European Integration in Crisis: the Centre-Periphery Divide[1]

Joachim Becker and Johannes Jäger

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Abstract

The present crisis in Europe affects national economies in different ways. The whole pattern of European integration is in crisis and important institutional transformations are observed. It is proposed to apply a theoretical framework which allows focusing on the specific linkages between (national) regimes of accumulation in combination with a systematic analysis of institutions at different spatial levels. This is provided by a modified and expanded regulation approach which we use as framework for our paper. Based on this, we provide an empirical overview of the different regimes of accumulation and their interaction to explain the crisis and its dynamics. The centre-periphery divide has become a central feature of the crisis. In the present phase, EU policies focus on the peripheral countries of the Eurozone and impose neo-liberal austerity policies on the periphery. These policies radicalize neo-liberal policy patterns, exacerbate already existing structural problems and foster disintegrative tendencies.

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1. Introduction

The crisis has shown the ruptures between centre and periphery in the Eurozone. This questions the continuity of the present institutional configuration of the Eurozone and the prevailing form of European Integration. Since the 1980s Europe has experienced very low growth rates in historical terms and compared to more recent developments in other world regions. Moreover, Europe was hit particularly hard by the crisis of 2008/09 and has not reached the pre-crisis level with regard to economic activity yet. International institutions such as the IMF or the OECD are drawing a rather pessimistic picture of the future economic development in Europe. It is obvious that supply-side oriented policies aiming at directly increasing the efficiency of firms provide very limited results under such circumstances. Moreover, traditional macroeconomic measures based on traditional theories to deal with weak economic development turn out to be not very effective. The crisis of Europe in general and the Eurozone in particular is frequently framed as a crisis caused by different forms of imbalances and public debts. This Keynesian view overlooks the deeper contradictions of the European economy and integration in Europe. In order to provide a systematic analysis of the Eurozone in crisis we use a particular theory in the political economy tradition: the regulation approach. To adequately address the specific dynamics characterized by economic integration, we modify and expand the approach and integrate theoretical perspectives. Firstly, we provide a more detailed framework for the distinction of different regimes of accumulation and their interaction. Secondly, we specify the territoriality of regulation in order to obtain a framework for the analysis of European integration within a changing global economy. This should allow for analysing the underlying transformation and the partial spatial shift of institutional forms, resp. the changing territoriality of regulation, which took place in the process of European integration and which is crucial to understand the dynamics of the present crisis. The modified approach enables us to analyse different forms of economic developments and the institutional dynamics and political processes linked to them at different spatial levels. It includes an expansion of the theoretical perspective by the concept of politics of scale. This stands in sharp contrast to traditional Keynesian or neoclassical approaches and also intends to go beyond common political economy approaches.

2. The theoretical background

Regarding the analysis of the dynamics of accumulation according to regulation theory, three different axes of regulation can be distinguished: Productive/financialized accumulation, extensive/intensive accumulation, and introverted/extraverted accumulation (Becker 2002: 67ff.). It is essential to distinguish between productive and financialized accumulation. In case of a dominant productive accumulation, productive sectors of the economy are at the core of its dynamics. This means that investment is concentrated in this sector. In a dominant financialized economy financial assets are at the centre of the economy. Within financialized accumulation two main forms can be distinguished: Firstly, accumulation of "fictitious capital" as it was called by Marx (1979: 487ff., 510), i.e. different types of securities, and secondly, it includes different types of interest bearing capital such as credits (Becker et al. 2010: 228 ff.). Fictitious assets become important in case of stagnating productive accumulation because insecurity increases and supposedly more liquid assets are preferred. In case that financialization is based on interest-bearing capital, the expansion of credit and differences between active and passive interest rates, the spread, are important. This second type of financialization is prevalent in the (semi)-periphery (Becker et al. 2010, Güngen 2011: 104). A high spread allows financial institutions to appropriate a substantial part of the surplus value. In addition, according to its social reach, we distinguish between elite-based and mass-based financialization (Erturk et al. 2008: 15ff., Becker et al. 2010: 230ff.). While in the past the bourgeoisie and the upper middle classes were related via securities to processes of financialization, larger parts of population have become –often involuntarily– part of these processes for the past few decades. A key-promoter was the commercialization of old-age security via the implantation of capital based schemes (cf. Lordon 2000). Another reason was the expansion of credit for workers to finance consumption and real estate purchase. This distinction of different forms of financialization provides additional insights to analyse accumulation and crisis (cf. Becker et al. 2010).

