

THE SOLUTIONS OF EURO ZONE CRISIS – A NEO-GRAMSCIAN CRITIQUE

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Abstract

This paper belongs to the area of critical studies of European Integration and tries to analyse the nature of the European states' response to euro zone crisis, during the negotiation of European Fiscal Pact. The theoretical approach is neo-gramscianism, which is focused on social forces agency in the process of integration and super-structural dimension of European Single Market. Since 1980, the interests of big capital, gathered in the European Round Table, shaped a neo-liberal dimension of the European economy, adapting it to the context of globalisation.

But this neo-liberal project was also able to capture social-democratic, trade union and centrist demands into a neo-liberal European order, called by Bastiaan van Apeldoorn "embedded" neo-liberalism. This European model has also his limits because it puts the interests of capital in front of social policies through the assurance of market efficiency by EU. My purpose here is to see if during nowadays crisis, the European elite will apply the same economic principles of the embedded neo-liberalism trying to envisage rescue plans. To achieve this, I will follow the theoretical approaches of neo-gramscian authors like Apeldoorn, Bohle or Gill and analyse the state negotiations outputs during the European Council meetings.

Keywords: *European Integration, neo-gramscianism, European Fiscal Pact*

Introduction – The limits of classical debate

In the beginning of this article I will try to argue the necessity of a new theoretical approach in the field of integration studies. I am going to do this by showing the limits of the classic and middle-range theories, and how they fail to explain the process of European integration as a whole. The proof could be seen in the evolution of those theories. "When the integration process was going well, as during the 1950s and early 1960s, neo-functionalists and other theorists sought to explain the process whereby European integration proceeded from modest sectorial beginnings to something broader and more ambitious" (Pollack 2010, p. 17). But between 1960s and 1980s, when due the petrol crisis European integration lost its strength, "intergovernmentalists and others sought to explain why integration process had not proceeded as smoothly as its founders had hoped" (Pollack 2010, p. 17).

The main critique of the mainstream theories² is that, because of conceptual design, they are unable to understand the real nature of power in the European Union, and by this I mean that they cannot conceptualize the power relations which are part of capitalist market structures. "In other words, these mainstream theories fail to account for the *structural power* that determines the particular trajectory of European integration" (Apeldoorn, Overbeek and Ryner 2003, p. 17).

Neo-functionalism, with Ernst Haas as the main author, represent the dominant approach in 50's and 60's and state that European integration occurs because of supranational institutions, European bureaucracy and spillover process. The idea is that, once established, the new institutions tend to modify the interests, beliefs and expectations of the socioeconomic national actors which shall unite at supranational level (forming European interests groups) to influence European policies, supporting in this way the continuity of integration process (Apeldoorn, Overbeek and Ryner 2003,

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² The mainstream theories are neo-functionalism, intergovernmentalism and liberal intergovernmentalism.

p. 21). Here is the first critique of neo-functionalism - that it cannot focus on the internal and external power of those groups - and because of this it cannot understand why some groups are more powerful than others in the process of establishing European Agenda (Apeldoorn, Overbeek and Ryner 2003, p. 22). Even if it recognises their existence and importance, this theory is not able to offer many details about the nature of groups. Another problem of the supranationalism in general is that many aspects remain under-theorized. For example, "there is no explanation of where transnational interests come from and why they would be so powerful" (Apeldoorn, Overbeek and Ryner 2003, p. 23), and this is possible because no explanation of how social forces shape socio-economic environment is available.

Intergovernmentalism, represented by Stanley Hoffman, is a European integration theory with the roots in international relation realism. Hereby, state interests are determined by the balance of power from the international anarchic system, while inside it is still a *black box*. The critique here is that "These national policy preferences are, however, not explained, but are taken as given" (Apeldoorn, Overbeek and Ryner 2003, p. 23).

