

Defeating Nationalism in Europe. Voting Mechanisms for Highly Integrated Economies

Hardy Hanappi

1 Prelude

During the last three decades European countries have experienced an accelerating move of the general political climate towards conservative and more recently even extreme right-wing attitudes. This development clearly was initiated by a sequence of electoral victories of conservative leaders in some pivotal OECD countries, e.g. Margret Thatcher in the UK (1978), Ronald Reagan in the USA (1980), and Helmut Kohl in Germany (1982). The new governments they formed consciously—and with a declared and exposed radicalism—reversed the consensus policies of the post-cold-war era that had mainly been built on economic and political principles put forward by John Maynard Keynes. The stable period of reconstructing European economies after a loss of half of its capital stock during World War 2 had been characterized by a fixed exchange rate system and astonishing growth, i.e. capital accumulation, in all Western European countries since the late 1950s. This had opened up the possibility to develop a more sophisticated European income distribution model that in turn allowed integrating representatives of the European working classes into important decision making bodies—and helped to keep class struggle at doors. But towards the end of the 1960s this fruitful evolution had led to two unforeseen consequences: (1) A global cultural revolt of an after-war generation that had not been exposed to the military propaganda of WW2 and, more generally, saw no use in strictly hierarchical systems anyway; an attitude supported by the relative security provided by the somewhat worker-friendly European income policies. (2) A take-over of several European governments by politicians that responded to the new demands of their younger voters, e.g. by changing elitist

H. Hanappi (✉)

Institute 105-3 - Economics, University of Technology of Vienna, Argentinierstrasse 8, Institute 105-3, 1040 Vienna, Austria

SOAS, University of London, London, UK

e-mail: hanappi@tuwien.ac.at

education systems into mass education institutions and building a social net of health care and employment policies; financing all that by letting government expenditure exceed tax revenues and fill the gap by increasing government debt. The creditors of the European countries (at that time also including Yugoslavia) were already the groups of international financial intermediaries, banks as well as semi-institutional political agencies, that originally thought that the overarching goal of defending the European peninsula (from the Red Army looming in the East) by means of economic prosperity was worth the exercise of supporting the European social model. Public debt was not a topic and European social-democratic parties, changing their programs by abjuring all Marxist thought and subscribing to Keynesianism, reached the zenith of their political influence. But then, rather abruptly, the tide turned. What later in the context of finance has been called the Minsky moment—the point in time when in a communication-driven avalanche of qualitative changes in expectation-driven actions materializes—was occurring and manifested itself as the already mentioned sequence of victories of conservative parties. The revolt against the revolt had started and with a continuous long-run cultural counter-revolutionary strategy the last two decades of the twentieth century saw a reassessment of values, at the level of social relations as well as on the level of the human individual.

In retrospect the three decades of conservative roll-back in Europe were further advanced by the final victory over the old enemy in the East, but they also were confronted with many new difficulties. When the United States under Reagan regained their absolute hegemony in economic terms in the early 1980s, this to a large extent was due to the fact that in the US political command and economic command were sitting in the same cockpit. In Europe no comparable political headquarters existed and the economic elites of the different nation states rather had their special arrangements with their national governments. The existing political union was more a bundle of loose agreements, a mutual consensus of non-aggressive competition rather than a basis for a common political will. This explains why the project of a European Union actually only gained momentum as a response to the new advance of the United States, a response driven on the economic side by the Copenhagen Round of European transnational corporations (the only supranational economic power) and on the political side by the European (social-democrat) Socialist International. The latter, building on some internationalist ideas of the old labor movement as well as on some Keynesian aspirations of global economic policy (but above all being well-connected to high, supra-national finance), was much more apt to function as the political agent for European capital than the disparate landscape of national conservative parties. Predictably this liaison did not last too long and turned into a problem when it became clear that the political emperor in Brussels remains a marionette as long as monetary and fiscal authority remains in the hands of mainly conservative heads of states. The introduction of the Euro, i.e. the attempt to relocate some economic power to a central political institution of Europe, the ECB, can be seen as a daring attempt of European supra-national finance capital to overcome the political weakness of the European Union. It thus is not at all surprising that in the current crisis it is the ECB

that takes the political lead—and not the European Commission. Against the odds, the introduction of the common currency has been a huge success. It prolonged and deepened the mild upswing in the Eurozone after the disappointment that came after the fall of the ‘Iron Curtain’—the expected boom of a ‘natural born capitalism’ in the East simply did not happen.

