the EP cannot represent properly the European Community, due to the lack of articulate demos in Europe (Majone 2005:27). Moreover, the decision making process is not homogenous and, depending on the area, the process can be based on intergovernmental procedure or community method. The first one is based on the agreement among the member states based on majority or unanimity. And the second one is based on the executive power of the European Commission and in the mandate of agent based institutions such as the ECB and European Court of Justice (Majone 2005:34). Furthermore, the Community process of decision has not direct control of accountability by the parliament, which if we use the same standards than for a state democracy could undermine the legitimacy of this process.

In the case of the integration process of the EU, the dynamics of legitimization changed depending of the level of integration, the greater the level of integration the greater the need for legitimacy (Scharpf 1999:45). Therefore, the creation of the Euro is the highest level of integration in the EU and has increased the level of pooled sovereignty by the states since the states renounced to areas of economic sovereignty which were based on national legitimacy and accountability (Scharpf 2014b:8). Hence, the creation of the Euro demanded the highest grade of legitimization in the EU so far (Scharpf 1999:28).

In general terms, modern economic public management can be divided in three major socioeconomic areas: redistribution, macroeconomic stabilization and regulation (Majone 2005:42). In EMU the last two elements are under the management of the ECB and EC (Majone 2005:43). The regulatory power of the European institutions in economic matters is very relevant, therefore legitimacy is very relevant in this area of governance. However, the questioning of these institutions is bigger than in the member states, due to the inherent problems of legitimacy in the EU (Majone 2005:43). Consequently, these challenges create a non-clear legitimacy framework for economic governance, due to the fact that the only genuine legitimacy of the EU indirectly derivates from the nation states legitimacy. Thus the main core of EU legitimacy is fragile and contestable (Majone 2005:28).
The structure of the EU does not allow the government by the people at the same level as national government. Therefore, when areas like the monetary policy shift their governance to EMU institutions, there is a shift in accountability (Crouch 2000). And it is the case of the political economy in the Euro members, where the process of EMU integration shifted the accountability from the national arena, to the EU level, and therefore shifted the input-legitimacy based on the national parliament, to the output-legitimacy based on the economic outcomes of EMU (Scharpf 2014b:15). As a result, government by the people is reduced, because areas which were directly accountable to the population and confronted in the political arena, are now under the control of non-accountable authorities such as the ECB and the EC (Scharpf 1999:32).

In order to overcome this process of reduction of the input-legitimacy and public accountability, some theorists claim the need to create a more social integration (Rodrik 2000). So, one possible solution to overcome the neoliberal tendency of the EU is more ‘social Europe’. These demands are mainly to increase social and fiscal policies by the EU, and to transfer of legislative and executive powers to the EU. However, the member states are reluctant to delegate such areas due to the political difficulty in reaching acceptable levels of income redistribution by a central polity ruler (Majone 2005:31). So, the main problem here is the big social, political, economic and legal heterogeneity among the member states (Majone 2005:23).

The process of internationalization of economic governance is happening with the complicity of democratic states, due to the fact that the implementation of such rules must be conducted by the national governments (Scharpf 1999:26). Therefore, the willingness of such integration by lawful and free means, cannot deny the original legitimacy of such voluntary political process.

In general, input-legitimacy has three major challenges in the EU (Scharpf 1999:186). Firstly, the lack of strong European identity. Secondly, the lack of comprehensive political discourses among the different actors in Europe, which make the construction of European-wide dialogues difficult. Thirdly, the lack of institutional framework to exercise political
accountability to the decisions on the European Commission (Scharpf 1999:186). As a result, in junction with EU structure, the legitimacy of EMU is mainly output based, and grounded on the economic rational perspective (Scharpf 2014:8). As mentioned before, this is not the only argument to explain the EMU, but is certainty the major element of legitimacy in the creation and governance of the Euro. In the following paragraph two perspectives will be exposed in order to see pros and cons of the structure of legitimacy in EMU.

5.2.1. Pro Status Quo

5.2.1.1. Input legitimacy
Generally speaking, input-legitimacy is based on the government by the people. Therefore, it is mainly grounded on the capacity of participation of citizens in the decision making process of the policies. The more recurrent critique to the lack of input legitimacy in the EU and by extension for the Euro Governance, can be divided into two dimensions (Majone 2005:42). Firstly, the lack of real accountability by citizens of the EU decision making process. Secondly, the role played in by expert based and non-accountable bodies such as the ECB or other regulatory authorities like the EC (Majone 2005:42). However, from the status quo perspective, these elements are not a real impediment to have legitimate governance.

5.2.1.1. Accountability
One of the core elements of western democracies is the capability of citizens to participate in the political decision, and the political accountability from the parliament is the fundamental way to do so. The EU has been criticised for an inherent lack of democratic accountability, due to the lack of this accountability towards the EC (Streeck 2014a:104). Moreover, the political structure of the EU circumvents the usual political debate on states, due to the way how the negotiations in the EU are done, which lack of a real parliamentarian deliberation (Streeck & Elsässer 2014:5). However the framework of the EU is not comparable to a nation state democracy, because there is not a clear demos in the EU (Scharpf 1999:36). Consequently, deliberative democracy is complicate to implement.
As a result, the process of integration of the EU, has been a process of mainly negative integration without clear positive integration and with a lack of social integration, and the social policies remain as an exclusive competence of the member states (Talani 2014:89). Hence, in many areas of the EU governance such as the monetary policy, member states lose sovereignty, and any supranational organism takes over (Streeck 2014b:7). At the same time, social policies remain as an exclusive competence of the member states. Furthermore, there are a driven power to increase the capacity of the non-direct accountable elements in the EU, especially in the economic governance, and in the name of the long term benefits (Majone 2005: 165).

However, the creation of independent and non-direct accountable elements is not singular of the EU, but a shift all over Europe in the political economic management, from the interventionist to regulatory state (Majone 2005:42). Likewise, all democracy systems have a system of delegation of power and authority, where the citizen’s body delegates some decisions to others. To what extent the demos is controlling power, is a matter of complexity, because not all elements of the decision making process are suitable to be under the accountable control of the citizens (Shapiro & Hacker-Cordón 1999:21). For instance, elements such as the judicial system are insulated components from the majoritarian rule due to the consensus of the political community to ensure a more independent judicial system (Shapiro & Hacker-Cordón 1999:22). The problem in this structure is the ambivalence of these institutions, which provide public functions, but at the same time are not directly accountable or elected by the citizens (Shapiro & Hacker-Cordón 1999:22).

In the case of EMU, the ECB is independent from any hierarchical control by governments or any EU institutions, and the EU treaty grants “considerable discretion in the use of its powers” (Majone 2005:42). Therefore, the EU can be considered as a structure of shared power where the need to enhance control over determinate issues demands the insolation of this institution, in order to enhance efficiency and effectiveness. In addition, the creation of such institutions has been granted by consensus of the member states, and these member states have an important role on the decision making process of the Economic and
Financial Affairs Council (ECOFIN) (Talani 2014:156). As a result, foundation input legitimacy is granted. However, in this process the formal capacity of citizens to influence economic governance is dismissed (Shapiro & Hacker-Cordón 1999:22).

5.2.1.1.2. The Role of Policy Networks
The lack of formal accountability in the EU is corrected by a different input-legitimacy built on the pluralist policy networks. This perspective claims the existence of input legitimacy based on the intervention of civil society in the decision making process (Scharpf 1999:19). So, in the shape of the policy making process, there are elements of policy networks which can be considered in a normative and legitimacy perspective. These networks are shaped by private individuals, interest groups, public interest organization and governmental actors, and influence the decision making process in open-ended and largely informal processes (Scharpf 1999:19). Therefore, the lack of direct input-legitimacy forms of formal accountability in the EU, could be overcome using network channels to enhance representability and heterogeneity.

One of the main reasons to defend this approach is the complexity and heterogeneity of the EU governance, which makes it difficult to enhance in a central based and horizontal framework. Nevertheless, this approach does not fulfil the criteria of equality of representation in the political decision, because it is not based on rules, rather in social capacity of organization within society, and outside the formal system (Scharpf 1999:20). To put it differently, the more powerful a private organization is, the more capacity of influence it can have in the political institutions.

5.2.1.1.3. Lack of Democracy in the EU
In the EU, the integration process demands a certain renouncement of national sovereignty to embrace a collective outcome. In fact, the creation of any International Organization (IO) is a political agreement which makes it possible to deal with matters beyond the individual capacity of states (Shapiro & Hacker-Cordón 1999:22). Doing that, the capacity to influence in junction with another state can increase the quality of such democracy. Hence, in the case of the UE, the pooling of sovereignty can increase of the quality of national
democracies, even if the decision-making process of the EU cannot be defined as totally democratic (Shapiro & Hacker-Cordón 1999:23). This is possible thanks to the positive outcomes of such agreements, and the legitimacy that such IO can offer to the general outcome of the member states. Because of that, there is not a dismissal of democracy, but a reinforcement of the state democracy due to the general profit of the mutual collaboration among the states.

On the other hand, democratic countries with a long-standing and well established democracy, usually have impediments to embrace real participation of their citizens in key affairs regarding foreign policy. The topics are complex, and the incentive of citizens to know them are limited. Therefore, is it difficult to think, that the EU can guarantee a level of proper participation in such international organization for the citizens (Shapiro & Hacker-Cordón 1999:23). In the classical shape of IOs, this is not a problem, because the issues handled by these institutions have been considered in the past as away from the citizens. Moreover, the idea of public good in this matter can be claimed as very difficult to define by regular citizens, due to the complexity of the matter (Shapiro & Hacker-Cordón 1999:25). However, EMU touches upon topics tremendously close to the regular citizens, such as the regulatory and monetary policies of the Euro members. Hence, a clear differentiation between international and national policy is blurred, because the outcome of the public good has a more vivid impact.