Extensive and intensive accumulation can be distinguished in the case of productive accumulation. Extensive accumulation is characterized by an extension of the working day or an increase in the intensity of work. Intensive accumulation refers to the increase of relative surplus value by cheapening wage-goods (Becker 2002: 67f.). When differentiating between introversion and extraversion it makes sense to distinguish different types of capital (productive capital, money capital, commercial capital) because the orientation towards the internal or the external market is not necessarily identical among the different types of capital. In case a strong outward-orientation is based on export, this can be called active extraversion. Conversely, the case of strong import-dependence is called passive extraversion (Becker 2006

14f.). Such a pattern was a common attribute of dominated or peripheral economies in the past (Beaud 1987: 76ff.). Mixtures are also possible, e.g. the combination of considerable import of money capital and exports of productive capital. Based on the distinction of different axes of accumulation, the interaction of different national regimes of accumulation, i.e. the division of labour, can be analysed. It is the analysis of this specific interaction of regimes of accumulation that helps to analyse the contradictions that led to crisis (Becker/Jäger 2010).

Beyond its focus on the characteristics of the process of accumulation, regulation theory looks at structural forms that deal with the structural contradictions of capitalist societies. The concrete form of structural forms differs in space and time. Different approaches in regulation theory conceptualize different institutional or structural forms respectively. We suggest focusing on four basic structural forms: the wage relation, the monetary restriction, the form of competition and the ecological restriction. Although we specify regimes of accumulation by and large at national level, and the substantial differences between national regimes of accumulation indicate that there is a lot of reason to do so, the analysis of regulation cannot be linked exclusively to national level (cf. Becker 2002). This holds particularly true for the case of European integration, where many structural forms are regulated already to an important extent at European level. To understand the crisis of the EU and the Eurozone and the responses to the crisis it is necessary to analyse the content of structural forms, their interaction and territoriality together with the regimes of accumulation.

3. The Euro and the structure of European integration

European integration has been based on a neo-liberal framework since the mid-1980ies (Cafruny/Ryner 2007, Apeldoorn et al. 2009). This implied that structural forms have been modified, rule-based policy-making and the introduction respectively the strengthening of so-called independent regulatory authorities have been key features of this re-regulation. The modification was expressed by “flexibilization” of the labour markets, monetarist monetary policy, financial market liberalization, free movement for capital across Europe and an institutional framework that guaranteed a privileged market access to ecological resources from all over the world. This changing content of regulation went hand in hand with a substantial shift of the territoriality of regulation to the European level. The structural background for this process was the crisis of Fordism and the breaking down of the Bretton Woods System, which implied a transformation of the structure of Global Finance in favour of the USA, called “Dollar-Wall Street Regime” by Peter Gowan (1999). Against the background of the concept of politics of scale, the shift in regulation to other territorial levels such as the EU can, at least in part, be understood as an outcome of class struggle (c.f. Gough 2004).

The introduction of the Euro was very much favoured by the dominant strand in neo-liberal thinking. It was expected that a hard currency and the Maastricht criteria would contribute to discipline inflationary spending and labour. Labour was commensurate with a single currency and put into sharper competition. This facilitated the implementation of neo-liberal policies at national level (Gough 2004: 198f.). From a German perspective the overall goal of the introduction of the monetary union was to prevent peripheral European countries from devaluation (cf. Bellofiore et al. 2010: 141). With the implementation of the Euro, a shift in the content and territoriality of the monetary restriction took place. This shift notwithstanding, important parts of European labour supported the introduction of the Euro. It was argued that this could protect the European economies against speculative attacks within the Dollar-Wall Street Regime and hence provide a stable framework for economic growth. The expectations regarding higher growth and a higher degree of stability were not fulfilled. Even before the crisis, the Eurozone was characterized by very low growth rates compared to the rest of the world (Cafruny/Ryner 2007). Now the crisis in the Eurozone is deeper than in other world regions and a solid recovery of the economy is not at the horizon yet. (Eurostat/IMF).