But the Euro also led to a set of new difficulties. *First* it divided the EU into two parts, with one part (the Eurozone) having one important economic variable for internal adjustments less, namely exchange rates. *Second*, credit channels across countries within the Eurozone are therefore influenced by price-systems and quantity adjustments that now have to carry the adjustment weight of exchange rates in a different and new way. In particular, a small country within the large Eurozone, e.g. Greece, can become the target of global financial capital since it appears to it like a small division within the large Eurozone-corporation, with which the usual bankruptcy game can be played.¹ But also outside the Eurozone dangers are changing their face: With direct Euro credits from Eurozone banks to private households and firms in non-Euro countries the control of collaterals in these countries is delegated to their respective local political authorities. And as long as no central political authority of the EU exists there is always the danger that local anti-EU populists can promise to free firms and households from their rising Euro debts (usually due to devaluation of the local currency). *Third*, as long as the Euro appreciates vis-à-vis most other currencies in its global trade environment, households and firms within the Eurozone are participating in global exchange rate exploitation. This process is not directly perceived and therefore confuses members of all social strata in the Eurozone, making room for numerous manipulative policies of demagogues and political and religious charlatans. It thus can be considered as the result of a phenomenon that has been studied extensively in classical political economy: alienation.

With this brief synopsis of the history of Europe’s political economy the stage is set for the main topic of this chapter, namely to identify the main roots of neo-nationalism in Europe to be able to fight it.

2 Nationalism—Necessary Division of Labor—Necessary Alienation

Two essential sources of the new nationalism that is emerging in many European countries have to be highlighted. One source is very general and cannot be avoided. Indeed it should not even be avoided but rather should be clearly acknowledged to enable the development of social mechanisms and tools to overcome a certain stage of social evolution. This *first source of nationalism* is the *alienation process of human individuals*, which in turn is a by-product of the global process of ever more

¹ See (Hanappi 2014, chapter 6) for a more detailed description of this game as it recently was played with Greece.

Intra-EU Trade in Goods as share of GDP

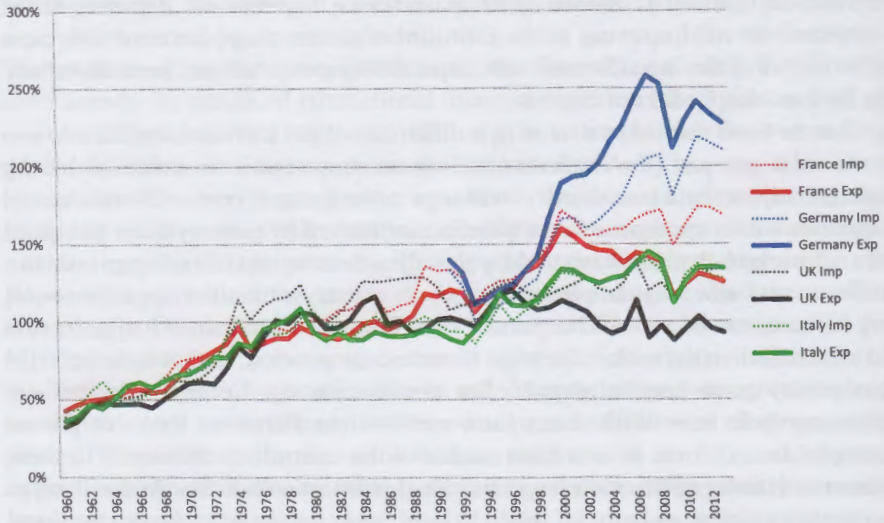


Fig. 1 Intra-EU trade in goods as share of GDP in four large countries. *Source:* AMECO Database, Eurostat

advanced division of labor. The *second source of nationalism* to be discussed is of a much more mundane and transient type. It is the *suddenly occurring possibility* for a *certain fraction of a class* of a country to *seize power by producing an artificial though convincing image of a major part of the local population*. Clearly the two sources are highly interdependent.

To start with the first source for the case of Europe it is sufficient to take a brief look at the quickly increasing division of labor as mirrored by the development of intra-European trade links between countries (compare Fig. 1). The diagram only shows trade flows of goods (not services, in particular not financial services) as percentage of GDP. Even this type of exchange of material goods since 1960 increased considerably stronger than GDP itself, its share did grow.

Moreover, the shape of the curves for the four largest European countries show that the periodization sketched in the prelude makes sense: The period from 1960 to 1976 (Keynesian growth) differs from the next one till 1994 (conservative roll-back 1), which then is radically different to the time after the frustration with the expected Eastern European impact (conservative roll-back 2). Only in this last period Germany's role as the only net exporter of goods became visible, with France and the UK being the typical net importers in intra-European trade in goods.

With respect to production processes a steadily increasing division of labor within Europe therefore is visible, even if only goods, and not services, are considered. Exchanges mirrored in trade flows only make sense if different goods are produced, then traded, and finally are consumed in different countries. It is this

kind of products that Adam Smith had in mind when he discussed the division of labor—and Karl Marx when he wrote about alienation.