Therefore, the problem here is that the EU, despite being an IO, evolved to areas of governance beyond a traditional IO, and it is more than just a political framework dealing with international affairs. Since the EMU governance is a policy that causes or threatens to cause severe harm for the interest, goals and well-being of majority of its citizens (Talani 2014:189), suddenly, the portrait of the EU as a matter just of foreign affairs evolves, and becomes an issue related to the internal policy of the member states (Shapiro & Hacker-Cordón 1999:29). Here the solution from advocates of most social Europe, is to create a proper procedural frame similar to that of the nation states in order to keep citizens informed, creating an equivalent to the national parliament, with real accountability and a European system of parties (Streeck 2014a). This would need the creation of a real demos
across the EU, also this representative would have the control over the bureaucratic elements of the EU. The problem here is that majority rule is difficult to apply, due to the existence of quite heterogeneous countries, with different sizes and political traditions; hence, it is difficult to prevent that big countries over vote the smaller ones (Shapiro & Hacker-Cordón 1999:31). Under these circumstances one solution is to create a delegate agent or fiduciary agent, which takes away the responsibility from the action and outlines the governance as technical and based on the rules of experts (Majone 2005:83). This is the case of the ECB, however experts are not free to have ideological biases (Rittberger et al. 2012:30); what is more, the governance based on non-majoritarian agents needs to be careful not to undermine the capacity of self-determination of citizens.

In order to search for positive outcomes for the community, political agents need to define public good. Yet, to define public good is difficult, though we can use two operational categories to frame the definition: substantive and procedural (Shapiro & Hacker-Cordón 1999:24). Firstly, substantive would be under general definitions of utility, well-being or welfare, which is linked to output-legitimacy. Secondly, procedural would be based on the way how such decision has been taken, so it would account for majority rule, democratic process or judicial determination, etc...... correspondingly linked to input-legitimacy.

Procedural and substantive public good are not enough alone, they need each other, because they act as a reinforcement (Shapiro & Hacker-Cordón 1999:25). Substantive solutions alone are rejected, just the Pareto-optimal solutions, which is the best optimal solution for all agents, and any other outcome would be prejudicial for anybody. To this extent, the way EMU policies are presented, mainly based on economic outcomes, is a way to present them as Pareto-optimal because it is the only possible one that would work in its pure conception (Shapiro & Hacker-Cordón 1999:26). In other words, the goal of low inflation and fiscal responsibility in EMU is presented as a Pareto-optimal political solution.

This solution is portrayed as referent, because the heterogeneity of the EU makes it difficult to define the public good. In homogenous communities, the common good is easy to reach by a majoritarian rule, and has more potential legitimacy. So, the increase in the political
range is usually convoyed by the diversification of interest, goals and values among the community (Shapiro & Hacker-Cordón 1999:26). The increase in diversity raises the divergences among the citizens of the political community, which at the same time makes harder to perceive and understand the situation, needs, and aims of distant citizens (Shapiro & Hacker-Cordón 1999:26). Hence, the heterogeneity of member states in the EU makes difficult the mutual reinforcement of the definition of common good through procedural and substantive procedures, which is the rule in democratic states.

These difficulties in the creation of an articulate functional and accountable system in the EU, demand non-majoritarian ways of governance (Verdun 1998:113). Therefore, the non-majoritarian modes of governance such as the ECB or the EC have elements of legitimacy when based on long-term objectives (Majone 2005:85). In the case of the ECB, the objective is safeguarded by the limitation of the control of the member states of the monetary policy. Then, this concrete framework of governance has been adopted from democratic states by free will, and can be understand as normal in the same way that other non-majoritarian modes of governance such as court rulings or independent regulatory agencies (Verdun 1998:113).

On the whole, IOs cannot be democratic institutions but bureaucratic bargaining frameworks (Shapiro & Hacker-Cordón 1999:34). At the same time, the bureaucratic elements created in the EU are structures of certainty, based on rules agreed among democratic states to enhance effectiveness (Majone 2005:89). For that reason, the bureaucratic bargaining system of the EU, with its non-accountable structures, should be seen as a likely cost for member states to ensure the functioning of the institutions (Shapiro & Hacker-Cordón 1999: 34).

5.2.1.2 Output legitimacy

Output-legitimacy is a key element in EMU, because the governance of the monetary policy of the ECB and the regulatory power of the EC are insulated from direct accountability. This increase in non-majoritarian institutions in the western democracies is a process that shows good reliance on qualities such as expertise, fairness or independence, when these qualities
are more valuable than direct democratic accountability (Majone 2005:43). Moreover, the legitimacy of these institutions depends on the positive outcome regarding a certain range of problems; thus, there is accountability by result.

The objective of the ECB is clear, because it is based on statistic results of the Euro member’s inflation. Besides, the mandate is clear in the treaty. Therefore, the authority and legitimacy of such policies are straight forward (Majone 2005:46). In general terms, the distinctive objective of maintaining low rates of inflation in the Eurozone by the ECB has been achieved. Besides, the high independence of the ECB plays an important role in overcoming the lack of strong macroeconomic governance in the Eurozone, so with the actual EU framework, the independent ECB is probably the best institutional arrangement (Majone 2005:45).

In other words, it is rational to delegate the monetary policy to the ECB, due to the increase of credibility in price stability. In addition, the countries more beneficiary to this increase of credibility are the ones with historically high inflationary rates, like Italy, Spain and Greece. For these countries, the reduction in the cost of public debt, due to long-term and credible monetary policies associated with the independent ECB, more than compensate the potential cost (Majone 2005:82).

Under these circumstances, the lack of control of the ECB by the political actors produced increased confidence on financial markets. Which created a catch-up period for the GIIPS states towards the most developed ones. Likewise, this framework facilitated the increase in commerce between members states, and also increased the economic integration of the EU (European Commission 2014:5).

For the most part, the objective of the ECB of low inflation has been fulfilled during the period of existence of the Euro (European Commission 2014:45). On the other hand, it is difficult to know what the consequences of the Financial Crisis of 2008 would be without the monetary capacity of the EMU. Some authors claim that the outcome without the EMU structure, would be catastrophic in a more fragmented monetary EU (Talani 2014:85). However, as the following critical approach will show, some of the original assumptions on
the goodness of the system have failed to achieve the expected positive outcomes, and had negative outcome for GIIPS.

5.2.2 Critique of the Status Quo

5.2.2.1 Input Legitimacy

The structure of the EU makes government by the people at the EU level difficult. Besides, the most common criticism to the EMU is the democratic deficit of the decision-making process, because the office holders who embrace such decisions are not directly elected by the citizens (Scharpf 1999: 187). After the Lisbon treaty, the competences of the European Parliament (EP) increased, however the capability of the EP regarding the economic accountability of the EMU are very limited and just informative (Piris 2010: 146). Additionally, the structure of the EMU does not allow for direct accountability by governments over the monetary policy of the ECB (Scharpf 2014:3). As a result, the social legitimacy acceptance of such policies is challenging.

This is accepted by the status quo, because Neoliberal theory claims the need to limit the role of public power in order to avoid incentives to use their monopolistic authorities in their own benefit (Brennan & Buchanan 1985). Therefore, the role of the EU treaties must be to ensure non-governmental interference into the free market. However, in the free market, the relations of power are not equal and not all actors have the same possibilities to participate freely, because the owners of the capital have a higher status over the working class (Streeck 2014b:21). So, the working class, which is wage dependent is not the fundamental actor of the decision-making process. Then, in a context where the market has pre-eminence, and there is a relation of wage dependency, the capacity for government by the people decreases, which in the last term decreases the input legitimacy of the system.

In addition, the Neoliberal perspective perceives common good in politics as an element of inefficiency and obstacle to efficiency (Streeck 2010:430). In contraposition, in the former period of embedded capitalism in the aftermath of WWII, in the so-called Keynesian economy, the state played an active role as contra power towards the antidemocratic tendencies of capitalism to ensure the right of the majority of the population to intervene
in the economic decisions of the market, particularly encroaching the role of the unions in the economy (Streeck 2014a:23). But, after the neoliberal revolutions of the 1980’s, the official discourse changed and embraced the market driven economy where the role of states in the economy must be focused to increase the confidence of investors (Rodrik 2000:186).

Additionally, this shift from embedded capitalism to market driven economy relieved from social responsibilities the government and the capital (Streeck 2014a:20). At this point, the main priority of the public policy will not be employment or fair distribution anymore, because according to the neoliberal perspective, the market will balance this element in the most efficient way (Streeck 2014a:20). As a result, when a period of crisis appears, it is more likely for there to be social unrest, due to the limited range of actions from public actors. Consequently, in this situation the legitimacy of the social and political actors in society is at risk (Streeck 2014a:19); since the government by the people is more difficult due to the relation of wage-dependency of the citizens, which additionally undermines the self-determination of citizens since the government reduces its participation in the economy (Streeck 2014a:23).

In this development, capitalism is splitting from democracy, because the economy is splitting from policy (Streeck 2014a:5). This phenomenon occurs within the dynamics of economic change in the EU from the 1990’s, and is based mainly on three elements. Firstly, the increase of the financial system on the economy. Secondly, the decrease of union power in the shape of the economic policies. And, lately the increase in the commodification of public goods, through a period of privatization of public companies or by the increase of private prevision of social goods, such as private pensions or private health care (Streeck 2014b: 54). Hence, the policy takes the role to ensure the well function of the private market and shift the priorities of the national policies (Streeck 2014a:6), which makes even harder the participation in economic decisions. This lack of real participation of the unions, undermines the legitimacy of the political decisions (Streeck 2010:425)
5.2.2.1.1 Post-Democracy

The EU is a democratic supranational organization because it is based on democratic member states, which by free will pooled sovereignty to create this IO (Crouch 2004). Moreover, high democratic standards are a *sine qua none* condition to join the EU. Nevertheless, due to the liberalization process, over the last 20 years Europe is evolving into a system of post-democracy, where democracy as a form still exists, but the continent shape of its legitimacy and the way private forces influence politics has changed (Crouch 2015: 71). This does not mean that it is evolving into a dictatorship, but the marketization of the society, where the economic powers increase their influence on the governance of the economy, makes the self-determination of the population more difficult to fulfill. Moreover, the change from industrial to a service and financial economy, concentrated more power in small cycles of business lobbyists (Crouch 2015: 71).

