Hartmut Marhold

How neo-liberal is the EU crisis policy?

The crisis policy of the EU has often been characterised as following a neo-liberal path[1] and has, for this reason, been widely criticised. Is this justified? Some doubts may arise when a wholly different criticism, no less often put forward, is taken into account: the EU does not follow any path at all, but improvises without knowing where it`s going. Isn't there any coherence, then, in the way in which the EU tries to overcome (if not solve) the crisis?

The whole confusing programme … One banal answer is that things are not simple or easy anyway, and we would not come to a convincing conclusion without a differentiating look into the various instruments the EU has developed and put into force over the years since the outbreak of the crisis in 2008. These instruments are of a very different nature indeed – from pure promises among the heads of state and government (so-called "pacts", as, for eg., the "Euro-Plus-Pact") about policies within the framework of the existing structures (like the investment programmes in 2008/09 and 2014/15), dozens of regulations and directives (like the "Six-Pack", and "Two-Pack"-Regulations), switches in the decision making procedures (like the reversed Qualified Majority in the case of fines, to the advantage of the Commission) to new agencies and institutions (like the various new bureaucracies in the "European System of Financial Supervision", ESFS, and the Banking Union) and genuinely new international treaties (like the "European Security Mechanism", ESM, with its own institutional setting, and the "Fiscal Pact", with its strange use of the EU institutions). Is there any logical, coherent, or even theory based structure in these instruments, beyond this formal (and incomplete) classification?

Four categories of crisis policy instruments. We might distinguish four types of measures, with regard to their political aims and intentions: (1) First, there was and is again something like an interventionist policy, mobilising and allocating huge funds in order to prevent the economy from melting down. The European Economic Recovery Programme, launched in 2008, was the first one, the 315 billion € programme of the Juncker-Commission is a second attempt of a similar kind.

(2) A second category of instruments consists of rescue funds, designed to prevent Eurozone member states from bankruptcy. The "European Financial Security Facility" (EFSF) and the ESM are part of this group, but so is the European Central Bank's OMT programme. (3) The third set of measures concerns the control of member states´ compliance with the pre-established rules of behaviour in the Eurozone – the "European Semester", Six-Pack, Two-Pack, Euro-Plus-Pact, Fiscal Pact are all part of this group. (4) Finally, there are a number of instruments aimed at regulating the financial market, at least in Europe, binding the actors on this market to rules and controlling them; the above mentioned ESFS (not to be confused with EFSF!), the Banking Union, and Financial Transaction Tax (and their complex internal structures) are of this kind. If we have a look at each of these groups of political instruments to cope with the crisis, and ask ourselves how neo-liberal they are, our findings should furnish us with an overall answer to the initial question.

(1) Economic Recovery and Investment Programmes. The "European Economic Recovery" Plan of 2008/09 was an emergency rescue programme, launched hastily by the heads of state and government, when they became aware that their first hope – that the crisis would be restricted to the USA and the financial sector – proved to be an illusion. Germany alone increased its public debt by approximately 20%, under this pressure, from 60 to 80% of its GDP. The EU member states on the whole spent something like 1,5 billion € in order to prevent the worst, in the financial sector and the "real" economy. Concrete measures varied from one country to the other – incentives for buying new cars in Germany, cheap loans for SMEs in France, the aim was the same everywhere: a massive increase in purchasing power and "intelligent investment", state driven. There cannot be any doubt that such a strategy is classical Keynesianism, just the opposite of what neo-liberal theory would require, regardless of the theoretical consciousness of the actors, regardless of whether the strategy is sustainable or not. We only have to state that the first, and very substantial reaction to the crisis was not a neo-liberal one, but Keynesian.

The second attempt of a similar kind, the investment programme launched by the Juncker-Commission (and, more precisely, by Jean-Claude Juncker himself), is slightly different in terms, but not very far from the strategic approach. It is different in so far as the 315 billion € Juncker promises to mobilise are not entirely drawn from public budgets, on the contrary: 21 billion only should come directly from the tax-payers (and some say that they did already pay, since these 21 billion are already part of the convened-upon EU budget, over the next three years), used as a leverage to mobilise up to fifteen times this sum in terms of private investment – a hope, or promise, for the time being. And – the second difference in comparison to 2008/09 – the programme is not driven by the panic that everything might melt down, but by the analysis that after years of austerity, of shrinking budgets and state activity, there must be a re-launch of investment, initiating new growth. The overall approach, however, stays the same: It is a political task to take care of investment, growth, allocation of resources, a political task now to be taken up at the European level, no longer exclusively by the member states – Keynesian still, just as six years ago. But it is a one (or two) shot policy, not a deliberate long-term strategy.