A further step of alienation, understood as distance between the producer and the product, occurred when capitalism's 'big industry' became 'big finance', i.e. finance capital, around the turn of the century.² While the property-rights based command structure, exploitation and alienation in a factory to some extent still remained perceivable, abstract financial forces using the individual 'entrepreneur'³ to generate financial profit were much harder to comprehend. When during the nineteenth century of continuously amplified rivalry between France and Germany nationalism started to boom, this enhanced type of workers' alienation already was a fertile ground for the preparation of national armies going to war in World War I. And this only proved to be the beginning: In the interwar period the fascist movements in Italy and Germany played on the same demagogical instrument by explaining to the people in loser nations that it is just the mean Jewish finance capital that was stealing their national pride and sovereignty. The success of this propaganda was only possible since alienation of the workers and unemployed had been already so far advanced that the actual abstract force of finance, unobservable for the common man in the streets, could be amended by a physical picture of a mythical enemy, the Jew.⁴

The build-up of a handful of financial empires has been at the core of the rise of the USA as a global hegemon during the twentieth century. In particular since the end of World War 2, when the fascist dream world had collapsed, a world-wide net of financial linkages was built on the basis of the US Dollar as world money. On the other hand finance capital, this most abstract form of a social value framework,⁵ still needs the most direct physical support for the working of exploitation on the other end of social relationships. It needs military supremacy and direct coercion eventually executed by police. Today the United States undoubtedly are the home of both global finance and global military power.

During the last three decades the accumulation and centralization of finance capital in Europe has taken place at a breathtaking speed too. As Fig. 2 shows even during the crisis years banking concentration in the five largest EU countries mostly increased.

Alienation of the kind that accompanies division of labor stipulated by finance capital is thus a fertile ground for ideological manipulation by atavistic myths propagated by a 'radical' leader. The appearance of this kind of pre-condition is inevitable as long as the economic fruits of a further division of labor—including

² Compare Hilferding (1910) for an early analysis of this process.

³ Evidently not all firm bosses are entrepreneurs in the sense of Schumpeter. Most of them are only controlling and managing workers and never have introduced any technical progress.

⁴ It is one of Karl Marx most astonishing achievements that he anticipated this ideological turn, see Marx (1844). Marx added this analysis of ideological warfare to his more general interpretation of the concept of capital as a substitute for the Christian concept of God.

⁵ Compare Hanappi (2013a) for an analysis of money forms.

Share of total assets of five largest credit institutions

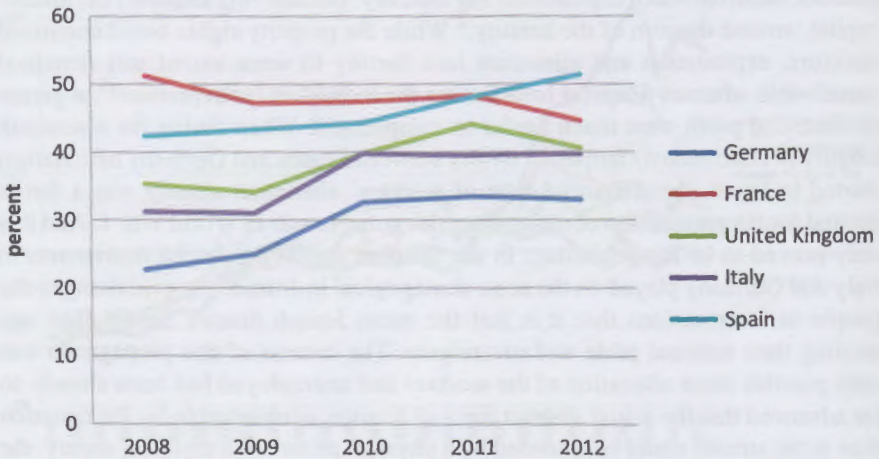


Fig. 2 Concentration of banks. *Source:* ECB, Structural Financial Indicators

productivity enhancing finance—spread around the globe; a process better known as ‘globalization’.⁶ The chain of logical causation runs from (potentially beneficial) division of labor, to increasing alienation, to (potentially destructive) ideological myths, e.g. nationalism, fascism, religious fanatics, etc.

Though the trend towards ever more dangerous ideological pre-conditions seems hard to avoid, there nevertheless is the question if it is possible to install democratic hurdles that prevent the transition from potential dangers into a manifest World War 3. This question concerns exactly what has been identified as the second source of nationalism above, at the beginning of this section.

3 European Class Dynamics and Democratic Mechanisms

Alienation on the one hand is a necessary consequence of increasing division of labor in all commodity producing societies: the world of commodities encounters its own individual producers in their consumption process as an alien set of products and services—the set of production processes is too complicated to be understood by a single producer. This process and its consequences when finance capital enters the political arena has been described in the previous section.

⁶ At closer inspection all globalization burns down to this kind of global production chain development. Cultural aspects, e.g. the establishment of English as global language, are just side effects of this main driver.

On the other hand a more specific experience of alienation takes place in current integrated capitalism (the third stage of the capitalist mode of production⁷) where workers experience that part of their life time, transmitted as labor time, is taken away by an alien force (global finance capital) and materializes as profit, as social value that is at the disposal of an alien group, a globally ruling class. This kind of alienation, which usually was experienced as a direct class contradiction at the workplace in most working environments a hundred years ago (and still exists for many blue-collar workers in Europe), was thought to be the immediate trigger element for a spontaneous form of enlightenment of workers, i.e. the emergence of class consciousness leading to class action.