The liberal intergovernmentalism of Andrew Moravcsik opens the state black box, establishing a theory of the national preferences formation. The nature of European integration can vary "depending upon which domestic groups are more successful in setting the agenda in the respective states" (Apeldoorn, Overbeek and Ryner 2003, p. 24-25). However, Moravcsik analyse does not go beyond the weaknesses and power of what he calls *production groups*, although it is obvious that they are favoured in front of consumers, tax payers or third world producers. In other words, "there is no interest in the structural inequalities that are constitutive of the balance of social forces and how these forces change over time" (Apeldoorn, Overbeek and Ryner 2003, p. 25). Theory is bounded by state-society relations, without consider any historical approach about the emerging of social relations. Another problem with the Moravcsik theory is that "social forces are contained within the boundaries of national states" (Apeldoorn, Overbeek and Ryner 2003, p. 25-26), almost an impossible issue in a European society more competitive and integrated in global economy.

The new approaches of European integration, middle-range theories, are by definition excluded from my analysis. "As the name suggest, middle-range theories do not have totalizing ambitions; they seek to explain aspects of a phenomenon rather than its whole" (Rosamond 2010, p. 108). My aim in this article is not to describe aspects of European integration, but the entire process. According with this, middle-range theories are no longer relevant.

The necessity of a new theory

The limits of the classical European integration theories have been located by Marxists authors since the European Community started to function. I would like to remember here Ernest Mandel, Nicos Poulantzas or Peter Cocks. The most important of them, in my opinion, is Peter Cocks due his article "Toward a Marxist Theory of European Integration" written in 1980. In this article, he tried to discover if and why integration occurs using a historical analysis of the capitalist development.

His analysis begins with a critique of the orthodox integration literature which is called fundamentally ahistorical, because of its incapacity for providing an adequate account of the roots of nowadays European integration. "Consciously or not, they avoided the question of whether integration is qualitatively different in different socio-economic formation, why it emerges at some historical periods and not others, and what the connection is between different levels of integration in distinct social systems" (Cocks 1980, p. 2). Following these basic questions, the duty of Marxist scholars is to investigate why specific patterns of integration arose in specific European eras. Cocks is trying to do this and state how those social, political and economic integration dynamics are shaped by the capitalist system. The configuration of these three phenomena, in time, "depends at minimum on the specific phase of capitalist development, the technological and administrative state

of knowledge, the level of political consciousness of the masses, and the perception and activities of the dominant political and economic classes” (Cocks 1980, p. 35).

Since its beginning, capitalism presented distinct practices like: working in a wage system, private ownership of the means of production or the fragmentation of life. But more important, it created an ideology to justify its activities and to maintain its power structure. “The bourgeois mind thus endorses individualism, the holding of private property, market relations, acquisitiveness, competition and profit, which are incorporated as values in everything from law, to education, to religion, to literature” (Cocks 1980, p. 35). Gramsci calls this “ideological hegemony” and it represents the next step for my research.

The neo-Gramscian theory continues the Marxist tradition in European integration studies and focuses on two central concepts: super-structural³ dimension and social forces agency. It tries to capture a real picture of the integration by showing the real forces which shape the European decision-making process (market forces) and the nature of ideological hegemony.

Adam Morton, a neo-Gramscian author, wrote that “hegemony within the realm of civil society⁴ is then grasped when the citizenry come to believe that authority over their lives emanates from the self” (Morton 2007, p. 93). Further, the dialectical relation between economic structure and ideological super-structure produces, as Gramsci state, the historical bloc. In classical Gramscianism, the historical bloc is the alliance between working class and bourgeoisie realized through the cultural hegemony. In nowadays European Union the ideological hegemony is represented by neo-liberalism. But as I already mentioned, this specificity of super-structure should be based on a specific arrangement inside of the economic structure, which is shaped by social forces.