The Euro had contributed to the unfolding of specific economic dynamics and patterns of interaction among different regimes of accumulation between its introduction and the beginning of the crisis. It supported neo-mercantilist accumulation strategies in Germany, the core country of the Eurozone and in other countries directly linked to this model (e.g. Austria, the Netherlands etc.) and enabled different forms of financialized accumulation strategies in the periphery of the Eurozone such as in Ireland, Spain, and Greece. On the surface, this was based on a supposed stability and low interest rates. Capital inflows led to substantial current account deficits in the periphery and money capital flowed from the core countries of the monetary union which were characterized by regimes of accumulation rather based on active extraversion and productive accumulation to the periphery. The neo-mercantilist export regimes benefited from the fact that countries of the periphery of the Eurozone had no monetary policy instruments available to protect their productive sectors and to avoid the accumulation of (external) debts – either private or public. In 2000, when the Euro was introduced, the German current account was balanced, but afterwards steadily increased to reach a surplus of 7.7% of GDP in 2007 (Hein/Truger 2007: 21, Ederer 2010: 590). German exports –to an important extent based on capital goods– were stimulated by a substantial modification of the wage relation which included the implementation of a low-wage sector and the reduction of unemployment benefits under the banner of Harz IV (cf. Hein/Truger 2007). "Competitive disinflation and social regression" went hand in hand (Lechevalier 2011a: 47). As Lechevalier (2011a: 47) points out, the low wage sector is meanwhile as in important in Germany as in the USA. Mass-based financialization was of minor importance for the case of Germany, although the so-called Riester pension represented an important step towards partial financialization. Private household debt did not change significantly between 1995 and 2005 (Stockhammer 2009: 22, tab. 1). Notwithstanding, the German economy was characterised by some elite-based dynamics of financialization. Banks increasingly de-linked from industry and re-oriented their activities to financial markets abroad. This transformation was fostered systematically by a specific re-regulation of the financial sector in Germany (Sablowski 2008: 145ff.). Austria and the Benelux-countries have been closely related to the German productive system. All these countries showed neo-corporatist elements in their wage relation what facilitated a restrictive incomes policy. The north-east of Italy formed part of the German-centred productive system as well (Mazzocchi 2010: 261). Parts of the Italian economy were rather export-oriented. Nonetheless, economic development in Italy was characterized by low productivity increases, very low economic growth and partial downgrading in the international division of labour (Barucci/Pierobon 2010: 34 ff.). Financialization was rather weak and the banking industry followed a conservative model. Two small export-oriented Central East-European economies with strong links to the German manufacturing industry, Slovenia and Slovakia, joined the Eurozone in 2007 and 2009 respectively. In Slovenia, the entry into the Eurozone accelerated the emergence of a debt-financed real estate bubble (cf. Urbinati 2010: 331). In Slovakia, this tendency was not so strong though existing as well, especially in Bratislava. The exchange rate of the Slovak koruna was revaluated shortly before the introduction of the euro what reflected the interests of the foreign banks and the desire of the Slovak government to keep the rate of inflation low rather than the interests of weaker local manufacturing companies (cf. Becker 2008: 5, Becker 2010: 521).

Other countries within the Eurozone were characterizd by financialization and were therefore linked differently to the German regime of accumulation. Among them, France showed a less outward-oriented regime of accumulation and relatively low degree of mass-based financialization compared to the southern periphery of the Eurozone. Becoming an EU member country had already led to periods of partial de-industrialization in peripheral countries such as Spain, Portugal and Greece: Joining the Eurozone consolidated the weakness of the productive sectors. Growth in Portugal was rather week but Spain experienced a credit-based real-estate boom that turned out to be one of the key components of economic growth (Rosell Trigo 2010: 13). In a similar way, private debt increased heavily in Greece, although starting from a much lower level. The increase in government spending (and debt) also contributed to growth (Stathakis 2010: 111ff.). These were clear signs of mass-based financialization, In Spain, banks were more careful in taking risk, which to an important extent can be explained by more restrictive banking supervision in Spain. Financialized accumulation ended up with high current account deficits in the case of Spain (9.5% of GDP in 2007) and Portugal (10%) and soaring deficits in Greece (14.7%) (EuroMemo Group 2010: 11, tab. 4, Ederer 2010: 590). This worsening of the current account in the periphery of the Eurozone was reflected by the German current account surpluses and the corresponding growth of financial claims.

A number of financialised East European economies – both inside and outside the EU – have been closely linked to the Eurozone through processes of informal euroization. In the Baltic and Southeast European states as well as in Hungary, a huge part of private credits (between 50% and 80%) were denominated in euro before the crisis (Becker 2007: 244 ff, Becker 2010: 524). This high degree of euroization implied strong links to the Euro zone. Any depreciation or devaluation implied a revaluation of the foreign exchange debts. Thus, the indebted middle strata were tied to the prevailing exchange rate policy. The informal euroization served as a strong informal impediment to devaluation. In several countries, esp. the Baltic states and Bulgaria, rigid formal exchange rate arrangements, including currency boards, were adopted whereas monetary policies favoured an appreciation of the currency in Hungary and Romania (Becker 2007). The monetary regime favoured huge capital inflows. These inflows were not used to finance productive undertakings to a significant extent. They fuelled real estate booms and consumption. GDP growth was based on rapid credit growth. Weak manufacturing structures and overvalued currencies resulted in enormous deficits of the trade balance and the current account. In most countries, the current account deficits surpassed 10% of the GDP in the pre-crisis years, in Latvia and Bulgaria even the threshold of 20% (Becker 2010: 524). External debt soared rapidly. Banks from smaller West European countries, esp. Austria, and Sweden, had acquired significant shares in the East European banking market and were major creditors of the region (Maechler/Ong 2009).