With the change from industrial capitalism to integrated capitalism via globalization things have become considerably more complicated. Now it is mandatory to distinguish between different fractions of the ruling class of each nation state as well as between the different institutional settings installed in each state. While classical political economy could be content to consider just one modern nation as being representative for industrial capitalism—with England as empirically observable template—the differences between advanced nation states, the varieties of integrated capitalism, are of pivotal importance for the understanding of the third stage of the of the capitalist mode of production. One reason for that is that the fraction of the national ruling class, which determines the stability of political reproduction (call this fraction of state officers the *national state fraction*) initially has a rather large range of possible trajectories at its disposal, which due to different historically determined starting conditions are not necessarily forced to converge.⁸ Despite their relative independence in the short run, in the longer run a trend towards larger political entities can be observed. European unification follows the same pattern as the development of the USA and NAFTA in North America and similar unifications in other continents, in the twenty-first century the world is on its way to continental political entities. But this somewhat slow process produces extremely strong tensions. Not only contradictions between national state fraction and the emerging continental state fractions play a role, there also are tensions stemming from the well-established global rule system of exchange rate exploitation.

The main feature of *exchange rate exploitation* can be described in a nut-shell: A country with integrated capitalism can use this mode of exploitation by transferring its finance and military apparatus to the ruling state fraction of a country with a more rigid exploitation system—and let production take place there. The products then can be reimported and the usual profit rate can be substantially increased by a permanent devaluation of the local currency with which wages are paid relative to the consumers in the home country of integrated capitalism, whose high-valued

⁷ See Hanappi (1989) for a detailed periodization of the capitalist mode of production. The three stages to be distinguished are merchant capitalism, industrial capitalism, and integrated capitalism.

⁸ This is the reason why a whole sub-discipline of cultural economics investigating these differences has been so successfully developed.

currency boosts revenues. Part of these extra profits goes back to the national state fraction in the producer country—of course in hard currency as an incentive to maintain its consumption of luxury goods by maintaining the exploitation regime. This is the process of exchange rate exploitation. Foreign exchange markets will stabilize this process of continuous devaluation of the currencies of the countries with stronger exploitation since demand for hard currency will be permanently higher than its supply. Accelerating accumulation and well-developed credit mechanisms as well as tightly closed emigration channels for workers reproduce an asymmetry between these two types of countries that is mirrored in continuous devaluation of the country with stronger exploitation.

The emergence of continental political entities clearly can be a problem for a well-established exchange rate exploitation system that originally was established by an asymmetry of national state fractions. In some cases this system might be transferred on an almost continental level, as attempted in the case of the USA and China, but as recent developments show such an arrangement is extremely fragile. Indeed democratic control of these global dynamics is hard to imagine as long as no perspective for a global political entity is not in sight.

With respect to Europe the existence of many different national state fractions vis-à-vis an EU bureaucracy that struggles to survive evidently shows how different a mechanism for democratic control of a continent has to be from that envisaged by a national framework. Of course, European ruling classes also face the necessity of strict immigration policies to maintain the difference in governance mechanisms. And *integrated* capitalism in European states implies that large parts of the domestic population can be convinced⁹ that only few and well-selected immigrants should be allowed to live in this superior continent. This is the source of latent anti-immigration attitudes that is increasing all over Europe. They directly amplify nationalism.

Besides the detailed analyses of inter-state dynamics that is almost completely missing in classical political economy, there also is the need for *intra-class dynamics* in integrated capitalism. As shown in Fig. 3, contemporary ruling classes are consisting of three important fractions: the original firm owner fraction, the finance fraction, and the state fraction.

Figure 3 indicates that workers are exploited by the ruling class with a force of exploitation f . The total profit acquired by the ruling class is split between its three fractions, their relative success is mirrored in the development of interest rates r^S (paid by the state fraction), r^f (paid by the firm owner fraction), and the tax regime implemented by the national state fraction. The latter is responsible for the national infrastructure needed to reproduce and maintain exploitation. Depending on labor demand from the firm owner section and the state fraction only a certain percentage

⁹ The usual argument runs via the (misconceived) impossibility to provide the same social net for a population increased by too many immigrants.