Since the 1990’s, the internationalization of the economy in junction with the globalization process, plus the incapability of states to manage the economy within the national level, shaped a process of loss of national economic sovereignty (Crouch 2004: 122). In this process, the economic elites gain power to influence political decisions, and in the same way to decrease citizens’ rights in order to content the markets (Crouch 2015: 72). Nevertheless, national governments embraced the creation of IO and forums of governance such as the G8 to increase their capabilities of economic governance. For instance, the creation of the EMU increased the economic governance between economies with intense economic interdependence, and created a framework to search for optimal outcomes for the member states (Majone 2005: 85). Consequently, the nation state has not been a passive actor in the process of globalization, but an active one in the search of new economic governance tools.

The criticism to the creation of such organizations is over the ideological biases in their creation and the outcome of their policies; which are very influenced by the discourse of the economic elite (Crouch 2004). As a result, there is a shift in the discourse authority to more market oriented policies, which has been guiding the political economy in the Eurozone since the creation of the Single Market in 1986 (Streeck 2015: 14). In this discourse
of the economic elite, the Debt Crisis in the Eurozone has been a product of the excessive amount of public spending by the welfare states, especially the social spending. Subsequently, this paradigm is used to reduce and liberalize even more the welfare state (Crouch 2015:72). In the post crisis EMU, the post-democratic effects are the austerity measures from the Troika which have been imposed to the GIIPS countries in order to pay their debts. At the same time, the austerity policies have the objective of untangling the social welfare created after WWII in Europe; because these programs claim the need to reduce the presence of politics in the market, and the institutional deconstruction of the social states is seen as positive (Crouch 2000:6).

At this point, it is important to acknowledge the influence of the theories in politics and how these ‘Big Notions’ in one area can be central or denied in different periods of history (Mirowski 2013:26). Because the embrace of the TINA neoliberal perspective after the crisis is the negation of the past Keynesian economic theory, which became marginal in the actual economic governance. Hence as Mirowsky (2013:27) describes: “social disciplines often fiend their acolytes proclaiming the ‘Death of X’ contemporaneously with commensurate authorities insisting that X never really exited”. From the past failing of the Keynesian economic ideas, European governments renounced much of their economic sovereignty and shifted the former regulatory framework which they controlled to a market driven logic (Mirowski 2013:28). This created a paradox and limited the economic capacity of states, since then “financial markets are monitoring national and European policy, while politicians are seeking to promote economic efficiency” (Crouch 2000:6).

In general terms, the power of civil society and the self-determination of nations, has been undermined by the powerful interest of influential political groups in the case of democracy and the big companies in the case of the market (Crouch 2015:73). As a result, the actual framework of the EMU, produced a decrease in the political and economic freedom of the citizens; which in the last term, challenged the democratic capacity to influence politics by formal channels, and decreased the government by the people.
5.2.2.2 Output Legitimacy

Output-legitimacy in EMU is mainly based on the economic outcomes of the Euro, as it has been mentioned at the beginning of this chapter. In the following section, the output-legitimacy of these outcomes is analysed by different temporal features, before and after the financial crisis of 2008 and 2010.

In the first place, some of the earliest critiques to the EMU were regarding the fact that the original project’s proposals, for instance Delor’s Report (Delors 1989) or One Market, One Money (Commission 1990), had a conscious non-compliance with the theoretical requisites of the Optimal Currency Area (OCA) (Hix & Høyland 2011: 253); which is the economic theoretical approach for the creation of currency areas, and part of Neoliberal theory. So, from OCA perspective the functional capacity of the Euro can be questioned, because EMU cannot fulfil the output legitimacy due to doubtful capacity to enhance effective problem-solving, and this is due to three main causes (Schelkle 2014:2). Firstly, the lack of convergence among the members of the Euro. Secondly, the lack of similar legislation and capabilities of flexibility in the labour market. Thirdly, the lack of similar industrial structure and synchronised business cycle.

Moreover, there are two economic systems within the Eurozone which have different historical and political traditions, which make difficult a governance with a one-size fits all policy (Schelkle 2014:3). Firstly, the Nordic system is base on high quality export goods, in a context of macroeconomic stability. Secondly, the Southern one is based on domestic demand, with imbalances in the debt which produces speculative booms, and requires inflationary controls to manage the increase of labour costs. Therefore, the capability of the EMU to enhance positive outcome faces challenges due to the structural heterogeneity of its members.

Still, these initial imbalance problems were not seen as a dangerous phenomenon by the European or national governments, due to the belief that it was a temporal side effect from the catch-up miracle (Scharpf 2014a:7). Nonetheless, the economic outcomes after the crisis showed that the financial imbalances between Nordic and Southern member states
increased, moreover the EMU framework enhanced the asymmetrical distribution of wealth among the states (Scharpf 2014a:5).

For instance, the effects of the financial crisis in 2008 and the policies in the EMU after the 2010 crisis enhance the asymmetries among the members of the Euro. In this matter, we can identify two typologies of countries in a sort of north-south relation, with surplus countries and imbalanced countries. In the last countries the policies adopted by the MoU and the efforts demanded to join the credits from the ESM produced an increase in unemployment and inequalities on the receptor countries. So far, this supply-side austerity measures did not bring enough positive outputs. Therefore, the outcome legitimacy of the status quo has been questioned, because instead of a catch-up phenomenon the direction after the crisis is to a regression point. In the following paragraphs, some of these negative outcomes will be highlighted.

5.2.2.2.1 Increase of Asymmetries in EMU

The ECB’s one-size-fit-all monetary policy increased asymmetries among the Euro-Members (Scharpf 2014b:25). Hence, the uniformed monetary policy of the ECB produced two typologies of states among the same currency area (Scharpf 2014a: 5). States with a surplus economy such as Germany or Holland, and the financially dependent economies formed by GIPS. These financially dependent countries, in order to cope with the internal demand, needed financial imports of capital in the form of financial debt (Scharpf 2014a:7). Hence, the bubbles of the GIPS were non-controlled by the ECB, because the inflationary increase of these countries was neutralized by the controlled inflation of the surplus states (Scharpf 2014a: 6). So, the outcome of this design was the imbalance and overvaulted effective exchange rates among the GIPS countries, and the undervaluation of the German export industry. To sum up, the gains of the undervaluation of the effective exchange rates of Germany reduced the competitiveness of the GIPS countries due to an increase of the cost in production in these countries (Scharpf 2014a: 6).

The cheap money policy of the ECB and the freedom of capitals allowed the surplus economies of the north, which have high productive and export based economies, to direct
their savings to borrow to the financial dependent countries of the south with less productive economy more based on consumption (Scharpf 2014b:25). The increase of debt by private agents in the south was seen as an opportunity to develop their economies, nevertheless most of this money were used to finance private consumption, and not productive investment (Scharpf 2014b:18).

For this reason, the positive outcome of the ECB policies showed above, must be questioned due to the differential effects of the interest rates in the Eurozone. Hence, the interest rates differed from the real nominal rates among different states from the beginning of the Euro due to the economic characteristics of the Euro members (Scharpf 2014a:9). However, the inflation had a controlled pattern in average in the Eurozone, so the possible difference was considered as irrelevant (Scharpf 2014a:10). This phenomenon occurred due to the heterogeneity of the member states, where different economies went in different directions. For example, Germany and other strong currency states suffered in the initial period of the EMU for higher real interest rates. On the other hand, soft currency states such as Spain or Ireland enjoyed low real interest rates. This factor produced a differentiated evolution of the internal demand consumption, with contraction in the first group and expansion of the second (Scharpf 2014a:5). Using the European Commission perspective of convergence trough markets in ‘One Market, money’ (Commission 1990:97), this phenomena can be seeing as positive, due to the perspective of catch-up phenomena in economic terms by the less developed economies of the Eurozone by the market forces. Since, the official discourse of the EU is grounded on the idea that the power of the free market will allow the economic convergence among countries (Commission 1990:49). Nevertheless, these divergences on the outcome had resulted from divergences among the Euro member’s capabilities to manage its monetary policies. For instance, the real state bubble and the subsequent public debt in the GIIPS countries is a side effect of this one-size-fits all monetary policy of the ECB (Scharpf 2014a:5).

For this reason, the optimistic spill-over effects proclaimed by the EU institutions among the economy have been questioned and can only be understood as an over estimation of the private effects and self-regulation of the market.
5.2.2.2 Austerity

The debt-crisis in GIIPS has been accompanied with economic austerity measures in exchange of financial assistance from the Troika (Scharpf 2014b:31). These policies focus mainly on supply-side reforms, which are grounded on the idea of the necessity to reduce costs of production in order to make the national economy more competitive, reboot the economy, and in the last term recover from an economic crisis (Blyth 2015:84). However, without the possibility of national nominal devaluation in the Eurozone, the only possible solution to apply such policies is the internal devaluation, which in the last term demands a real wage devaluation (Scharpf 2014b:29).