3.1 The Crisis in Europe

The present crisis brought the rift between centre and periphery in the Eurozone into the open. The increasing polarisation between export-orientated core countries and the import-dependent periphery had existed before, but was generally not perceived because financial flows permitted to cover the current account deficits. The importance of the specific configuration of the monetary constraint at European level allowing for such cross-country financial flows and increasing imbalances is important, as any currency-risk in the Eurozone was supposed to be practically non-existent before the crisis.

In the peripheral EU countries outside the Eurozone, the currency risk tended to be negelected as well in the pre-crisis years. However, this changed immediately after the global crisis had gained momentum in September 2008. The peripheral European countries outside the Eurozone were hit by the drying up of capital inflows already in autumn 2008 and, thus, much earlier than the peripheral Eurozone member states. In Hungary and Romania, the currencies suffered from considerable depreciations in autumn 2008. Debtors and banks came under severe pressure. In Latvia and other countries with rigid exchange rate regimes, the prevailing exchange rate was increasingly doubted. The governments – partly within the realm of IMF/EU arrangements, partly on their own initiative, the governments adopted extremely tight austerity policies (Becker 2010: 531 ff). This resulted in deep and sustained declines of the GDP. Latvia has been worst affected with declines in three consecutive years (so far): -4.2% in 2008, - 18.0% in 2009 and -0.4% in 2010. In the other Baltic states, the performance was not much better: In Estonia, the GDP declined by 5.1% in 2008 and by 13.9% in 2009, in Lithuania, the GDP fell by 14.7% in 2009. Romania suffered from GDP declines both in 2009 (-7.1%) and 2010 (-1.9%). Hungary fared only slightly better (Eurostat 2011). These dependent financialised models of accumulation collapsed. The peripheral financialised economies outside the Eurozone proved to be the most vulnerable part of the European periphery. The mainly export-orientated countries with a relatively low foreign exchange private debt fared better. They could profit from the depreciation of their currencies. This applied mainly to Poland and the Czech Republic, whose economies were less affected by the crisis than their neighbours (Workie et al. 2009: 96, 101).

The Southern European Eurozone member countries were not immediately strongly affected by a shortage of capital inflows. Likewise, the impact of declining exports on their economic performance was less pronounced than in the more export-orientated countries. It was at the beginning of 2010, when Southern European Countries were severely affected via the credit channel. Starting with Greece, the Mediterranean countries got under increasing pressure from financial capital. Greece was particularly vulnerable due to high levels of public debt and the manipulation of official deficit figures. This was taken as a starting point for a degradation of the rating and increasing spreads. Interestingly, the Southern European countries were not homogeneous regarding their deficit data. In relative terms, Spanish public debt was considerably below the average. Increasing public deficits were the effect but not the cause of the economic crisis. All three economies, Portugal, Spain and Greece, had in common structural trade deficits, current account deficits and low taxes of around 20% as a share of GDP (Švihlíková 2010: 99f.). This made them structurally dependent on capital inflows and vulnerable to speculative attacks. The social democratic governments of these countries were confronted with increasing credit costs and strong pressure by banks, by the European Commission, and by governments of the core of the European Union to implement austerity policies. As expected, this led to a reduction in internal demand and a deepening recession. According Eurostat (2011), Greece faced, with a negative growth rate of 4.2%, the strongest economic decline in Europe in 2010. The Spanish GDP declined both in 2009 and 2010 as well.

Neo-mercantilist countries, above all Germany, were strongly affected by the breakdown of exports when the crisis started. This indirectly affected those countries dependent (via exports) on the German economy (Mazzocchi 2010: 261ff.). Neo-mercantilist economies showed signs of recovery already in the second half of 2009. In the case of Germany increasing exports to China were important (w.a. 2010: 11). However, German exports to Europe should not be underestimated. The share of the EU-27 declined slightly from 64.1% to 60.3% between 1995 and 2010. The geographical composition of these exports underwent significant changes. The share of the East European countries increased from 6% to11% of total exports whereas the share of the old EU-15 declined to 48% (Goldberg 2011: 25). Due to the austerity policies in the European periphery but also in the UK, a deepening of the crisis in those countries is to be expected (OFCE 2010: 5). This will have implications for accumulation strategies in neo-mercantilist countries. It seems unlikely that the minor share of extra-EU exports alone will provide a basis for a sustainable development of the German economy.