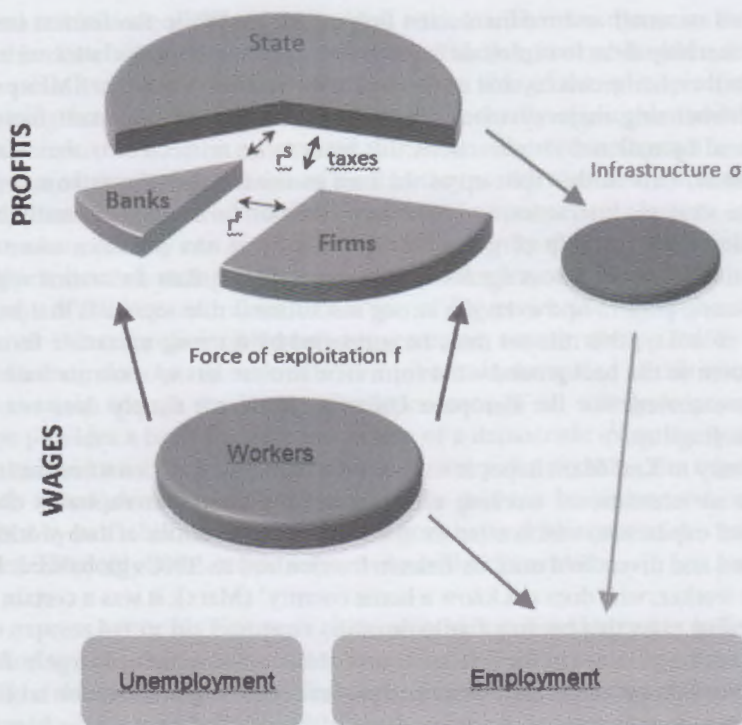


Fig. 3 National class dynamics

of the workforce will be employed, creating downward pressure on wages¹⁰ that can increase the force of exploitation f . But too high unemployment will destabilize internal social peace, thus there are limits to this type of exploitation increase. It is clear that these dynamics can only be seen if the fractions of the ruling class are distinguished.

But there is more to be included.

First of all the banking fractions of European countries build a few ever tighter knit networks. Their united influence can easily be stronger than a single national state fraction of a medium-sized country. In fact the small set of globally acting financial conglomerates consisting of different types of financial intermediaries is the dominant global player for which Europe is just one of a handful of playing grounds.

Second, also the structure of non-financial European firms shows that there is a big difference in the strategy space of transnational corporations (TNCs) as

¹⁰ Absolute sizes shown in the pie chart resemble those empirically observed in Greece in 2011. Usually the decrease in employment to a large part stems from reduced public employment, which typically is praised as austerity policy and privatization effort. This diagram together with a more detailed analysis of the case of Greece can be found in Hanappi (2014).

compared to small and medium-sized firms (SMEs). While the former can take actions that help them to exploit differences between countries, the latter are usually bound to their home country and its national state fraction. Moreover SMEs provide the overwhelming majority of employment in Europe, an important fact to be considered by national state fractions that want to be re-elected by their national populations. This further split-up of the firm owner fraction shows how sophisticated the strategic interaction and transitory coalition formation—formally best to be studied with the help of game theory—usually is. As a rule, a more equal distribution of power across agents will be more volatile than a situation with one single strong player. And even if a strong institutional rule set exists that helps to restrict volatility, this rule-set must be supported by a strong executive force that might loom in the background—but from time to time has to show its teeth to be well remembered. For the European Union such a force simply does not exist, hence its fragility.¹¹

Contrary to Karl Marx hopes it were not the workers of all countries that united to form an international working class, it was the victorious capitalist class of integrated capitalism, which after its almost murderous throes of two world wars flourished and diversified until its finance fraction and its TNCs globalized. It was not ‘the worker, who does not know a home country’ (Marx), it was a certain strata of the ruling class that became footloose.

The working classes in the different parts of the world remained largely disconnected. For Europe, the already described process of advanced alienation is only too visible and accompanies a shrinking share of blue-collar workers. In search for social identity the remaining economic distinction more and more becomes the status of being employed or being unemployed. Nevertheless from a strictly economic point of view the much-cited ‘middle class’ does not exist: In principle the exploitation status of each individual—including all intervening complications like exchange rate exploitation—can be calculated and the individual is either an exploiter or exploited [compare (Hanappi and Hanappi-Egger 2012, 2013)]. Though conceptually possible, at least in Europe it has become practically unfeasible to bridge the gap between actual class status and consciousness of this class status by means rational discourse, means of ‘enlightenment’. The formation of a common group consciousness thus typically will run along the lines of commonly appreciated symbolic signals. How to introduce and how to maintain a certain symbolic fashion is vividly demonstrated by the marketing departments of firms. Instead of the emergence of working class consciousness seemingly arbitrary

¹¹ This argument directly leads to an explanation of US driven NATO intervention in Europe, first in Yugoslavia in the 1990s and now in Ukraine. The solution to this contradiction between the European type of nationally less coordinated but much more civilized policy and the US style of highly strategic but rather unconditional military strikes is not the imitation of US style, a kind of European USB with its own strong army. This is neither feasible nor a progressive move of social development, even for the European ruling classes. The solution rather consists in the development of a newly designed pilot project Europe that implements an advanced form of democratic control mechanisms for a civil society [compare Hanappi (2013b) for details].

political fashions are produced and sold as attitudes. The new dynamics that result from this detachment of working class consciousness from observable economic status are as volatile as the ones observed on the side of the split-up ruling class. Combining both sides makes it clear why no generally applicable model for all European countries can be constructed. Even for a short-term forecast in a single country an extensive specification of local history as well as a close inspection of all the important exogenous interactions would be necessary.