The supply-side policies have a positive referent in the successful recovery of the German economy from 2001-2005. Therefore, the idea was to apply the same policies that worked for the German recuperation between 2001-2005, in order to boost the economy in GIIPS countries. As a result, the logic of the austerity policies is to follow the same and make GIIPS countries like export oriented economies with relative low labour costs (Scharpf 2014b:15). However, this logic does not account for the different economic structures of the countries, or even the different economic contexts after the crisis.

Consequently, objective data shows how the path of economic recovery has not been successful enough in the GIIPS to justify the social unrest (European Commission 2014). Because, even if the supply side policies are effective, and the relative cost of the production descends in the GIIPS countries, who is going to buy such exports if all the other members also have surplus?

From the TINA perspective, the answer to this question is that the imbalances still present and the recovery is not strong enough because the labour cost are too high, so deeper reforms are needed (Blyth 2015:196). However, this discourse does not adapt to the reality, and despite the evidence of the negative outcome of such austerity programs, the economic policy on EMU is merely an implementation of this ideological program. Hence, the logic of these policies seems more ideologically biased, than based on the economic outcome.
In conclusion, the diagnosis of the crisis by the official authorities has focused on the imbalanced countries with had non-export economies. Thus, the countries with surplus have not had a treatment of problematics for EMU as a whole. Yet, is easy to understand that the surpluses of the export-led countries are the external imbalances of the other countries. But, with the actual framework in EMU, there is not a formal tool to penalize surplus countries (Scharpf 2014b: 15). As a result, the design of EMU has a limited output-legitimacy, because not all country imbalances are treated by the same token.

5.2.3 Conclusion Legitimacy

The different types of EMU legitimacies have diverse outcomes. From the input legitimacy perspective, the EMU and specially the reforms after 2010, brought a less accountable and more executive approach to economic governance. The Troika imposed strong conditions to the debtors’ states, which limited their economic sovereign policies, however surplus members were not penalised. Obviously, any fiscal support must be linked to conditions, however the ad-hoc element of such a rescued program, which decreased the political self-determination of these countries, bring to such countries into a continuous dynamic of dismissing sovereignty. Indeed, accountability towards the national parliaments decreased; ‘government by the people’ is also more limited after the crisis.

From the output perspective, the legitimization of EMU had positive elements. Firstly, inflation has been controlled in the Eurozone and the average rate in the Eurozone had been close to the goal of 2 % by the treaties. Nevertheless, the process of convergence among the members helped by the market forces had some difficulties. Secondly, the mutualized credit in the Eurozone which helped to bailout fundamental credit entities in some members’ states is too big to fail. Thirdly, the period of the Euro helped some countries to catch-up effect and increase their GDP. However, the catch up effect of the monetary integration did not fulfil the objectives of the EU, and it was mainly based on private indebtedness.

The interaction between input and output legitimacy has a difficult path in the EU. Thus constitutional frameworks are created in the nation states to balance the combination
between input and output legitimacy and to this extent, equilibrate executive power and majority rule (Scharpf 1999:13). On the contrary, the EU does not have a clear constitutional framework which equilibrate these legitimacies. Moreover, the EU does not have thick identity cohesion which is supposed to belong to the nation states. So, the relation between input- and out-put oriented legitimacy is that they reinforce each other in the nation-state democracies, but this is not the case in the EU, where the sense of political community is not granted. Hence, there are difficulties in balancing both legitimacies.

By the same token, the decision making process is located away from the accountability of parliaments, in the better case in a position of secondary accountability, thanks to the control that national parliaments have of executive power in the states. Hence, the EU can be understood as a political construction whose constituency is based on the output interest of the state members, rather than the citizens (Scharpf 1999:7-10).

In a similar manner, the 2011 EMU reforms have a lack of legitimacy in the output and input dimension. In the case of the output dimension, it is because the policies did not bring so far any development, moreover many countries are facing increasing levels of inequality and unemployment. On the other hand, in the input dimension, the way the new governance of the Euro has been designed challenges the role of national parliament and even the intermediate legitimacy of the states, due to the new executive prerogative of the EC to control the national economies (Scharpf 2014:3).

As a result, there is a lack of fundamental changes in the original design. In fact, the imbalances among member states will continue, and the ‘one size fit all’ monetary policy cannot function properly for all members. Moreover, the austerity driven policies based on supply-side policies reduced even more the fiscal capacity on a national level in GIIPS countries. Therefore, if the imbalances among real exchange asymmetries continue, and the fiscal policies of the national governments are more limited, what instruments are left to national governments to control the imbalances, and more importantly, are these instruments sufficient to counteract them? (Scharpf 2014:13).
5.3 Sovereignty

There is not an unique definition of sovereignty, however in the traditional system of nation states it can be defined it by the following requisites (Smith et al. 1999:34). Firstly, international recognition from other states (sovereignty *de jure*). Secondly, authority over its territory and capacity of self-governance (sovereignty *de facto*). Thirdly, autonomy from external territories to organize the internal policy. However, the member states of the EU are not fulfilling all of these requisites completely due to the European political structure (Smith et al. 1999:10).

What is more, the EU institutions after the crisis, demanded reforms to national governments to enhance deeper market compromise in different ways (Streeck 2014a:108).

So, how is it developing? Firstly, including a market perspective such as debt ceiling or privatization of the public services as a requisite. Secondly, adapting their social contracts in labour legislation to a flexible market of employment. Lastly, doing these changes despite possible democratic opposition of the population (Streeck & Elsässer 2014:9). Moreover, mechanisms to penalize member states have the tendency to become automatic, in the sense that that there is less scope for political bargaining (Streeck 2014a:109).

However, this is not a recent tendency, although the neoliberal revolution in the 1970s-1980s created the willingness from sovereign states to decrease their economic sovereignty, in order to increase credibility towards the markets (Streeck 2014a:165).

Therefore, it is important for this study to analyse the assumptions that justify such austerity policies, which challenge the sovereignty of the member states. This perspective, as it has been mentioned before, claims the necessity to take away from politicians their direct influence in the economic governance, because the government does not have a benevolent intention to influence the market, but rather the private interest of the political elites to increase eligibility and power (Brennan & Buchanan 1985:40). Moreover, the monetary policies must be independent from the political decisions due to the inflationary tendencies of the politicians. In this viewpoint, the best way to ensure a responsible monetary policy is to renounce to the monetary sovereignty and create a common currency (Steele 2001:25). Consequently, this pooling of sovereignty in the creation of the Euro is a
strategy to increase the confidence of the markets and create an incentive to the investors to invest.

By the same token, the end of the embedded capitalism and the Keynesian understanding of the economy in the 1970’s-1980’s in Europe, created new dynamics between capital, labour and government. In the new paradigm, the market is the major element of balance and the polity must withdraw its control over the economy (Streeck 2015b:17). This process, in junction with the negative integration of the EU after the European Single Act in 1986, reduced the capacity of states to dictate its national economic rules (Streeck 2014b:19).

Neoliberal theory claims the convenience of this pre-eminence of the market over politics in order to avoid military confrontation among states in Europe (Hayek 1996:258). In Hayek’s perspective one way to achieve this is to create currency unions, and consequently increase the levels of economic dependence among the countries (Hayek 1996:261). Hayek claims that the loss of economic sovereignty of states, must not be taken by a federation of states, hence it leads to a less political control over the citizens. In his perspective, currency unions demand less government, and increase individual freedom (Hayek 1996:262). In addition, high direct taxation is also difficult to impose from the states, because the private agent has the capacity to move among the member states, and seek efficiency (Steele 2001:17). Another element that will increase market freedom is the constrains that the unions and national organizations would face, because their monopolistic capacities to influence the economy cannot reach an open federal market, due to their lack of control over supply (Steele 2001:22).

With this in mind, it makes sense to compare Hayek’s ideas with the creation of the European Community, due to its origins grounded in finding peace in Europe after the WWII. In fact, this approach has been a success in Europe. However, this process of integration has some side effects. As it has been mentioned before, the creation of EMU cannot be understood as an independent process in history, but one influenced by the evolution of the global context and the triumph of the neoliberal ideology (McNamara 1998:135). Hence, the actual framework of the Euro has an important influence from the neoliberal
perspective (McNamara 1998:137). From this standpoint, market forces create incentives for all members to be the most efficient, due to the lack of government interventionist and misguided public policies. As a result, the structure of EMU accompanies the denationalization and liberalization of the European economies, which lead to the renounce of economic sovereignty of the member states (Streeck 2014a:192).

Taking into account such elements, it is noticeable that, the process of negative economic integration in Europe, mostly based on liberalization and pooling of economic sovereignty, allowed the increase of the rule of private markets in a constitutional framework based on the four economic movement freedoms in the EU (capital, goods, services, people) (McNamara 1998:53). This liberalization of the economy left less room for manoeuvre to the member states, due to the fact that compliance of such freedoms must be granted by all members, since the European law has a superior range towards national law regarding economic policies (Piris 2010:85).

This negative integration limited the economic sovereign power of the member states. For instance, the Eurozone is a monetary union without centralised fiscal authorities and without an important central budget, around 1% of the EU GDP (the average in the EU countries is around 35%) (Lisenmann et al. 2007:33). Therefore, this lack of strong governance over the economy delegates the role of economic balancing to the markets (Lisenmann et al. 2007: 34). This lack of government can be seen as a risky way for member states to lose sovereignty (Rodrik 2000:189), because the room left by the elected government is replaced by the market. Either way, the framework of EMU reduces the economic sovereignty of the Euro-Members, especially in the monetary policy with independent capacity of the ECB (Streeck 2014a:203).

However, some authors (Majone 2005; Moravcsik 2008) justify this construction with the impossibility of having European institutions strong enough to control the fiscal policy of the Eurozone. Then, the negative integration and the change from embedded economic policy to rule based economic policy, can be seen as the only alternative possible in Europe.
In the following paragraphs the two perspectives will be presented as of positive and negative elements of the EMU framework regarding the national sovereignty of the member states.