The social relations, or force relations as Gramsci called them, are in fact relations between different social groups. Thus, the relations of force operate on three interconnected levels: structural⁵, political⁶ and strategic⁷. Methodologically, the object of the analysis is *historical situation*, and the method of analysis is the observation of force relations (Gill 2003, p. 51). In other words, the dynamic of force relations produces certain historical events. For example, it is difficult to elaborate a general theory which could explain in the same time the emergence of the European Community⁸ and European Union⁹. To conclude, those social forces are in fact market forces like: lobby groups, banks, corporations or even unions.

Taking into consideration all this concepts, European integration process can be analysed using the relation between structure and super-structure¹⁰. The economic structure is understood here as being shaped by the social forces agency, while the ideological super-structure is characterized by the neo-liberal model.

³ In Marxist theory, structure engulfs all the social relations of production, or the economic base. Super-structure symbolizes the effect of economic arrangement of a society in ideology – ideological super-structure.

⁴ Gramsci divides the society in two parts: civil society and political society. “Political society includes the public sphere of government, administration, and law and order, as well as security. Civil society includes those elements normally considered private, such as free enterprise, political parties, churches, and trade unions” (Gill 2003, p. 65).

⁵ It represents the formation and alignment of groups in relation to production. “This enables the examination of the question of whether *the necessary and sufficient conditions exist in a society for its transformation*” (Gill 2003, p. 51-52).

⁶ “This involves an assessment of the degree of homogeneity and political consciousness among different classes and political groupings” (Gill 2003, p. 52).

⁷ “This primarily involves the relation of military forces, which from time to time is immediately decisive” (Gill 2003, p. 52).

⁸ It was established by the Treaty of European Coal and Steel Community.

⁹ It was established by the Treaty of Maastricht.

¹⁰ In classical Marxism, structure determines super-structure. But many neo-Marxists show that also the super-structure can influences many changes in the economic structure of the society.

“Embedded” Neo-Liberalism

For a better understanding of the embedded neo-liberalism, it is necessary to go back in the history of the European Union. Thus, we can find out two periods defined by two different historical blocs. The first one, characterized by the Fordist¹¹ type of capitalism, is known as Keynesian period “during which the general European regulatory framework—as defined by the Treaty of Rome and subsequent directives, regulations and decisions—primarily aimed at supporting national socioeconomic models and their development by providing an advantageous, growth and employment-friendly economic environment” (Bieling 2003, p.205). Since 1970s and 1980s, with the project of Single European Market, it was obvious that the old economic structure was changing. Then, Keynesian policies were being replaced step by step by “a new, more aggressive configuration, which basically is neoliberal, i.e. in favour of broadened and intensified market competition and monetarist anti-inflation and austerity measures” (Bieling 2003, p.206). In other words, the nature of the new economic model - neo-liberalism - is based on a reduced state intervention and a freedom of market forces.

The question now is whose interests were behind Single European Market and its neo-liberal model? The answer is simple and lays in the Gramsci concept of force relations. It is well known that neo-liberal restructuring of the European Union was possible because of European transnational corporations. “These forces, in close co-operation with representatives of the European Commission, often bypassed national governments in designing the next steps of European integration” (Bohle 2003, p. 20). The most important transnational market force was probably European Round of Industrialists (ERT), a business group founded in 1983 which contains the representatives from the biggest transnational corporations. “Through intense lobby activity at national and supranational levels, regular official meetings with the highest EU representatives, and strategic reports on burning issues of European integration, ERT has acquired privileged influence in European policymaking” (Bohle 2003, p. 21).

Using neo-Gramscian theory, it becomes clear how a historical bloc, who wants to establish the hegemony of transnational capital, is pushing forward for the European integration dominated by a neo-liberal model. “In Western Europe, social-democratic political forces, organised labour and political forces of the peripheral countries have been incorporated into the historical bloc, albeit in a subordinated position. As a result, a precarious hegemonic constellation of ‘embedded neo-liberalism’ has emerged” (Bohle 2006, p. 78). This embedded neo-liberalism has been understood by other authors as the European socio-economic model, something that separate the old continent from the other economic models of the world, something that make European Union unique.

