



No.19
**Politics and
Markets**

Université Libre
de Bruxelles
(ULB)

Mario Telò



1

Please cite this working paper as:
Telò, Mario (2012), 'Politics and Markets',
GR:EEN Working Paper, No.19
www.greenfp7.eu/papers/workingpapers

This research acknowledges the support of the FP7 large-scale integrated research project **GR:EEN - Global Re-ordering: Evolution through European Networks**
European Commission Project Number: 266809

1. The crisis not only about Europe's slow adaptation to evolving global markets, but also about international politics.

This dramatically “worsening” (M Draghi, January 2012) crisis is on the one hand a symptom of sclerotic national democracies’ reluctance to exert governance in the eye of necessary adjustments; but, we are witnessing on the other hand an open international aggression against Europe, and in particular the Euro. A clear analytical deficit exists regarding the behavior of: anonymous global markets, US-based rating agencies, significant economic powers, and financial lobbies several of which never accepted the EU’s striving for a single currency.

The January 13th 2012 downgrading of several EU members’ public debts ratings by Standard & Poor’s is only the latest episode in a long list of technical mistakes and open attacks. Obviously, this is neither a plot nor a conspiracy; but rather an unambiguous sign of distrust regarding the construction of an EU-wide system of economic governance. It is well known that financial powers and right-wing circles, notably in the US, are openly banking on the end of the Euro - which is disliked both as a potential second reserve currency, and the very symbol of an enhanced role for Europe in the world.

What is at stake is much more complex than either an intra-European dispute about deficit management, or trivial transatlantic spat, because the Obama’s export-driven recovery strategy will pay negative fallout of a weaker Euro. Such essential political stakes explain why a political answer is needed.

Accordingly, strengthening European economic governance - is above all a political pledge. It is a step towards a new understanding of political union as a direct answer to the disintegrating logics of the global market. Beyond superficial accusation of “ultra-liberalism”, the EU is seeking to build a unique political leverage for a European form of regulated capitalism (three monitoring agencies, “European semester”, regional Fund EFSF and ESM, economic governance).

2. With regards to the EU’s evolving polity only two avenues remain.

Actually what is taking place is a special kind of multilateral negotiation – involving governments, the EU parliament members and Commission officials. The British veto leaves little choice. Both remaining scenarios involve an additional Treaty limited to 26 countries: it can or cannot a) provide the Commission with the right of initiative in response to violations of agreed upon economic rules and b) be more consistent within the EU Treaty.

In any case, the door should be kept open to the UK to join at a later stage, just as it did with the Social protocol it rejected in 1992 but accepted in 1997. However, the coming conflict about the 2014-19 budgetary perspectives will deepen the rift between the conservative UK government and the other 26. This in turn will allow for further French assertiveness about the structural feature of a coming “two speed EU” and the consequent need for distinctive mechanisms of democratic legitimacy such as a Eurozone parliament. Although similar, the two scenarios differ as to the share of competences; but whatever the outcome of the current round of institutional negotiations might be, the EU and its Members States - with the sole exception of the UK - look to converge towards:

- A strategy geared towards deeper regional cooperation. In Ph. Schmitter words, there are signs of a “good crisis” and not of a “bad” one. As the institutionalization process is about to be strengthened in a more sophisticated way as defined by Keohane.
- The understanding that the EU’s hard core is not the only one looking towards enhanced regional cooperation. Both ASEAN (1998) and MERCOSUR (2001) turned to regional dynamics in their crisis exit strategies. Further institutional compromises enhance regional coordination and supranationalism (needed ratification limited to 15 out of 26, automatic sanctions with the exception of a qualified majority vote against it) and which in turn brings about new hopes of an original form of political union, beyond the old federalism vs. confederalism debate

3

This could have large external implications: it would confirm a realistic but innovating understanding of the EU contribution to global governance: showing the large potential of a institutionally innovative and distinctive way to regional multilateralism as an essential element of the 21st century’s global governance.

3. The new balance between the EU polity, its policy dimensions and the legitimacy mechanisms, will largely depend on the concrete ways in which Germany will come to exercise its leadership.

Will this growing new polity combined with the image of a “watch dog Europe” inevitably deepen the legitimacy deficit? Not necessarily.

The emerging regulatory polity could frame alternative policies by mobilizing a distinct politicization process. This would be articulated around a multilevel left/right dialectic concerned with regulatory issues associated with such

socio-economic questions such as: labor market flexibility, alternative fiscal policies, and various broader sources of interplay between domestic social lobbying. This could not only revive various national political theatres by reviving national democratic debates, but also be the background for enhanced politicization of the European parliament elections as soon as 2014. Whereas conservatives will seek to 'import' the current culture of stability and competitiveness from Germany, Holland, Austria, or Finland; other political streams may emphasize the other main pillars of the so called "German model". Said model, better referred to as the "Continental European model" also includes: sustainable growth (ex. environmental regulation); industrial democracy (ex. *Mitbestimmung*); social cohesion (ex. regional transfer policies); and a 'smart economy' (ex. high level of IT penetration throughout society). All in all, what is abusively decried by populist voices as a "German Europe" might in fact look a lot like the broadly endorsed "EU2020 strategy». Input legitimacy may complement output legitimacy. Already now, *Eurobarometer* confirms that the citizens trust in average more the EU than their nation- state for crisis-solution (Dec. 22nd).

Nonetheless, Germany has to do more. Talking about "German Empire" (U.Beck, *Le Monde*, December 2011) is nothing more than journalistic. However, what will be of crucial importance is whether Germany acts consistently or not in putting into practice a clear distinction between a hierarchical hegemonic role - which would be soundly rejected, and a leadership one consistently implemented through a strengthening of its multilateral approach. Minister Schäuble mentioned this essential distinction in the *Frankfurter Allgemeine*. Germany has no alternative to European integration. Leadership means linking stability and growth policies, including through a "Marshall Plan" of sorts aimed at the recovery of the weakest economies of the Eurozone. If Germans don't understand that their own model can only work if it spreads up to other EU's members' countries, they will eventually suffer the consequences of the Eurozone crisis (F. Scharpf, *Süddeutsche Zeitung*, dec.23rd, 2011). Only by renouncing short term export-driven hyper-surpluses can stability be brought back to the Eurozone and long recession avoided. This is the only way in which Germany can help by defeating various streams of domestic populism and restore European dignity within a multipolar world.

Overall, what Europe's experience could offer to the world is a way of deepening multilayered political regionalism: an understated but firm message detailing a realistic way towards a non-state styled political union, as an answer to unregulated globalization and market diktats.