But what certainly can be assumed is that currently the pre-conditions for the (re-)appearance of strong right-wing national leaders are given. The cases of Hungary, of Turkey, and close to Europe of Egypt are just the first examples. Whatever the respective (different) trigger event was, it always led to a more authoritarian ruler. Are there possibilities to restrain the spread of this virus?

Fortunately enough the strong interdependence of all economic processes in Europe provides a basis for the construction of a democratic incentive system that helps to avoid a fallback into authoritarian military dictatorship. The construction of such a new democratic governance device that can be understood, used and accepted by half a billion people evidently goes beyond the scope of this brief book chapter. Thus only some important remarks will be provided:

- To express her or his European citizenship by a political vote has to be visibly linked to economic consequences for the individual citizen. Only then citizens will be able to distinguish political participation from other free choices that can be made in the world of fashions. Only then further deterioration of participation rates in political elections can be avoided.
- For such a large political entity some indirect forms of democracy are the only operational choice. But this does not imply that the existing traditional party systems should survive, how political will can be aggregated by alternative—and more welfare enhancing—algorithms is an open question. Nevertheless, however aggregation is performed, the sovereign of last resort must remain the people of Europe. They provide the final feedback loop that periodically evaluates welfare enhancing policy. This is the core of democracy.
- As voting theory shows, the simple majority rule combined with the claim of ‘one man, one vote’ is insufficient to cover the needs of more sophisticated social systems.¹² A starting point—and a minimum requirement—for voting mechanism design is to incorporate game theoretic reasoning. Nevertheless it has to be mentioned that in most mathematical treatments of voting it is assumed that preferences for future states of the world are given and constant (though different) for every single voter. The problem of the voting mechanism then usually

¹² Imagine a society where 30 % of the electorate, the workers, can be exploited so efficiently that they can provide enough output for all; and let then take place periodic elections on the question if the same workers should be further exploited—using the majority rule and ‘one man, one vote’. In this case the voting mechanism would maintain a state of affairs which for most observers looks democratically sub-optimal. See Ordeshook (1986, pp. 53–96) for a collection of paradoxes of simple voting mechanisms.

becomes to force individuals to reveal their true preferences.¹³ Despite the ensuing fairly sophisticated refinements of these approaches their initial assumptions often invalidate their conclusions. In particular, preferences are dynamically changing and are subject to the more or less volatile communication networks people live in. Assuming this fact away means to immunize a theory from all empirical test. This, of course, is just a caveat to the praise of game theory and should point at its research frontier.

- If one drops the 'one man, one vote' rule, then (1) the idea of veto rights (closely connected to basic human rights) can be introduced. Further aspects leading to different weights for voters immediately follow: (2) higher weights for voters with more expertise in the topic that the election is about; (3) higher weights for voters that will be influenced stronger by the outcome of the election. As often is the case with good-looking, more adequate extensions, they also cause a whole set of further problems: Who determines the weight set? Can manipulation by pretended expertise be avoided? Etc.
- Finally the possibilities and experiences with electronic voting systems, more generally with our new IT environment should never be ignored. To vote can be a dynamic game characterized by an algorithm rather than a one-shot, simultaneous-move game played with ballots. But as soon as voting is a dynamic game played over a certain time-period, then there is interference from our sophisticated communication channels with communicators outside the voting process. This is not necessarily a disadvantage, but one must be aware that this changes the game dramatically. The influence of widely used mobile phones and social net software on political processes is one of the most impressive recent social innovations, which spontaneously occurred.
- The implementation of new democratic mechanisms never takes place in a socially neutral vacuum. There are always powerful agents that want to stick to the traditional rule set, which guarantees their existing privileges. On the other hand any perceived instability in a political also attracts advantageous racketeers without any democratic aspirations—but sometimes with convincing rhetoric skills. In other words, implementation needs well-informed, benevolent social scientists that are able to team up with a set of powerful agents to carry out this innovation.
- As a side-effect that hopefully soon will develop into an emancipatory project this type of democracy implementation in Europe can help to reverse the mind dulling trend of increasing alienation. Political education perhaps can be re-invented, and can be substituted for the cult of frustrated fatalism and consumerism. In the end, direct political participation in democracy design is a very much down-to-earth activity; some financial support from EU funds should be easy to organize. And it probably is powerful tool to defend EU democracies

¹³ The Gibbard-Satherwaite theorem provides a negative answer to this question for a broad class of voting systems, while William Vickrey won a Nobel prize by showing the opposite for a special type of auction mechanism [compare Milgrom (2004)].

against authoritarian intruders. It is this type of a less alienated population that the pilot project Europe aims at.