Another interesting point of view comes from the founder of the concept, Baastian van Apeldoorn. He claims that “embedded neo-liberalism is here seen as a *hegemonic* project inasmuch as it seeks to advance neo-liberalism through a strategy of incorporating, and ideologically neutralizing, rival projects” (Apeldoorn 2009, p. 22). But there is also a contradiction between social policies and freedom of capital, both being included in the same European hegemonic project. Further, this contradiction has its mirror in the nature of the European multi-level governance. Thus, the process of European integration has created “a *supranational* internal market (and later a monetary union), thus transferring ‘policies promoting market efficiencies’ to the European level, whereas policies ‘promoting social protection and equality’ have remained at the *national* level” (Apeldoorn 2009, p. 26).

This structural arrangement of European internal market, understood as the asymmetric governance of the embedded neoliberal European order, “makes states adopt supply-side oriented national competitiveness strategies, which, rather than offering any shelter from the discipline of the European market, promote a thorough neoliberal socio-economic restructuring” (Apeldoorn 2009, p. 27). The result of such strategies is an economic nationalism race where member states are

¹¹ Gramsci called Fordism, the economy based on mass production (assembly line).

competing to provide the best conditions for the mobile capital. It means that social policies are occupying the second place in the states preferences.

The European Fiscal Pact

In this part of the article I will analyse the nature of the European states' response to euro zone crisis. I chose this case study because it is the most recent of European legislative act and because it is a reaction to the global crisis. Thus, I will focus on reform measures of the European economic governance which appears as a necessity to save and consolidate European single currency. All of those changes were implemented because European Union is not a state, and it doesn't have competences in fiscal policy: "cannot redistribute resources, issue state bonds, print money and it has no sovereign tax basis" (<http://euobserver.com/7/114308>).

To avoid a fundamental change of Lisbon Treaty, European leaders managed to sign a new international treaty of euro zone, where not all the EU countries are involved. "The new treaty - an intergovernmental agreement after the UK last month refused to allow full EU treaty change - is supposed to calm markets by forcing its signatories into improved budget discipline" (<http://euobserver.com/82/114787>). On the 30 January all the EU member states, excepting this time United Kingdom and Czech Republic, have agreed on a final form of the new Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. "The Treaty aims to strengthen fiscal discipline through the introduction of more automatic sanctions and stricter surveillance, and in particular through the *balanced budget rule*" ([http://www.european-council.europa.eu/home-page/highlights/the-fiscal-compact-ready-to-be-signed-\(2\)?lang=en](http://www.european-council.europa.eu/home-page/highlights/the-fiscal-compact-ready-to-be-signed-(2)?lang=en)).

In order to have a better image on the treaty reform, I will detail the main changes regarding fiscal dimension. The economic convergence and governance specifications will be skipped because of the low relevance for my conclusions.

The general budgets of the governs should be balanced or in surplus; to respect this principle, the structural deficit should not exceed 0,5% from GDP. In other conditions, member states shall propose a self correction mechanism based on European Commission principles.

If the Commission notices that a country deficit exceeds 3% there will be automatic consequences. Only the majority of the euro zone could cancel the decision of European Commission.

The public debt of the member states should be under 60%, otherwise another correction mechanism should be enforced. (European Union 2012, p. 5 - 8)

All of those measures become obligatory for the participant states because of the Court of Justice involvement. For example, the treaty specify the "obligation to transpose the "Balanced Budget Rule" into national legal systems through binding and permanent provisions, preferably constitutional, should be subject to the jurisdiction of the Court of Justice of the European Union, in accordance with Article 273 of the Treaty on the Functioning of the European Union" (European Union 2012, p. 2).

Considering now the purpose of this treaty, it is supposed to be designed to "promote conditions for stronger economic growth in the European Union and, to that end, to develop ever-closer coordination of economic policies within the euro area" (European Union 2012, p. 1). In other words, through budgetary discipline, a better coordination of economic policies and improved governance in the euro area, the treaty is set to support "the achievement of the European Union's objectives for sustainable growth, employment, competitiveness and social cohesion" (European Union 2012, p. 4). Beside economic austerity measures, the social purpose is also present in the text of the treaty.