(2) Rescue funds. Not quite as easy is the qualification of the rescue funds, destined to save Eurozone member states from becoming victims of speculation, i.e. saving them from the evil impacts of financial markets. ESFS, with its 780 billion € guarantees (and 440 billion € credit lines), ESM (with its 702 billion €) and the ECB's OMT (Outright Monetary Transactions) programme (nothing more, for the time being, than a promise to save the € in any event, by buying member states´ bonds without limits, if needed) – all three of them protect states against markets, withdraw states from the rules of markets, instead of submitting them to these rules and enforcing them on states themselves, obliging them to act as if they were economic actors. For this reason, all the three instruments and are anything but neo-liberal. But if we consider the conditions under which the funds are handed out to the states in distress (Greece in particular, since Spain, Portugal and Ireland did already escape from their financial assistance programmes), we must state that the "conditionality" between European credits and structural reforms required from the assisted countries introduces a large share of neo-liberal policies. The counterpart of financial assistance is in most cases a severe cut in public spending, a reduction of public services, of social assistance - in short, a shrinking of the welfare state for the sake of and to the benefit of economic competitiveness. The so-called Fiscal Compact, an international treaty on its own, obliging the member countries to introduce the rule of (nearly) balanced budgets at a constitutional level, in the hierarchy of their law system, is not much more than an attempt to make these principles respected. The huge rescue funds (around 140 billion € for Greece, over time, i.e. approximately the equivalent of one whole annual EU budget) are all more or less instruments to enforce neo-liberalism in the "benefiting" countries. This side of the affair is even reinforced by the implication of the IMF in these programmes (if the IMF can still be regarded as the guardian of the temples of neo-liberalism).

(3) Supervision, control and enforcement of macroeconomic rules. The third group in the arsenal of crisis combat is a series of rules and regulations, bound together by the concern to improve the enforcement of the requirements for membership in the Monetary Union, originally enshrined in the Maastricht Treaty, consolidated in the Stability and Growth Pact, itself adapted and modified in 2005. The crisis obliged many Eurozone member states (Germany included, see above) to expand their public debt far beyond the allowed 60 % of the GDP. In some cases, like Germany, investors on the financial markets never had doubts about the reliability of the debtors; others were not so happy and speculated on their potential failure. Protection against this speculation triggered on the one hand the solidarity expressed in the previous group of measures, i.e. financial rescue funds; on the other hand, the luckier member states now insisted on the criteria for membership in the Eurozone being strictly respected. The operational criteria for membership, based on the Stability and Growth Pact, were tightened, control increased and made nearly permanent with several deadlines over the year, the menace of fines made more credible, the conditionality between respect of the criteria and structural reforms enlarged to nearly all fields of macroeconomic policy, by means of "country specific recommendations". These recommendations were narrowed down to detailed policy recommendations like reducing public spending for pensions, further deregulating the labour market, cutting down the public sector etc. And the Commission was entitled to impose fines, should these rules not be respected, except where there was a qualified majority of member states against this punishment – a decisive reversal of the decision making rules between Commission and Council, to the benefit of the former;

previously, the positive qualified majority in the Council was required to pass the Commission proposals. These new rules were enshrined in the European Semester, which establishes the rhythm for control, the so-called Six-Pack (five regulations and one directive) and another Two-Pack (two more regulations), as well as the Euro-Plus-Pact, a voluntary commitment of the Eurozone, plus five or six other EU members, going even beyond the requirements of the legal framework. There can be no doubt that this group of measures is inspired by a neo-liberal approach, fully in line with the Stability and Growth Pact, itself dating back to the peak of the neo-liberal era and paradigm. It does not come as a surprise, under these conditions, that a President of the French Republic is at odds with the Commission when told that he has to pass this or that law in order to deregulate labour markets and cut down health care expenditure …