5.3.1. Pro Status Quo

From an economic rationalist point of view, the creation of the Euro can be considered as a normal evolution of the integration process of the EU. Moreover, due to the spill-over effects, the common currency would be the tool to fulfil the economic capabilities of the market integration after the European Single Act in 1986 (Lisenmann et al. 2007: 38). Therefore, according to this approach, the Eurozone is the logical evolution of the institutional integration of the EU, and its framework is a rational solution to enhance the potentialities of the Euro member’s economies.

Nevertheless, even if the logical creation and evolution of the institutions in the EU would be the creation of a common currency, the set of rules in EMU are not a determinist creation, but an ideological choice from the political actors (McNamara 1998). This options of political integration, constructed mainly on the negative integration and treaty based is defended from the EU institutions (Commission 1990) and scholars (Majone 2005; Moravcsik 2008), as the best possible option due to the heterogeneity of the member states. From this outlook, the economic interdependence among member states demands certain levels of cooperation and control in order to avoid fiscal irresponsibility, however any federal union is required.

The following section will expose elements that justified the status quo of EMU. The key elements are based on the rational view that the characteristics of the EU limited the economic integration of EMU. Therefore, the disjunction between politics and economics, the reliance on non-majoritarian ways of governance, and the limited accountability are the best alternatives to increase the general outcome in the Eurozone. As a result, this pooling of economic sovereignty is a rational choice to find an optimal point that benefits the general outcome of the country members in the Eurozone (Majone 2005:48).
5.3.1.1 Disjunction Between Politics and Economy

There are inherent problems in enhancing a more political integration of the EU, for instance the failed European Constitution in 2004. Therefore, this is only left room for a more practical and realistic approach based mainly on the integration of the national economies. This formula, tries to achieve this integration and maintain the national political sovereignty intact (Majone 2005:39). Then, from this standpoint the best formula to preserve the national sovereignty is to separate as much as possible politics and economy; as a matter of fact, ‘This principle is firmly embedded in the EU founding Treaty of Rome’ (Majone 2005:39).

For that reason, the separation between politics and economics is a requisite to ensure the process of market integration at EU. Consequently, as has been analysed in part 5.2.1, the formal democratic deficit in the EU level is the price to ensure the sovereign social capacity of member states in distributive areas such as taxation or social security, which remain technically speaking intact (Majone 2005:46). So, this formal deficit at EU level is a way to ensure national sovereignty, and is democratically justified (Majone 2005:46).

Generally speaking, negative integration has a pre-eminence in the EU. Moreover, there is an emphasis originated in the EU framework on the freedom of movement for persons, services, and capital, and the rules of negative integration; the competition and antitrust policy; the requirement of removing market distortion due to public ownership or national legislation; and the creation of the most independent central bank in the world (Majone 2005:40). All of these are provisions which increase the separation between state power from market power.

5.3.1.2 Difficulties in Increasing Positive Rights

The EU is a political construction with limited formal capacity in social areas, since it is mainly based on regulatory economic areas. For this reason, some critical approaches (Schäfer & Streeck 2013:15) argue about the necessity to increase the harmonization of the social rights linked to the welfare states. These claims are based on the supposed tendency in the EU towards a race to the bottom in social protection, where firms have the tendency
to relocate their companies in other states of the EU with lower welfare protection, and this phenomenon produces a race to bottom of the rest for the countries to attract such investments (Schäfer & Streeck 2013:18). However, this tendency has not been a general problem in the EU (Majone 2005:192), due to the role played by other elements in the investment besides the labour costs.

By the same token, the EU faces inherent challenges the enhancement of positive integration due to the difficulties in having more social policies at EU level; mostly, because the increase in the positive integration of social policies in the EU would demand an increase in economic resources to be applied (Majone 2005:192). Therefore, it will require economic transfers from the richest countries to the poorest. Hence, the best solution so far, and the one more coherent with the respect of national sovereignty is the one based on negative integration, built on the enforcement of the free market (Majone 2005:193).

In conclusion, the role of the EU as purely regulator is in part due to the fiscal impossibilities of having a strong budget at EU level, and also thanks to the heterogeneity of the social welfare state in the EU. As a result, the negative integration based on liberalization and general regulation is a way to ensure the sovereignty capacity of the member states.

5.3.1.4 No Dismissal Democracy

Some of the critique against the actual evolution of the economic governance is centred on the primacy of the market, this criticism claims that this phenomenon dismisses the sovereignty and the welfare system of the states (Majone 2005:198). Consequently, there is a political trilemma of world economy composed of: integrated economy, the nation-state, and mass politics (Rodrik 2000:180):

“If we want true international economic integration, we have to go either with the nation-state, in which case, the domain of national politics will have to be significantly restricted, or else with mass politics, in which case we will have to give up the nation-state in favour of global federalism. If we want highly participatory political regimes, we have to choose between the nation-state and international economic integration. If we want to keep the nation-state, we have to choose between mass politics and international economic integration”.
Rodrik argues that, due to the globalization path of the economy, the state must refrain from handling many economic issues in order to maintain national sovereignty (Majone 2005:196). Hence, the fundamental role played by political actors must be to attract investments, and the government must tend towards deregulatory harmonization (Rodrik 2000:184).

However, EU integration seems to contradict Rodrick’s thesis. After all, it has been possible to integrate economies without the elimination of nation-states and preserving high quality democracies at national level (Majone 2005:199). Using Rodrick’s trilemma, the only possible way to ensure proper democracy would be the creation of supranational and strong political structures. However, it seems unlikely that a federal union in Europe would be possible due to cultural, historical, economic and institutional diversity (Majone 2005:202).

The absence of a European demos makes the construction of proper supranational politics in the EU very difficult (Majone 2005:204), moreover sovereignty based outside of the traditional territorial nation-state is far from simple. Hence, the need for a collective sense of community is evident when the policies imply different interests among the political group (Majone 2005:204). The need for majoritarian legitimization of some zero-sum policies such as distribution policies is very difficult to achieve in a supranational political organization such as the EU, due to the lack of a demos. Therefore, the only possible public agenda must be positive-sum policies such as efficiency-enhancing, market-preserving policies, and free trade policies (Majone 2005:207).

The conclusion is that the shape of EU integration only allows positive-sum policies which do not interfere with big resource transfer among the members. The impossibility in constructing a proper federal union left only the possibility of having what is called by Weingast (1995), ‘market preserving federalism’. This federalism is based on three principles. Firstly, member states must only focus on regulatory intervention in the economy. Secondly, the role of public interference on the market must be avoided in order not to interfere in the efficiency of the market. Thirdly, member states must have a strict
budget constraint, and no access to borrowing from the central bank. To this extent, the actual EMU fulfils almost all of these elements to be functional. Hence, from this standpoint the actual status quo is the best option of integration.

In conclusion, from the pro status quo standpoint, the economic integration of the EU and the creation of EMU have not dismissed the democratic national sovereignty of state members. On the contrary, due to globalization processes, the framework of EMU helps members overcome these challenges. Thus, EMU increases the quality of their democracies, due to the positive economic outcome of economic integration (Majone 2005:201). Moreover, if the welfare state is in trouble in EU member states, it is not due to the EU per se, rather due to the social and economic pressure that globalization produced in all western countries (Majone 2005:201).

5.3.1.4 The Need for Constitutional Rules

EMU is based on constitutional rules integrated into the EU Treaties; furthermore, these constitutional rules are exempted from the control of majoritarian ordinary power, and the objective of these are to remove certain decisions from the ordinary electoral process. The goals of such framework are double (Majone 2005:211). Firstly, to protect some fundamental rights. Secondly, limited power increases the likelihood of compliance of the rules. So, the EU is an example of this, and of how there is no need to centralize and monopolize the political powers to enhance prosperity (Majone 2005:218).

In effect, in Europe the constitutional paradigm has been implemented due to the process of integration of the EU and the end of the Keynesian economic model of the 1970s-1980s (Talani 2014:56). This model was a heritage of the post WWII economy, grounded on executive mass control of the economy and the discretionary political powers (Majone 2005:213). From the Neoliberal perspective, these Keynesian policies are no longer possible due to the process of economic integration, and the impossibility of the national protectionist policies in the EU members.

According to this, the reduction of interference of public executive powers limits the changes of rent-seeking and political corruption which go together with administrative
powers (Majone 2005:214). So, the inclusion of EMU precepts into the treaties made them a constitutional limitation which ensures compliance with the rules, limits rent-seeking phenomena, and enhances efficiency (Majone 2005:215). To put it more simply, the tendency is to become an economy ruled system instead of a power-ruled system, where the international and economic relations must be ruled by relative bargaining power and negotiation, rather than executive unilateral decisions of states (Majone 2005:217). As a result, the sovereignty is ensured by the multilateral cooperative interaction of private agents. However, this vision regarding the virtues from the private rules of the economy, will be questioned in the following part.

5.3.2 Critique of the Status Quo

To begin with a general categorization of the critical approach it must be stated that the authors used to do this section are very influenced by the Frankfurt School, especially in its critique regarding the inherent relation of tension between social life and the economy (Streeck 2014a: X). What is more, from this perspective, capitalism has always been in conflict with democracy, and the period between the end of the embedded capitalism in the 1970’s and the crisis of 2008 has been determined by the economic and social conflicts between public and private actors of the economy (Streeck 2014a: XI).

From this point of view, the financialization of the global economy produced the effect of buying time and delayed this conflict, but the crash that came after 2008 showed the inherent contradiction between capitalism and democracy (Streeck 2014a: XV). This process of buying time, has been possible due to the increasing indebtedness first of the public sector, followed by the private one. So, these debt bubbles allowed a period of social peace in Europe due to the fiction of nominal growth of the economy (Streeck 2014: XV).