The national configurations of the wage relation in combination with the Europeanized monetary relation provided a basis for an asymmetric interaction of two types of regimes of accumulation in the core and the periphery of Europe. The crisis demonstrated that the limits of the regimes of accumulation based on a specific interaction of different regimes of accumulation and supported by a specific territoriality of structural forms were reached. On the surface, accumulation does not seem to be viable any longer due to excess indebtedness in the periphery. This implies that the financialized regimes of accumulation characterized by passive outward-orientation and the neo-mercantilist models linked to them have reached their limits. Primarily export-oriented regimes of accumulation are clearly affected by the structural crisis of the highly financialised economies. Financialisation postponed problems of over-accumulation only temporarily (Becker/Jäger 2010). The responses to this structural crisis are analysed in the following section.

3.2 Responses to the crisis

The financial sector was at the core of anti-crisis policies in the EU. At the beginning of the crisis, the responses consisted mainly of huge national rescue measures that were directed towards the country's own financial sector. It was very exclusive circles, consisting of high representatives of the central banks, the ministries of finance and major banks that took the decisions on the rescue packages for the banks within an extremely short time. These packages included rather mild conditions and showed some diversity among countries (Weber/Schmitz 2010). The problem of inflated financial assets and structural over-indebtedness of a part of the banking sector and private debtors was not tackled. The appearance of normal activity was sustained but the financing of productive activities came under pressure (Toporowski 2010a: 31). The re-regulation of the financial sector was restricted to minor changes. By and large, the status quo remained unchanged (Redak/Weber 2010, Troost 2011). According to the EuroMemo Group (2010: 26), European financial reforms even lack behind the reforms in the USA. The ECB changed its monetary policy, copying the transformation in US policy in parts and with a considerable time-lag. By reducing the interest rates and providing liquidity in an unconventional way, it was intended to stabilize the financial sector, to re-inflate financial assets, and hence, to support a failed regime of accumulation. Contrary to this focus on the financial sector, the activation of the productive sector was of secondary importance. Anti-cyclical fiscal policy was politically much more contested than the rescue of the banking sector. The German government opposed a coordinated expansionary fiscal policy. Finally, national fiscal stimulus packages turned out to be much lower compared to the financial rescue packages and guarantees (cf. Europäische Zentralbank 2009: 77, tab. 2; Watt/Nikolova 2009: 12, tab 2).

In the case of Central and Eastern European countries characterized by dependent financialization a modest fiscal stimulus was never proposed by the EU. On the contrary, the expansion of credit to EU member countries that faced troubles was based on a stronger supervision together with the IMF and on the forced implementation of extreme austerity policies. The main aim of the European Commission and Western European governments was to sustain the exchange rate. This was in the interest of Western banks active in the region. A devaluation of the currency would have implied a devaluation of their assets and caused severe problems to service debts denominated in foreign currency. For this reason, a so-called "internal devaluation" was proposed. The key-element of this strategy was a very restrictive fiscal policy, cutting wages in the public sector and reducing social spending. Pensions were particularly targeted. It was intended to reduce the demand for imports and improve the current account in order to sustain short term ability to pay. This was partially achieved, although at the cost of aggravated structural economic problems (Becker 2010: 530ff.).

In 2010, these patterns were passed on to the Eurozone periphery. Substantial rescue packages for the whole Eurozone were developed in order to avoid sovereign debt crises. The German government hesitated to support the measures. Against French opposition, Germany obtained the inclusion of the IMF for so-called rescue packages for countries of the Eurozone (Mazzocchi 2010: 282) as it had already been the case in East European EU member states (Hungary, Latvia and Romania). In all the rescue mechanisms, the emphasis on tough austerity policies has been reaffirmed. Programmes for individual countries have been complemented with more permanent emergency mechanisms.

First, an IMF/EU programme was applied to Greece. It was tightened in 2011. Ireland and Portugal followed in 2010 and 2011. In sharp difference to common expectations, the Euro had not prevented severe financial problems. On the contrary, the Euro had deepened the crisis because it made an adequate monetary response to the crisis, e.g. in form of a national devaluation, impossible. Hence, the response took an alternative form by implementing austerity policy. ECB interventions and European guarantees helped to prevent losses for creditors, many of them being major banks located at the core of the Eurozone. The so-called private sector involvement in a second major package for Greece which was passed at the end of July 2011 is a fairly minor one and does not reduce the Greek debt substantially. The immediate debt reduction is estimated to reach 26 bn €, i.e. 12% of the Greek GDP (Becker 2011). Loans are to be prolonged as well. The banks received additional public guarantees. Thus, the immediate refinancing pressures are reduced. The programme does not address the underlying structural problems of the peripheral Greek economy and it does not solve the problem of excess indebtedness. Debt problems have only been postponed it (Becker 2011).