(4) Regulating the financial market. A widely different approach is characteristic for the last group of instruments to combat the crisis: Financial market regulation. It soon became clear in the eyes of the heads of state and government, European Commission and Parliament that there had to be a U-turn with regard to regulation on the financial markets, after the outbreak of the crisis. The ambitions went very far, the often repeated formula was that "no actor, no product, no sector, no territory should any longer be able to escape sensible and intelligent regulation and supervision", as Commissioner Michel Barnier put it in 2010 (http://www.cnbc.com/id/39023082#.; Angela Merkel used the same words). Even if the reality, in 2015, is far from this goal, the Commission launched an avalanche of legal acts (forty or so, they say) in order to cover most of the products, sectors, and territories. Whatever the extent of this wave of regulation may be or may become in the future, the change of paradigm is remarkable: up to then, no other economic sector was such a privileged model pupil of neo-liberal politics as the financial markets – and now this market was overrun by regulation. Three instruments in particular are of outstanding importance: The ESFS – the European System of Financial Supervision -, the Banking Union and the Financial Transaction Tax. ESFS, as the title indicates, is not a single instrument, but a whole system, a set of agencies, entitled to supervise and regulate banks and insurance companies, securities, stocks and bonds. However, these agencies, created between 2009 and 2011, proved to be still too far away from concrete action on the markets – as the Cyprus banking crisis made crucially obvious. Plans to establish a fully fledged Banking Union came into play and were indeed implemented in 2014, with a mandate for the ECB to control nearly every step of the 130 or so most important banks in Europe (in close cooperation with national authorities, to submit to common rules, when controlling the rest of the 6000 European financial actors). The Banking Union comprises three main institutional pillars: (1) the SSM (Single Supervisory Mechanism), charged with the enforcement and control of stricter rules (concerning e.g. the mandatory increase of equity capital), (2) the SRM (Single Resolution Mechanism), created to liquidate banks when failing, instead of feeding them with tax payers´money (and the liquidation should be paid now by the shareholders/owners first, by a common fund of 55 billion €, supplied by the banks themselves, and by public money only as the last option); (3) a DGS (Deposit Guarantee Scheme), a mechanism to protect consumers from losing their money when a bank fails. Despite all criticism vis-à-vis this construction and its weaknesses (the resolution fund seems to be small in comparison with the risks etc.), the Banking Union as such can hardly be overestimated as a political move away from free financial markets; some people (as Andreas Dombret, Director of the German Bundesbank) went so far as to regard the Banking Union as the most important step to European Integration since Monetary Union – more important than the Nice or Lisbon Treaties. Finally, some member states got an attempt to tax financial transactions under way – less than half of the Eurozone members, for some financial products only, and with very low taxes, but nevertheless breaking a (neo-liberal) taboo.

On the whole, the more than thirty European laws which are in force today, regulating the financial markets, are probably the most evident step away from a purely neo-liberal approach to this sector of the economy. However, they are not supposed to substitute themselves for the market as such, on the contrary: their purpose is to make markets function again. The shift, or U-turn, in the approach lies with the conviction that markets need to be regulated to be functional – not deregulated. The setting is classical ordo-liberalism, following theories, models and politics of the German (mainly Freiburg) branch of what was called, for a short time after WWII, neo-liberalism, but soon diverged profoundly into the Anglo-Saxon (and Austrian) School (Hayek, Friedman and their followers) on the one hand, and the "Social Market Economy" (or Rhine or Rhenish Capitalism) on the European Continent.

Conclusions. The whole picture of the EU crisis policy is multi-faceted. It cannot be reduced to a simple enforcement of neo-liberal rules on countries which tried to escape from the painful adaptation to international competitiveness. Some very important measures comply with Keynesian theory, as e.g. the huge sums injected into the purchasing power of the people, or in businesses and companies. Others seem to come straight out of the neo-liberal toolbox, like the recommendations to deregulate labour markets and cut public spending for social security, aiming indeed at increasing international competitiveness at the expense of the middle-class (or inferior social stratum). Others still tend to politically organise and guarantee, regulate and supervise the functioning of (financial) markets. The variety of measures and instruments may be seen either as a series of confused, incoherent political actions, without guidelines and even less theoretical foundation – or as a remarkably rich policy mix, free from any ideology (neo-liberal or otherwise), and adapted to a particularly complex challenge. One thing, however, is sure: The winner of the game is the European Union, the European level of governance. When Ronald Reagan, in his inaugural address in 1981, spelled out the neo-liberal credo – "Government is not the solution, government is the problem" –, he was thinking of government at the level of the (American) federal state, of course; the current crisis, in contrast, has contributed towards shifting much of "government" to the European level. And (European) government is no longer considered to be the problem, it is supposed to bring about the solution again. The crisis did change not only the underlying economic theory, but the European multilevel governance system, too, in favour of a stronger Europe.

References

1) To make it very short, for the sake of this format, let us suppose that the Washington Compromise is still the reference for what may be described as neo-liberal, despite so much differentiation; and that means to reduce the role of government, to withdraw the state from economic intervention, to shrink public budgets in favour of private economic actors, to privatise not only state held economic assets, but public services, to deregulate markets, to impose the rules of market conform behaviour even on the state, etc.

Administration: Hartmut Marhold
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