Therefore, despite the illusory effect of the financialization of the economy, this time has been a period of continuous clash between the interest of the working class and the owners of capital, where the structure of political institutions in the EU made possible the expansion of the Neoliberal ideology. This ideological approach, which influenced the creation of EMU (McNamara 1998), claims the necessity to separate the state from the economy (Brennan
& Buchanan 1985) in order to increase the freedom of the market, which from this point of view in last term is the only one that ensures personal freedom. However, this separation between policy and economy raises many challenges for the sovereignty of the elected governments, and in the last term to the democracy.

The following paragraphs are divided in to main general challenges to the sovereign states in the actual scenario. Firstly, the increased dependence of national government on private investment, due to the lack of public income. Secondly, the dynamics of dependence that the framework of EMU created before and after the Financial Crisis of 2008.

5.3.2.1 The Governmental Debt

The actual period of restraint sovereignty in Europe, mostly in GIIPS, has its origin in the transformation of economic governance since the 1980’s. This is manly constructed on the withdrawal of national governments from active participation in the economy, as well as an increased separation between politics and economy. As shown above, both elements decreased the economic sovereignty of the state. But, unlike Neoliberalism, Critical approach does not see these elements as a virtue, but a problem.

In the first place, one of the effects of the separation between economy and policy is a lack of control for the government of the national economy (Streeck 2014a:37). From the Neoliberal perspective, this is the way to enhance the economic performance of the states. However, from the beginning of the 1990’s the increase of dependence of states towards the financial sector, due to the fiscal consolidation and the decrease of national control of the economy, produced a reduction of the capabilities of the states to take taxes. In order to overcome such a problem, the public debt increased, which made governments more vulnerable to any financial instability (Streeck 2014a:37). From this period, started the beginning of the debt-state, where the government needs to take loans in order to pay before they can raise taxes (Streeck 2014a:36).

When this period of public debt was impossible to continue due to the fiscal consolidation in the late 1990’s, governments replaced it with private Keynesianism (Streeck 2014a:38). This is an increase in the general indebtedness of citizens, mostly the working class, which
needs to go into debt in order to be able to cope with a reduction of public expenditure and a decrease in the wages (Crouch 2011:61). This encourages private debt, and is justified under the umbrella of neoliberal ideology, which claims that the market is efficient enough to embrace the balance due to the private incentive of economic agents (Streeck 2014a:39). However, the results of the global financial crisis of 2008 showed the limits of the market capacities to allocate effective sustainable amount of debt in private hands. Which, as has been mentioned in the first chapter needed at the last term a public bail out of the financial entities, converting private debt into public debt.

In this process of increasing indebtedness of the public finance, national states lose effective sovereignty, by subjecting their policies to the dictate of the markets (Streeck 2014a:40). So, this increase in government debt is caused by the lack of a means to receipt taxes and private financial turmoil, rather than high spending (Streeck 2014a:66). Therefore, the stagnation of revenue, and the subsequent wave of fiscal consolidation cannot be attributed to the empowerment of the insatiable electorates as Neoliberalism claims (Brennan & Buchanan 1985), but rather to the decrease in fiscal revenues from the state (Streeck 2014a:68).

Above all, the dynamic of capitalism demand for the state to keep curative expenditure policies, such as social expenditure to overcome the increase in unemployment rates, or what is more, orient these to investment such as roads or airports, and human capital (Streeck 2014a:70). However, the free movement of capital decreases tax revenues for states, due to the lack of sovereign economic power of the state to tax. To put it more simply, capital needs these public goods to ensure growth, and the lack of revenues increases the indebtedness of governments to ensure the stability of the system (Streeck 2014a:69).

In general terms, the fiscal consolidation and the privatization of national economies made more vulnerable the state in its capacity to obtain taxes. On the other hand, the capacity of capital to move and avoid taxes increased. In this process, the state became more
dependent of financial market, hence it loss economic sovereignty to implement social policies, due to the need of the so called ‘confidence of the market’.

5.3.2.2 Divergent Sovereignty

The national state has problems to govern the economy since the 1990’s due to the globalization of the economy and the liberalization of the financial market. In the same way, the distribution of income in national GDP shifted since the 1990’s, under these circumstances capital increased its percentage in the GDP distribution towards the labour revenues. In addition, the financialization of the economy allows Transnational Companies (TNCs) to shifts tax obligations (Crouch 2011:152). Consequently, the power of the markets is their capability ,due to its international integration, to change their investments whenever and wherever they want (Streeck 2014a:88).

As has been noted, national governments have difficulties in increasing tax revenues due to the mobility of capital. Under these circumstances, the capacity of markets and investors to influence the decision making process of the national economy increases. For this reason, in order to increase the confidence of the markets, the status quo perspective claims the necessity to lower tax as a kick-start to increase the incentive for capital owners to invest. Nevertheless these incentives do not ensure investment in real economy, and can increase the level of speculation in the market (Streeck 2014a:67). Notably this is the case of the real state’s bubbles in Ireland and Spain. So, the statement ‘the market knows better’, is questionable in this case.

To put it differently, the determinist vision of the infallible goodness of the market undermined the sovereignty of democracy and facilitated an increase in the inherent tendencies of capital to undermine democracy (Streeck 2014a:8). Consequently, the evolution towards debt states created a new separation of constituency actors in democratic states (Streeck 2014a:81). Firstly, the Staatvolk, with national character, formed by citizens whose relations with the state are based on civil rights via their participation in elections and the creation of the public opinion. These citizens are loyal to one state, in the sense that they must pay taxes in a determinate place, and for this taxes they expect public
services from the state. Secondly, Marktvolk, which are actors with international character, formed by investors whose demands are based on claims to increase their confidence towards public finance. Additionally, they exercise a continual auction to the public sector using interest rates as tools to pressure the public sector, owning the public debt (Streeck 2014a:81). Henceforth, governments only have sovereignty among the Staatvolk, not the Marktvolk. However, the Markvolk has the capacity to shape the national economic policy, thanks to the stress of the market.

In like manner, under the TINA perspective and the austerity programs of the Troika towards GIIPS, the government must ensure the confidence of the markets to avoid financial crisis (Blyth 2015:149). Whereas the cut of citizens’ rights or social services is seen as a necessary effort to enhance the confidence of the market, and therefore the public good (Streeck 2014a:85). So, in order to increase the confidence of the market, states must make visible changes, most of the times they use the word ‘reforms’, to show the willingness of the state to fulfil its contractual duties towards the creditors (Streeck 2014a:85).

The favourite formula to show this willingness is legal binding agreements, and the coalition governments such as in Germany with the SPD-CDU. On the other hand, any possibility of less market-friendly government that rise to power, is punished by the markets, and consequently is a cost for the tax-payers (Streeck 2014a:87); notably this is the case of Greece in September 2015. Consequently, these exists a dilemma between the claims of austerity and cuts in social spending in the short term, and the growth capacity of, subsequently state capacities to pay back the debtors decrease (Streeck 2014a:88). However, the policies of austerity have been claimed as the only possible solution (Blyth 2015:148). For this reason, it seems like a political path which is biased in the short term, frequently fearing to lose the confidence of the markets.

The interrelation of the markets is another important element which influences the sovereignty of the states. In particular, in the Eurozone the risk of default of one country can lower the confidence of the markets in the system, and as a consequence, increase the
price of indebtedness to another Euro member (Schäfer & Streeck 2013:195). Accordingly, there are incentives from the rest of the member states to pressure for determinated economic policies in favour of the market. Hence, diplomatic pressure from foreign governments within the EU can dismiss the capabilities of sovereignty of one state which can endanger its financial status (Streeck 2014a:90). Likewise, the dynamics of privatization of social services, lead an increasing number of citizens to invest their money in private pension plans. As a result, the down to the markets and the social services, can both be a problem for the citizens (Streeck 2014a:88). This, in the last term undermines the capacity of national governments to pursue non pro market policies.

This context of debt-state, entails a complex equilibrium between these two agents, where the state must manoeuvre to keep satisfied both Marktvolk and Staalvolk, to avoid the withdrawal of confidence from the former, and the loyalty from the latter (Streeck 2014a:83). This manoeuvre depends in great measure on the capabilities of each actor to influence the state, and how the state is able to convince the respective actor. Under those circumstances, the capacity to the state to satisfied both stakeholders groups, which is a new phenomenon in the last years, is seen as a by-product of the increase in the indebtedness of states, as well as the inclusion of the markets as a direct influence on the political decision-making progress (Streeck 2014a:84).

5.3.2.3 Restraint of Public Sovereignty
The status quo perspective claims the need to separate politics from economy in order to avoid governmental manipulation of the market by the public sector. Therefore, from this point of view, a restrain of public sovereignty is not only well seen, but necessary for the well-functioning of the market (Streeck 2014a:62). Nevertheless, this critique does not account for legal elements in the control of politicians, and the idea of the political decision is always made by determinate institutions, and they can be accountable for that. To put it in another way, market judgments are non-defined entities, therefore not accountable because there is not a concrete element to be accountable to and their complexity makes them only understandable by the “qualified experts” (Streeck 2014a:63). Hence, the neoliberal perspective has a biase on the accountability principles, where the private sector
does not need to be held publicly responsible, because market control is sufficient. In addition, from this approach the political accountability is manipulated by governments, and market accountability is transparent and reliable (Streeck 2014a:63).

As a result, for the status quo, the primacy of the market solution must prevail in the creation of the social good. This is so, because the difficulty to articulate the public good can create an incentive for politicians to manipulate it in order to accomplish its personal goals (Brennan & Buchanan 1985:73). Hence, the market can be the tool to search for social justice, because each individual must have the access to a free market where he can seek for personal justice, which is, the only possible justice due to the difficulty in defining the common good, consequently this is a concept of individual self-determination rather than political (Streeck 2014a:63).