4 Coda

Returning to the brief historical synopsis provided in the prelude it now should be clearer that the cultural revolt in the late 1960s was a first sign of a revolt against the tremendously increasing worldwide alienation. The social-democratic turn in European governance which it provoked only was a short intermezzo, but it laid the foundations of a European social model that till today remained alive in the minds of many European citizens. With the revolt against the revolt and its social-democratic aftermath increasing alienation returned. Keynesian politics were ridiculed and even the remaining European Left could not find much of a strategy in the writings of classical political economists. There the jump from class to class consciousness was described as spontaneous and was not really articulated. What was missing was the individual and its internal model-building process. Today, in a time when Europe since 6 years is in a deep crisis, it is evident that the search of its unemployed youngsters for a job is at the same time a search for social identity. This latter search they share with most other citizens. In this way the terrain for nationalism and in some countries even for a new type of fascism seems to be well prepared. If the economic conditions continue to deteriorate—and austerity policies do their best to deepen the crisis—then counteraction has to be taken fast.

In an interview Herbert Marcuse (one of the famous proponents of the Frankfurt School; he was involved in the youth revolt of the 1960s in the USA) years after this revolt concluded his talk by pointing out that although this revolt was short-lived and made many mistakes, but in his view those who participated still should have one important task on their agenda: They should try to prevent the re-birth of Fascism. Marcuse was born in 1898 and died in 1979; he had seen two World Wars and one youth revolt. It is only fair to observe that he correctly anticipated our current problem.

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Kyriakos N. Demetriou
Editor

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Editor

Kyriakos N. Demetriou
Department of Social and Political Science
University of Cyprus
Nicosia
Cyprus

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Preface

With the Eurozone embroiled in unprecedented crisis, the debate over European Union's democratic deficit and legitimacy dominates the media, public interest and its institutions. The euro crisis over the last years, linked to an existential battle to save the common currency driven by a technocratic elite, intensified mistrust in both EU and national institutions and gave rise to a new-fangled, wide-ranging albeit diverse Euroscepticism. The failure to cope with the complexities of the democratic deficit prior to the financial/sovereign debt crisis that plagued Europe contributed to a lethal mixture of causes that tend to undermine further both EU and national democratic legitimacy, exacerbating pre-existing weaknesses. The EU seems to be staring into the abyss.¹

Euroscepticism is growing all over Europe, either in the form of a pragmatically oriented disbelief in the European Project's sustainability or out of dominant sociocultural patterns and ideological resistance—for example, as an assertion of national identity which in turn bolsters regionalist trends. Euroscepticism is located within the traditional left–right/pro–anti EU positioning of political parties or social movements (Milner 2005: 77; Topaloff 2012; Verney 2013). In the recent European Parliamentary Elections of the 24th May 2014 voter turnout was recorded at 43.09 %, slightly higher than the last 2009 European election, a “gain” not likely to convince Eurosceptics of the democratic credentials of Brussels. More significantly, the European landscape is being dramatically restructured by the rise of anti-EU forces, nationalist-populist parties on the extreme right or left, such as France's National Front, the Party for Freedom (PVV) of the Netherlands, Chryse Auge (Golden Dawn) in Greece and the Joppik party in Budapest (Andrea Mammone et al. 2012; Ruth Wodaket al. 2013).

Within academia, amongst political scientists and Europeanists, there has never been unanimity regarding the extent of a democratic deficit in the EU. Heterogeneous approaches to the European democratic deficit reflect divergences on the different conceptions of democracy (Weale 2007). The

¹ “The European Union is going through its deepest crisis since its foundation” owing to multiple policy failures since the outbreak of the global financial crisis (Preiss and Brunner, 2013: 74). The discussion is, of course, dated—see Bellamy and Castiglione (2002).

democratic deficit debate is thus essentially intertwined with the ideas or the “ideal” type of democracy one considers appropriate for the EU. On a theoretical level the debate is integrally linked to normative and procedural/institutional definitions of “democracy” within the Western tradition. As Jensen succinctly pointed out “[t]he more the EU diverges from that ideal, the more pronounced the democratic deficit is usually considered to be” (Jensen 2009: 1). Unsurprisingly the resurfaced debate over Europe’s “democratic deficit” revitalised political theory by raising or challenging traditional perceptions about political values, the correlation between principles, values and practices, the legitimate scope of the authority of democratic institutions, the importance (or non-importance) of direct political participation as a means to influence decision-making and enhancing the quality of constitutional or executive government in general, political rights, equality, freedom and accountability.

What seems to progressively gain broad consensus is that we still strive to create a “theoretically more democratic Europe”—one embedded within the liberal tradition of political, moral and philosophical values. After all, “democracy”, literally meaning “rule of or by the people or the demos/community,” is a central part of the self-image of Western political tradition. Despite theoretical complexities, in its simplest form democratic discourse centrally involves the notion of “safeguarding liberty against power,” whether it is institutionalised or sanctioned by law or generated by unplanned and sometimes uncontrolled, yet overarching, constellation of market competition effects—national or supranational.

