Mathis Heinrich: The Political Economy of the Eurozone Crisis and the non desirable Future of the European Project

At the heart of the Eurozone crisis lays the divergent development of national economic performances and current account imbalances within the EU. Thus, the crisis is deeply rooted in the European integration process itself and certainly has a longer history, too. With the breakdown of the international monetary and financial system of fixed exchange rates and nationally orientated (Keynesian) policies in the 1970s, the so-called Dollar Wall Street Regime (DWSR) emerged—a global system dominated by the dollar as the world currency and the Wall Street (with its outliers) as the leading global financial market (Gowan 1999). Carried by a strong market-liberal consensus of economic and political elites, barriers to the flow of goods, capital, and labor have been continuously removed, putting the attraction of global capital and its investment as primer policy aims of national and regional economies. In this environment of expanding and liberal global markets, export-driven and finance-dominated (credit-based) accumulation strategies emerged as the dominant ways to generate economic growth (Stockhammer 2009).

European economic integration has to be seen in this global context. It was and is primarily focused on restructuring the European economy in line with the DWSR. Consequently, existing national economic regimes within the EU transformed along the lines of globally dominant growth regimes. Moreover, gaps in economic performance and competitiveness between deficit and surplus countries have intensified within the EMU, not least because members could not adjust macroeconomic imbalances via national exchange rates, tariffs, or nontariff barriers. Thanks to competitive deregulation, surplus countries continuously increased their intra-European exports, however, to the detriment of the price competitiveness of products from remaining EU countries, which could not keep up their productivity through a “race to the bottom” of wages, labor, and social-welfare regulations. Instead, those countries needed to push internal demand, and to boost private and household debt through dependent external financialization (Becker 2011). As a result, deficit countries with high levels of domestic demand, financialized debt, and weak industries needed huge amounts of foreign credits, portfolio, or direct investments to sustain their economies while banks and multinational companies from EU surplus countries expanded lending, respectively, direct investments, into the EU periphery (Lapavitsas et al. 2012). When European interbank lending froze and financial institutions suffered liquidity shortages in 2008, capital inflows into Greece, Ireland, Portugal, and Spain broke down as well, after financial account surpluses had grown for the past twelve years – dumping those deficit countries into a deep recession and crisis of refinancing public and private debt. However, the general liquidity squeeze of these economies also threatens surplus countries via transnational capital and trade relations and puts the credibility of the entire EMU at stake.

The global and EU-specific restructuring processes of financialization and deflationary competition empowered those economic actors upon which European international export- and financial-market–based accumulations strategies mainly rely. Moreover, the subsequent liberalization and expansion of European markets intensified the regional cohesion of European capital and led to a constant increase in the strategic importance of multinational companies, export industries, as well transnationally oriented institutional investors and banks within European state formations and supranational institutions (Holman and van der Pijl 2003). Consequently, the emergence of those actors as the transnational productive base and as external creditors and investors in the European economy also empowered the dominance of surplus and finance-oriented countries of the European center in the EU. Politically, this strategic selectivity is not only expressed in a strong Franco-German leadership but also in the privileged access and interest reflection of transnational business and financial conglomerates in European decision making and institutions (Van Apeldoorn 2002)—a bias, which can be also seen in the EU's reactions to the Eurozone crisis.

In the 1980s and 1990s a national oriented mercantilist strategy, primarily pushed by German and French conglomerates lay at the heart of European economic integration, while, with an increasing grip of financial capital in the European economy, financial (market) expansion guided the European project throughout the turn of the millennium. In this vein, EMU fostered the divergence among European member states, as dependent debt-driven financialisation and (weak) industrial performativity, especially in the European periphery, integrally supported financial and mercantilist growth regimes in the centre. As this divergence mutated in the Eurozone crisis, it also seems to open up the opportunity for internationally competitive European capital to push for a more prominent (authoritarian) role of the European political level to enforce further market-based convergence of a European industrial complex in order to promote its external position in global competition. The changes imposed by the 'Euro-Plus-Pact' and the 'Fiscal Compact' enforce a far-reaching critical juncture in the European institutional policy frameworks, as they do not only strengthen competition and austerity measures, but also stretch the legal competence of European institutions, especially the Commission and the ECB into formerly pure sovereign national areas of budgetary, macroeconomic and fiscal policies (Klatzer/Schlager 2011).

This *transnational* global competitiveness strategy aims to generalize the (formerly national) strategy of competitive disinflation and deregulation of EU surplus countries over the entire Union by sustainably enforcing disciplinary policies, also and especially in the European periphery. This does not only open up the possibility for European manufacturing capital to exploit cheap labour all over the Union furthermore, but gives them the chance to buy up strategic parts of peripheral economies as continuing undercapitalisation of companies, as well advanced privatisation programmes foster a persistent internal devaluation (Overbeek 2012). Hence, the crisis builds an opportunity for transnational European capital to successively increase their external European exports by fostering the value exploitation of the

European periphery. Although EU internal exports with a value of €2.71 trillion are still the most important factor in European trade, the total value of EU external exports increased by three times between 1999 and 2011 and count for €1.59 trillion today (Eurostats 2012). Export-oriented industries seem to restructure their accumulation strategies towards an expansion to emerging international markets (especially BRIC), while exports to the European periphery are losing importance. Accordingly, in 2007, a sharp increase in exports to the BRIC countries outweighs export to Portugal, Spain, Ireland and Greece for the first time.

However, the history of EU enlargement to Eastern Europe has shown that a dependent commodification of peripherial economies by accumulation of dispossession and strict austerity measures exacerbates social inequality and does nothing to promote growth. EU deficit countries will not be able to break out the vicious debt circle of low economic performance, deflation and decreasing creditworthiness in the current conjuncture, while further state rescue mechanisms and payments are inevitable until a debt brake of some kind is unavoidable. Nevertheless, European short term state rescue measures ensure that the public debt of the periphery will be held by public lenders (such as the EU or the ECB) when this point is reached, and does harm any private European bank. Consequently, EU authoritarian reforms in reaction to the Eurozone crisis reveal the class character of European policies yet again. So far, the costs of the crisis have been dumped on the population of the European periphery, wage-earning and precariously-employed workers, as well on recipients of welfare and social benefits in the EU and elsewhere.

As a consequence, the EU is not only facing an economic and social, but deepening crisis of legitimacy today (Deppe 2011). Since the erosion of the permissive consensus in the 1990s, through which the process of European integration got embedded into European societies by (the aim of) economic success and stability, European integration persists in a "post-Maastricht crisis", characterised by an increasing lack of political leadership and a decreasing legitimacy of the European project, not least due to continuing economic failure and stagnation. The Eurozone crisis deepens these processes, as can be seen in political factionalism between member states and deepening economic and social problems - this time even resulting from EU economic integration itself, and not only from its inability to solve recessives downturns. On the one hand, the crisis of the EU does lead to an increase in political protests and strikes all over Europe, questioning persisting policies of social injustice, but also the existing forms of domination and power in Europe. On the other hand, however, political elites do not have a (positive) political vision for Europe anymore, rather seeing the only chance to hold the European power bloc together by an elitist and failed neoliberal economic consensus in shifting decision-making powers in central policy fields from sovereign states to non-legitimised, non-elected EU bureaucrats and politicians by undemocratic means.

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