Nevertheless, in the present moment, the supposed public capacity to undermine the freedom of the market is in doubt. Since, policies in the Eurozone induced a process of overpass this fear to bureaucracy, because the political bureaucratic power over the economy is limited (Streeck 2014a:64). This evolution means that the market could be immune from democratic correctives for two reasons: either from the capacity of hegemonic pro market ideas to shape the perspectives of the actors, or directly from the elimination of democracy like in Chile in the 1970’s (Streeck 2014a:61). Probably, the last one is too extreme, however as we have a process of Post-Democracy, the real sovereign capacity of the citizens is limited due to the dynamics of the private sector (Crouch 2004:18).

Under those circumstances, two different evolutions of the concept of justice in politics, social justice and market justice can be found (Streeck 2014a:58). Firstly, social justice is based on cultural norms, mainly founded on ideas of collective fairness, decent living standards and social rights. Secondly, market justice is founded on economic terms by an individualist approach, mainly based on market distribution of the economic outputs, primacy of the productivity and primacy of the value of competitive conditions.

As has been explained in the introduction of this chapter, the framework of the EU makes the system more proactive for the enhancing of market freedom. Doing so, the economic
governance tends to orient its economic policies towards enhanced market justice. In that case, in order to increase market justice, EMU agenda is imposing the policy TINA through the reforms of the political-economic framework: independent central banks, the creation of committees of experts to rule the economy, and the inclusion of debt ceiling in the constitution (Schäfer & Streeck 2013:16).

In effect, Euro policies portray an increase in the pre-eminence of market justice over the social justice, and austerity policies are an example of the pre-eminence of the market in the shape of economic governance. Moreover, market justice and the asymmetric creation of EMU, left GIIPS to rely only on internal devaluation, namely the reduction of social and labour rights, and decrease of wages (Streeck 2014a:106). All these elements are political constructions designed to increase the trust of the markets, and this design is done to protect and enforce market justice to ensure returns on capital investment (Streeck 2014a:62). Under those circumstances, social justice is considered political, and consequently non-efficient, and market justice is considered the rational efficient choice without any influence of ideology (Streeck 2014a:62). In essence, this separation between the policy and economy is a key element to understand the limitation of the economic sovereignty of the states nowadays.

Given these points, it can be concluded that politics overlooked the difficult compatibility between democracy and capitalism, and this subaltern role of democracy to regulate economy, has resulted partly in the crisis of 2008, which partly in the EU became a debt crisis on 2010, and compromised the economic sovereignty of the Euro members (Streeck 2014a:75). In addition, the primacy of politics aimed at increased market justice, undermines the capacity for self-governance of citizens in the formal political system. After all, the increases of the market oriented social relations rise the dependence of regular citizens to the fulfilment of the market justice in contraposition of the social justice.

5.3.2.4 Dependence Logics in EMU

However, this has not been equal in all states, different members had different economic outcomes. After the Euro Debt Crisis in 2010, the Euro Members can be divided in two
different categories, the non-debtors which must to obey the SGP and the reinforced SGP, and the debtor states which must fulfil also the criteria of the MoU, which included concrete fiscal cuts on the welfare state (Streeck 2015a:203). Either way, reforms in EMU restrained economic sovereignty, it is just different in terms of intensity depending on whether or not the country needs fiscal aid.

The 2010 Euro Debt Crisis increased the level of public debt to a level where the creditors are no longer sure of the capabilities of the state to fulfil its obligation with them. Hence, the former role of the creditors to ensure their rights, evolved into a system where the creditors try to influence the policies of the states to ensure its returns (Streeck 2014a:79). Due to the amount of debt from the states, the governments are vulnerable if they do not actively ensure the perspective of trust from the markets. Some governments even change their constitutions to rule the priority to pay the debt to private holders, before any other expenditure (Streeck 2014a:79). Therefore, creditors became an important constituency actor, to whom the government must be accountable to confirm their expectation of payment. Moreover, these actors increase their power to influence the government in relation to other actors, such as the workforce or citizens (Streeck 2014a:79). Hence, the state acts like a private company, which has to ensure the value of the shareholder, in this case ‘bondholder value’. So, the economic policy of the debtor states has been shifted to create a framework of securities to the benefit of the creditors (Streeck 2014a:80).

All things considered, the evolution into two categories of Euro members formed a sort of dependency relationship between debtor and lender states. Hence, the main object of the lenders is to have priority of debt payment over public services. Particularly, using a debt ceiling in the constitution, which limits the sovereignty of voters to change the priorities of payments in the new election (Streeck 2014a:86). For instance, this procedure was used in Spain in 2010, when the Parliament under the pressure of the markets, changed art. 135 of the constitution to include a debt ceiling (Streeck 2014a:86).
5.3.2.5 The Rule of the Experts on Constitutional Frameworks

As has been mentioned in chapter IV, the EU treaties created a constitutional structure where in general terms, European Law has supremacy over national law. This constitutional framework and the supremacy of the Treaties in the EU law limits the political choices of the member states. Accordingly, the structure of the EU in the multinational consolidation states neutralizes the capacity of states to search for determinate economic policies, due to the locking of these states into a supranational regime which limits their sovereignty (Streeck 2014a:115).

According to the EC recommendation, and in the name of economic rationality, GIIPS must pursue reforms and be oriented to the markets, in order to balance the macroeconomic policies (European Commission 2014). Nevertheless, this strategy is difficult to achieve in democratic states, because governments have to be accountable to the population, and that can create social instabilities and protests (Streeck 2014a:114). In order to avoid this problem, the option proposed by Hayek, was to create a supranational regime, based on economic rationality without direct democratic control. Hayek’s ideas can be seen as a blueprint for the European Community in economic terms, and also in the liberal way how the author understands federalism in a market economy as the best way to ensure peace (Streeck 2014a:101). According to the results since the 1990s, the EU has been converted into such regime (Streeck 2014a:114). This statement is questionable, because part of EMU policy, regarding the coordination of the fiscal policies, is decided by intergovernmental decisions in the Eurogrup and ECOFIN (Hix 2014: 256). However, the hegemonic vision of austerity and fiscal consolidation after the Euro crisis, makes it difficult for there to be any possible divergence among the members.

Nevertheless, resistance on the imposition of the agreement among heads of governments exists at the national level. Sometimes it is the national parliament, which can reject the signature of the agreement; or, the rule of Constitutional Court as in Germany, can reject the doctrine of the EU (Streeck 2014a:115). However, as it was mentioned in the last section, the economic dependence of some members, makes it more difficult for them to exercise such resistance.
From the Neoliberal standpoint, the solution to enhance a balance between effective economic governance and non-formal loss of sovereignty, is the creation of non-majoritarian ways of governance. The EC and ECB are the example of this delegation of power. However, these policies increased only the market justice, because the ECB has a constituency mandatory principle to ensure inflation below 2%, which ensures the value of capital (Streeck 2014b:114). As a result, the rule of the experts is not beneficial for all parts, but has constitutional limitations biased towards pro market policies.

In general terms, it can be concluded that the framework of the EU, specially EMU, increased the level of interdependence among members. However, this interdependence is asymmetrical among the members, and this depends on the fiscal capacity of them in relation to the others. The bigger the fiscal capacity of the state, the bigger the economic sovereignty. The way the new regulation is done, means that it is difficult to change these rules in the case of a non-favourable simple majority of this regulation. Furthermore, the power to overrule the sovereignty of states in the case of non-fulfilment of their obligation increased due to the fiscal weakness of the states.

5.3.3 Sovereignty Conclusion

There is an intrinsic problem in the analysis of this chapter, because taking the EU as a unit of study has risks, since the dynamics of the member states are different, as are their economic strengths. Consequently, the economic evolution during this period of crisis was not the same in all of them. Moreover a difference can be made between two capitalist models in the EU: Anglo-American capitalism and Continental capitalism (Streeck 2010:26). The grade of commodification of the social life on both models increased dramatically in this period, nevertheless due to their different economic structures, the outcome was slightly different (Streeck 2014b: 53).

In addition, even with the austerity measures imposed by the Troika and the decrease on social right in the GIIPS, the welfare state in Europe still is the largest in the world, and it has the biggest support of the population. So, maybe, the problem is not only in the
economic pro market governance of the EU, but in the internal dynamics and social framework of the member states.

From the Critical approach, the actual system of governance of the EU undermines the sovereignty of the states. Moreover, the Euro crisis is a result of the systemic problems of capitalism and the push of the ideological agenda of the status quo based on neoliberal ideas. These neoliberal ideas applying policies of austerity claim the necessity of reducing the social right of the welfare state by claiming the need for more competition, in a logic of TINA. Nevertheless, the reduction of welfare states is not a necessary condition for being economically successful, because the most competitive countries in the EU are the states with the largest welfare states. So, the question is to what extent is the push for the austerity just an excuse for the elites to increase their share on the GDP of the debt-countries?

To the Frankfurt School and its critical approach, the tendency of the capitalist system is inexorably to undermine democracy. Thus, capitalism is an element which jeopardizes democracy because of its inherent tendency to privatize social goods and its need to continue accumulation and reproduction of capital to survive (Therborn 1970:68). However, the capitalist system as a system of production is very efficient, able to entail the most advanced capacities of human development in technology, but at the same time it produces poverty and inequality. These dynamics are different depending on the country and the political context, which can shape the outcome. The question here is to find out if capitalism has different functional capacities, and how the structures of the system can be fashioned in a way which ensures social progress and guarantees the self-determination of citizens.