The austerity measures which are contained in the programmes for Greece, Ireland and Portugal particularly focus on wage reductions, public expenditure cuts and on the so-called flexibilisation of the wage relation. In addition, the European Commission and the IMF press for an extended privatisation programme both in Greece and in Portugal (IMF 2010a: 4 ff, IMF 2010b: 24, European Commission 2011, IMF 2011a: 3 ff., IMF 2011b: 47 ff). Thus, the EC/IMF programmes are based on neo-liberal text book economics. They have deepened recession in the countries that applied the programmes so far. Greece faced the deepest GDP decline of all EU countries in 2010 (Eurostat 2011). The prolonged recession clearly affected the budget negatively. As the European Commission (2011: 19) admits, tax revenues remained behind the EC/IMF expectation. The public debt/GDP ratio continued to grow strongly in 2010 (OECD 2010) what is not surprising given weak tax revenues and a falling GDP. These trends continued in 2011. In the first six months, the tax revenue did not rise by 8.5%, as it was officially envisaged, but declined by 8.3% (Her. 2011: 11). Thus, the debt situation has not been improved by the programmes. They even had a negative influence on the debt situation. The European Commission (2011: 10) claims that Greek growth should “primarily driven by external trade” over the medium term. Given the extremely weak manufacturing sector and the total absence of industrial policies, this is at best wishful thinking. In spite of an extremely weak domestic demand and the severe recession, the current account deficits still amounted to 10.6% of the GDP in 2010 (European Commission 2011: 8). The Irish trajectory is different, but not better. In Ireland, the problem is not the current account, but the collapse of the highly financialised regime of accumulation. The banking sector is by and large insolvent and receives enormous capital injection from the Irish state. These injections (including the planned ones) so far amount 45% of Ireland’s annual GDP (Noonan 2011: 14). Due to the nationalisation of the banking sector’s losses, the Irish public debt has increased more rapidly than in any other EU country – in 2010 the public deficit amounted to 32.2% of the GDP (OECD 2010). The adjustment programme for Ireland is clearly not geared to dealing with the real roots of Ireland’s crisis.

In summer 2011, the crisis of the peripheral countries started to spread to Spain and Italy. Due to the visible conflicts in the Italian government and the weakening of Prime Minister, Silvio Berlusconi, pressures increased especially on Italy. The Italian government passed two austerity programmes within weeks. For the second programme, the Italian government was particularly pressurised by the European Central Bank. The outgoing ECB president Jean-Claude Trichet, and the coming ECB president, Mario Draghi, sent a joint letter with detailed demands on budget cuts, privatisation and labour policies (Polidori 2011: 4). After infighting in the government, the Italian government passed a second austerity package with severe budget cuts, changes in the pension system and a weakening of nation-wide collective bargaining agreements on question of hiring and firing (Scalfari 2011, Griseri 2011). In Italy, the structural weakening of the trade unions is a central feature of the austerity package again. According to the trade unionist representative Maurizio Landini (CGIL) proposed changes to the labour legislation violate "constitutional principles" (quoted in Griseri 2011: 10).

In spite of the failures of the programmes, their contents are to be institutionalised throughout the Eurozone. This indicates that the debt crisis is only a pretext for the radicalisation of neo-liberal policies. These policies are mainly targeted at the destruction of the welfare state and at strategically weakening the labour movement. The change of the wage relation is at the very heart of the EC/IMF programmes. In this way, a partial shift of the wage relation to European level has been implemented: While until the crisis the wage relation had been the only structural form still mainly organized at the level of the nation state, this has changed during the crisis. Wage policies, and social spending being part of the wage relation, have become regulated to an important extent at European level for the case of peripheral countries suffering problems in the Eurozone. This seems to become the role model of incomes policies at European level and hence to transform the wage relation. A first step towards a consolidation of this transformation was an agreement on the creation of an emergency aid mechanism for Eurozone countries facing a severe debt crisis that was passed in May 2010 by the Eurozone member countries. It should work until 2012 in cooperation with the IMF. With this, a part of the responsibility of the anti-social austerity policy is supposed to be deflected to the IMF. This implies an abandonment of external autonomy, which shows the global political orientation of the EU. This temporal arrangement will be replaced by a permanent one in 2013. An amendment to the EU Treaty will introduce binding conditionality: "The granting of any financial assistance will be made subject to strict conditionality." (European Council 2011: 21). Voting in the European Support Mechanism will be according to the capital share of the resp. member state (ibid.: 23). A number of initiatives that aim at imposing constraints on the fiscal, wage and social policies are presently on the drawing board. They range from a further tightening of the Stability and Growth Pact to monitoring macroeconomic policies in the framework of an "Excessive Imbalance Procedure" and of the fiscal policies in the realm of a so-called "European Semester". The proposed changes of the