The main question is now, why was this fiscal union so important? Why was it forced to pass negotiations even if UK and Czech Republic were set to stay away from it? The rush to adopt this document was obvious and contrasts all the history of dialogue and cooperation in the EU. The stake was clear: "if the euro zone were to break up, many German and French banks would collapse, hence

the Franco-German push for fiscal union” (<http://roarmag.org/2011/12/eu-summit-uk-fiscal-union-banks-city/>). Germany has pointed out that short time bail-outs do not represent a real solution, but a long-term overhaul of the rules. “Germany is using market turmoil as a cudgel to force more spendthrift European countries to adjust to their straitened circumstances by reducing spending and ushering in a period of austerity” (http://www.nytimes.com/2011/12/10/business/global/european-leaders-agree-on-fiscal-treaty.html?_r=2&ref=global-home).

By adopting this plan, German chancellor Angela Merkel, propose an austerity club defined by balanced budget rules inserted in every national constitution. “Germany, now the indisputable European hegemon, will use this fiscal union to extract full repayment for its banks, while London can freely position itself as an offshore banking paradise” (<http://roarmag.org/2011/12/eu-summit-uk-fiscal-union-banks-city/>). Uniform application of the budgetary discipline could instead have deep implications for Eastern Europe, locking the periphery into a permanent depression. The former socialist states would not have the economic tools, as well as strength, to compete with a more developed Western Europe.

I can conclude that, for this situation, the European banks are the main force in shaping the integration process. The problem was never in the public spending of peripheral countries but in the private lending of core banks. “With hundreds of billions of Euros in excess liquidity sloshing around the system, French and German banks greedily bought up Greek, Portuguese and Italian bonds and pumped truckloads of foreign capital into the Irish and Spanish housing markets” (<http://roarmag.org/2011/12/eu-summit-uk-fiscal-union-banks-city/>). Paradoxically, in a global crisis created by banks, states support and work with banks to maintain a neo-liberal economic system.

Conclusions

European Union finds itself today in a very difficult point of its existence. The Single European Market and the European Monetary Union, established after the Maastricht Treaty, drove European integration on a historical path that could not be modified due to the big pressure of transnational capital. The analyse of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union reveals that neo-liberal super-structure, shaped by the agency of the social forces like corporations or banks, is still the pillar of the European historical bloc. Even more, during the global financial crisis provoked by American banks, when euro zone confronted the biggest challenges from its short history, the general answer to those problems was more austerity.

For example, the budgetary discipline imposed by the new treaty could lead, in the internal affairs of member states, to austerity measures. The reduction of public spending, just to achieve some budget benchmarks, can raise unemployment levels in the public sector and reduce investment in infrastructure. The hegemonic way is simple: states and European Union should do everything to assure the best condition for the private sector, no matter what the costs are. But, as I said, if they maintain the best condition for the capital, they could disadvantage the social groups already touched by financial crisis: the poor people (who survive because of state social services) and the workers from public sector. This reality sounds like a paradox, but Gramsci’s thought teaches us that this is just the result of a neo-liberal successful hegemony.

On the other hand, Apeldoorn embedded neo-liberalism is also present in the new treaty, through social purposes like sustainable growth, employment, or social cohesion. Those aspects show its hegemonic nature which is trying to encompass the socialist political dimension of ensuring prosperity, facilitating freedom of capital. But, as I already mentioned above, the primacy of capital remains the main characteristic of the treaty reform, validating Apeldoorn’s arguments. I conclude this article saying that if the neo-liberal way was adopted as the only way possible to solve the crisis, it means that its hegemony succeeded. This conclusion comes to solve a recent debate in the field of European critical studies, which question whether or not the neo-liberal hegemony managed to establish the nowadays European historical bloc.

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