As shown above, the integration of the EU is not only an instrument for the capitalist owners, moreover the process of integration also showed social and civil increase of rights to some countries outside the centre of Europe, such as in the former soviet countries. Consequently, the crisis of 2010 can be seen as an opportunity to increase the standards of civil and social rights, rather than a race to the bottom process. However, the tendency has been the opposite in the debt countries where economic sovereignty has been undermined.
Mostly because the solution proposed by the status quo to avoid electoral accountability, as it has been mentioned in the former chapter, was governance by experts. For instance, the MoU between the EC and Greece (European Commission 2015). In this agreement, the rule of the experts is presented as the optimal solution to avoid interference from the self-determination of the sovereign citizens, hence a consensus is created to find market oriented justice policies, fundamentally implemented by non-accountable actors.
6. CHAPTER VI: General Conclusion

Generally speaking, the financial crisis of 2008 and the Euro crisis of 2010 have been fundamental for understanding the dilemmas of the actual EMU. Some of the elements of this study show the inherent problems of neoliberal theory regarding legitimacy, democracy and sovereignty. These dilemmas are rooted in their epistemological understanding of the relation between government and economy. Hence, the relation between market and policy evolved from a more embedded economy in the aftermath of WWII, to a market oriented economy with economic regulatory government to rule the private economic relations. This evolution of the hegemonic understanding of the economy shaped different IO, among them the EU is the best example of this change. As a result, any possible development of the actual political framework could be determined by the hegemonic discourse. Thus, the EU can be described as an unbalanced political construction where market policies and legislation are centralized and electoral accountability and positive integration are not (Scharpf 2014a). The question is, if this asymmetric solution for EMU after the crisis is sustainable.

So far, this has been possible due to the mutual trust among the member states, where the use of sanctions from the EU were limited, and each country has sovereign control over its budgets. However, the austerity policies changed such capacities and limited states’ sovereignty, and this has not been compensated with more governance by the people in Europe. In fact, there are inherent problems if the EU becomes more supranational and integrates social politics and increase the direct accountability. Especially due to the fact that the non Pareto-efficient solutions can be problematic with the sovereign self-determination of the states, and can undermine the indirect legitimacy of the EU (Gustavsson 2013:130). As a result, enhancing the capacity of citizens for direct accountability in the EU, paradoxically can undermine national state sovereignty and ultimately legitimacy. Hence, the asymmetrical structure of the actual EU is not the worst case scenario. Under these circumstances, the neoliberal approach claims that this is the only possible solution to create a credible structure in the economic governance of the
Eurozone, because the lack of predictability in the EU can be more problematic (Scharpf 2014a).

This implies that only non-political solutions presented as being objectively beneficial for all member states can pass the vertical legitimization, because majority rule at the EU level is difficult to accept. Since there is no political community strong enough to accept the rule of the majority, no majoritarian governance seems to be a reasonable solution. However, one of the perils of increasing supranational powers, mostly if based on non-direct accountability with a neoliberal agenda, is the increase of right-wing nationalist extremism, due to the fear of the loss of sovereignty. As we can see with Front National in France, UKIP in UK or AFD in Germany, the discourse is based on a demand for competences to be returned back to the member states.

Complementary to the tendency to increase the rule of the non-elected, the TINA economic policies applied after the crisis show a dangerous lack of adaptability to the reality. Particularly, this determinist approach of one-size fits all ignores any possible debate in the horizontal level and undermines the sovereignty of the members to enhance different policies. Hence, it is essential to create elements of debate within the EU to enhance the legitimacy. But, how is it possible to build a credible opposition to EMU policies, if the shape of the institutions and the objectives of the policies are based on the supremacy of the market over the policy?

This is one of the main problems, since there is no room for alternative visions of the actual market driven policies. Under these circumstances, at the vertical level the opposition to the EU is not legitimated by the mechanism of the system, and the Euro project portrayed itself as the only possible solution (Cramme et al. 2014). On the contrary, at the national level, the opposition of the economic policies of the government is seen as legitimate and there are constitutional mechanisms to ensure them. Meanwhile, the economic agenda of the EU does not have a real debate of opposition, and any opposition in the EU has been nominated as anti-European (Gustavsson 2013:132). Moreover, it is difficult to drive the opposition to determinate elements, because the EU does not have a real debate arena to
search for alternatives. The EP does not have a real capacity to drive the opposition and it is quite unlikely to transform the EU into a deliberative democracy. As a result, any possible alternatives have a difficult path in the EU, due to its constitutional framework. Moreover, constitutional reform cannot retake from scratch and demand unanimity for all member states. What is more, if some constitutional change must be done in the EU, it has to evolve from the existing treaties. Using a metaphor, we can see that it is easier to fix a ship before it has left the dock, than in the middle of the sea.

As can be expected, one of the main weaknesses of EMU policies’ legitimacy after the crisis is the straitjacket element to the economic policies of the members. Because there is no room for very different policies. For instance, the government of Mitterrand in the 1980’s had to abandon the Keynesian policy due to the economic straitjacket of the CEE, which imposed market oriented policies (Gustavsson 2010). Nowadays, interdependence among the member state, makes it even more difficult for there to be any different economic policy.

On the other hand, the status quo position (Majone 2005) claims that the EU must mainly base its governance on output legitimacy, rather than the majority rule, due to the lack of capacity of normal citizens to understand the long term benefits of the actual structure. So, the limitation of accountability in the vertical dimension is a necessary feature to ensure the existence of the EU (Gustavsson 2013:135). To put it another way, citizens are too “dumb” to understand the economy, so it is better the government for the people, but not by the people. Obviously this a caricature, however the reactions from the EC and other politicians in Europe after the call of Greek Bailout referendum, calling the Greek government irresponsible for letting the citizens decide, shows a willingness to ignore any public debate regarding the economic policies.

Consequently, the problem is who determines the public good and how citizens can influence the agenda to determine the public good. The actual agenda of the EU seems to defend the public good as the logical outcome of the free market. However, is this approach right about the inherent efficiency of the markets with minimum economic rules? The
solution presented from the neoliberal perspective to return to economic growth is: freeing
the capitalist economy from the embedded power of the bureaucratic-political and
corporatist interferences to the market (Streeck 2014a:27). Yet the financial crisis of 2008,
and its consequences on the EU questioned the infallibility of the market. This proved that
the possibility for self-determination of the people must prevail against such determinism
if the legitimacy of the system is for a long-term.

Although this may be true, as I mentioned in the fourth chapter, EMU can be understood
using different theoretical approaches depending on the factors used to explain the
integration in the EU. Still, cannot be underestimated the importance of the ideological
biases into this functional approach to the economic integration. These biases can be
divided in two general categories. Firstly, the static understanding of the social relations,
where the political construction is the element of distortion for the natural distribution of
the market. Secondly, the conception of end of history in economic governance, where the
primacy of the market over politics is seen as the only possible option for democratic
societies.

The lack of alternatives to the actual project of EMU has its roots in the inherent dilemmas
of the EU regarding legitimacy, identity and sovereignty. So, the negative outcomes of the
Euro cannot be separated from the inherent problems of EU integration. Thus, the lack of a
federal framework in EU policy limits the range of accountability in the governance of EMU.
For this reason, mainly in the medium-term, it can undermine some of the positive outcome
of economic integration during the period 1999-2007. Mostly, because the positive
economic outcomes are not fairly distributed.

On the other hand, and opposite to the determinist point of view of the status quo, Critical
theory does not offer a big range of alternatives to the actual framework of EMU. As a
matter of fact, this approach shows a lack of coherence in discourse beyond the concrete
critique to the status quo. From this perspective, social science must have a dynamic
approach to the social phenomena in order to overcome social injustice. But then again,
political actors in the EU have a big range of heterogeneity which makes it difficult for there
to be a more inclusive and democratic system of governance. Problems such as the lack of a strong European identity or the big economic divergences among the members, increases the level of difficulty to pursue democratic control over the economy. This heterogeneity can endanger the consensus on the European project, and transform the institution in a non-functional organization if the non-majoritarian institutions such as the ECB or the EC, are not able to enhance their levels of legitimacy without undermining the sovereignty power of the members. A priori this seems more difficult than to square the circle.

To summarize, with the actual EU framework the political function seems impossible to function in the long term. As we could see, the status quo does not want to make any deep changes because it is afraid of the collapse of the system in the short-term. However, as this study concludes, the sustainability of the EU, due to the increasing inequalities and the challenges of legitimacy and national sovereignty, is in doubt. Using the two dimensional analysis of Gustavsson (2013), the main challenges for EU can be divided into vertical and horizontal dimensions. It seems that these elements are almost contingent on one to another, and do not allow new forms of governance. This can be true, because their constituency ideas are territorially limited, in other words right-left and state-EU debates have geographical limitations. I propose to evolve from this deadlock and delegate governance capacities to non-territorially fixed institutions of governance based on deliberative democracy. So, if you do not like the game, better change the rules.

Therefore, a possible solution to increase the level of legitimacy and at the same time not to undermine the capacity of self-determination of citizens could be the creation of an intermediate regional organization with deliberative and accountable power to articulate the vertical and horizontal tensions in the EU, but from another dimension. Neither on a national, or European level. However, this kind of European senate with mainly economic accountability capacity, must not be based on any national unit, but in a federal self-determined level, and with the possibility to articulate different regional members for a determinate period of time, for example 10-15 years.
The territorial division of the political unit must be based mainly on electoral competition grounded on regional electoral programs by federal-level parties, so that citizens can exercise their self-determination capacities on a federal level and enhance regional sovereignty powers. This element, in junction with a strengthened EP capable of articulating the horizontal right-left tensions would increase the capacities of the EU governance. As a result, these two elements of citizen empowerment would demand stronger political participation of the citizens, which if it is accomplished would lead to the reinforcement of EU legitimacy and as a side effect to a stronger European identity.
Bibliography


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