Stability and Growth Pact are particularly important. They include the reduction of public debt levels that are deemed to be excessive and a much more automatic way of imposing sanctions on states that do not comply with the fiscal benchmarks (Council of the European Union 2011: 9). In this way, national parliaments would be disempowered even more in the crucial field of budget policies than it has been the case until now (Klatzer/Schlager 2011: 63 ff).

In a further initiative, the introduction of an economic governance of the Euro Zone – a so-called "Euro Plus Pact" – was drafted. The German government would have liked include openly coercive mechanisms in the pact. This was softened down in the further process to self-commitments of the governments. This pact particularly focuses on restrictive wage policies and intervention into the pension systems (The Euro Plus Pact 2011: 16 ff). The pact aims at lowering the pensions of the public pensions systems. This is a radicalisation of the EU attack on the public pension systems (cf. Lechevalier 2011b on the hitherto policies). Since the privatised pension system has been discredited by the crisis. Thus, the European Commission does not promote the capitalised pension as openly as in the past, but concentrates on wearing down the public pension systems (Lordon 2011).

The hitherto most recent proposal emanated from the German-French summit in August 2011 where the two governments urged for constitutional entrenchment of a ceiling on public deficits modelled on the German "Schuldenbremse" in all Eurozone countries (F.A.Z. 2011: 1). The German "Schuldenbremse" which was adopted as a constitutional amendment in 2009 prescribes a systematic reduction of the "structural deficit" and a balanced deficit over the business cycles. After 2016, the structural deficit might not surpass 0.35% of the GDP. In this way, permanent austerity policies are institutionalised in Germany. Many of the envisaged austerity measures will affect the expenditure side, especially at the level of the Bundesländer. This will dampen domestic demand even more (Eicker-Wolf/Himpele 2011). The rule-based policies of the "Schuldenbremse" dovetail perfectly with German neo-mercantilism and the bias against the welfare state. The "Schuldenbremse" implies a self-disempowerment of the parliament. It would be extremely difficult for more progressive parliamentarian majorities to reverse such a constitutional clause. Neo-liberal fiscal policies become deeply entrenched. Eurozone-wide constitutional limitations on the public debt would dramatically reduce policy spaces. The "Schuldenbremse" does – contrary to the affirmations of Angela Merkel and Nicolas Sarkozy – not with the roots of the crisis.

The European Commission and the governments of the EU member states utilize the crisis as a smokescreen for furthering and radicalising their neoliberal agenda. Rule-based policy making elements are being enhanced. The European governance is given a less and less democratic shape and decision-making is increasingly shielded from public pressures (cf. Klatzer/Schlager 2011). The "strategic selectivity" (Jessop 2002: 40) would be become even more biased in favour of capital. Many of the proposed changes have been promoted particularly by the German government. The new governance mechanisms can be characterised as a "Berlin consensus" (Cassen 2010).

The key-elements of the putative anti-crisis policy and related processes can be summarized as follows:

(i) The policy is mainly focused on the interests of the financial sector. It is intended to maintain the fictitious capital and debts at the cost of repressing the productive sector even further (cf. Toporowski 2010b: 34f., 60f.)

(ii) The dominant policy in the EU leads to a deepening of neo-liberal policy patterns. Policies applied to peripheral countries provide a role model for core countries.

(iii) The Euro has not proven to prevent European countries from crisis but quite on the contrary: It deepens the crisis in the periphery and puts European integration into question. The EU policies do not deal with the underlying tension between centre and periphery in the euro zone, but provide, at best, short-term palliatives. Even limited measures that would soften the pressure on the peripheral countries like euro bonds are highly controversial within the Eurozone and core countries, especially Germany.

(iv) The German government proved to be the dominant power in European crisis management. This is an expression of the dominant position of German capital in the European productive system. An axis Berlin-Paris is replaced by an axis Berlin-London. This signifies an alliance between the dominant capital fraction of neo-mercantilist and the highly financialized regimes of accumulation.

(v) The proposals for enhancing EU economic governance mechanisms follow the logic of neo-liberal rule-based policy making and permanent austerity. They disempower systematically parliaments and shield elite policy-making even more effectively from popular pressures. They have a liberal-authoritarian nature.

(vi) The anti-crisis policy led to a partial shift of the wage relation to the European level. The content of this process is socially regressive.

(vii) A radicalization of the critique of the supportive measures for peripheral countries within the core countries is to be expected.

(viii) The divide between the core and the periphery of the European Union is deepened by the crisis and the measures adopted. Disintegrative processes pushed by neo-mercantilist countries tend to become stronger.

It is highly likely that a deepening of the crisis and increasingly strong disintegrative tendencies will result from these policies.

Even moderate alternative policy designs have been politically marginalised so far. Such designs which display Keynesian inspirations usually include the following elements: Expansionary co-ordinated wage policies are one key element. This would imply substantial real wage increases and raising social expenditures in the core countries of the Eurozone but also in the periphery. In addition, it would be necessary to reduce financial wealth by cutting debts at the cost of creditors and by increasing property taxes. Steps into that direction would require to reduce the power of private financial capital and to build a strong public finance sector. Some Keynesian proposals emphasize the need to restructure production into a more ecologically sustainable way as well. The strengthening of productive structures in the European periphery is hardly on the agenda of Euro-Keynesianists although the weak manufacturing base in the European periphery is one crucial element of the crisis.

A more radical alternative would imply splitting up the Eurozone and the EU from the periphery. An exit from the Eurozone, devaluation and default are not yet on the political agenda of the South European countries though an incipient debate on the left has begun on the subject (Lapavitsas et al. 2010a & b). In the case of a deepening crisis and a failure of the Euro-Keynesian initiatives, such policies might gain importance in the future.

The main thrust of policy-making is clearly non-Keynesian and in line with neo-liberal concepts. Financial capital is still the main driving force of policy-making in the EU. Export capital is relevant in several EU member states, especially Germany, too. The upper middle strata are an important pillar of the dominant social and economic bloc. It is workers, lower middle strata, the unemployed and the pensioners that have bear the brunt of the crisis. So far, public sectors workers have been particularly affected by austerity policies and public sector unions have been at the forefront of resistance against austerity policies. In Spain, the young with a middle class background and bleak economic and social perspective staged mass protests in spring 2011. The patterns and intensity of social protest differ from country to country. The protests are usually confined to the national level. Alternative economic policies can only prevail if the power relations can be modified.

4. Conclusions

For the last three decades, European economic integration has been based on an unfolding division of labour of primarily financialised and primarily export-oriented economies. Most of the financialised economies were dependent on imports of goods and capital whereas core exporting economies, especially Germany, exported goods and provided credits which financed the escalating current account deficits of the last decade. The establishment of the Eurozone cemented uneven economic development trajectories in Europe and facilitated debt-driven growth and the emergence of enormous imbalances in the EU. The crisis of European economies is the expression of a structural crisis of European integration. Traditional economic policy measures to address these contradictions which are expressed by weak economic growth and stagnation fall short to provide a solution to the crisis. The main political forces seek to restore as much as possible of the pre-crisis accumulation models, to radicalise neo-liberal policies and to weaken trade unions and other progressive social forces. The ongoing changes of the EU economic governance aim at entrenching neo-liberal rule-based policy-making mechanisms even more deeply. The existing institutional design makes it extremely difficult even know to push through even moderate versions of Euro-Keynesianism. With the changes envisaged by the European Commission and the core governments, progressive policy changes would become even more difficult. This is a very serious impediment to any progressive economic policy undertaking at the EU level. Therefore, progressive political forces have to strive for blocking the envisaged neo-liberal enhancement of EU governance mechanisms. Demands for a different EU economic agenda clearly have to address the issue of a profound democratisation of the EU as well.

Substantial policy changes having a transformative quality – both in regard to the content of policies and to the way of policy-making – would be necessary to deal with the crisis in a substantial way. At the moment, the social and political forces that might propel such a change are rather weak. Actions against the austerity policies have predominantly a defensive character. They are mostly confined to national level and are often limited to specific sectors like public sector employees. Thus, social protest against austerity suffers from national and social fragmentation. It is stronger in the Southern than in the Eastern periphery of the EU. Co-ordinating social protest and political strategies at the EU level is one of the major challenges to trade unions, social movements and left-wing parties. Neo-liberal forces are much more at ease developing their strategies in a multi-scalar environment than the forces of labour.

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