There is a rapidly growing sensitivity today that the EU, enmeshed in current financial/economic contingencies, has long suffered from democratic deficit and lack of legitimacy. Hence the economic crisis revealed an immensely pessimistic spectrum of undemocratic threats and practices. The euro crisis seems to have worsened the problem of democratic malfunction and aggravated the legitimacy issue.² For example, when it comes to procedural (un)democratic rules, elite top ministers and heads of government take big decisions affecting member states and hand them down to an unelected body called “troika”. It consists of representatives of the European Commission, European Central Bank and International Monetary Fund. National parliaments have been left with no political influence—they are almost non-entities; their decisions eventually count for nothing. Member states under “rescue bailout” schemes appear as troika protectorates. Democracy is significantly corroded. In this way, EU political legitimacy is becoming a troubled conceptual and empirical territory. Input legitimacy (i.e. perceptions about the benefit political institutions seem to be delivering to the citizenry) has evolved into a highly contested concept. For the heavily indebted countries of the Eurozone, the perception of a democratic deficit has become an enormously distressing and demoralising issue. The unelected body called “troika” has virtually forced national

² Huw Macarthey (2013) tries to explain why “more Europe and less democracy” seems to be the order of the day.

parliaments to accept budget cuts, bailout and bail-in programmes, imposing drastic structural reforms that affect significantly national citizen's quality of life, and appear to defy core ideas such as equality, fairness and citizenship.³

Citizens across member states of the EU, especially in the South of Europe, whether individually affected or not by the debt crisis and austerity measures, are progressively losing trust in their national governments. The political impact is profound: we have witnessed premature endings of mandates, radical restructuring of party landscapes, unpredicted and unpredictable electoral results, mass protests and an intensifying stream of Euroscepticism. Along the lines of an opposition to the process of political European Integration that frequently involves perceptions of the EU as undemocratic and increasingly inefficient and bureaucratic. The idea of an inherent democratic deficit in the structural construction of the EU necessarily raises questions of democratic legitimacy. In a nutshell (input) legitimacy refers to a perceived lack of accessibility to citizens, or lack of representation of the ordinary citizen, and lack of accountability of European Union institutions. Overall, citizens across the EU are becoming increasingly sceptical of the EU's ability to work out efficient mechanisms to deal with the worst crisis since the Union's inception.⁴

As far as Representation is concerned, the overarching theoretical question is to what extent representation is tied to the EU(-ro) crisis/failure. What types of representation/democracy should the EU be focusing on? Closely linked to this lies the recurring question of the democratic legitimacy of the EU in light of the so-called "democratic deficit(s)", the policymaking power of an unelected (technocratic) bureaucracy, its concomitant elitism and abstract detachment from regional concerns.

This volume gathers together expert scholarship and tries to address the tensions created between national versus EU level of government, examining in detail issues which are conceptually and empirically relevant to the discussion, while not neglecting an EU perspective on the matter. The volume is not designed to address questions related solely to Eurozone countries but the entire of the EU.

Thus, the essays in this collection are designed to explore issues pertaining to democratic legitimisation in European politics intrinsically woven together: the monetary union and the debt crisis/economic growth, constitutionalism, European

³ See also a relevant discussion in Michael Keating and David McCrone (2013).

⁴ A survey in 2012, conducted by TNS Opinion on behalf of the European Commission, showed that, for the European Union overall, those who think that their country's interests are looked after well in the EU are now in a minority (42 %). TNS Opinion (July 2012). Question A21a.2, (PDF, T78). *Standard Eurobarometer 77 Table of Results*, European Commission, retrieved 13 October 2012. Question: "The interests of (OUR COUNTRY) are well taken into account in the EU."

- Total agree: 42 %
- Total disagree: 50 %

integration (and disintegration), European federalism versus regionalism, Euroscepticism and the British question, the limits of political participation and active citizenship, EU and Globalisation. Significantly, the present volume expands on and explores various concerns/problems/pathologies largely perceived as threatening the future of the EU, not only on the basis of contemporary contingencies and temporary factors, but also those affecting its future development and growth.

The project—despite its thematic and topical coverage—does not implicitly or explicitly aim to convey a pessimistic perspective on European affairs but to draw the anatomy of the “European crisis”, analyse the roots/causes and background of problematic or malfunctioning areas, and make an effort towards anticipating future developments. It is not implied here that everything “went wrong” across the board; some policy fields did better than others. For example, though fiscal policy (or lack of one) is an area where the EU/Euro went wrong, environmental policy has performed much better. Foreign policy, for some, can even be considered as a mild case of EU success.

Structure of the Volume

The volume is divided into four interrelated thematic sections each consisting of three chapters, written by specialists: National Euroscepticism, EMU & Legitimacy Crisis, (iL-) Legitimate EU? (or, the Future of EU Integration), and EU Deficit(s) and Legitimacies.

National Euroscepticism

In chapter “Britain and Europe: a model of permanent crisis?” Simon Usherwood argues that the Eurozone crisis has shown how the fates of all European states are closely bound together, even if they do not all participate in the same institutions. Thus the UK has found itself drawn into debates about Eurozone governance despite not being part of the single currency. Likewise, other EU member states have been forced to consider more closely the British experience and approach to European integration. This chapter argues that the long and problematic relationship between the UK and the Union offers some constructive lessons to both sides about the management of a system that finds itself at a critical juncture. In particular, it highlights the importance of open and flexible interaction between parties, the need to continue to secure popular support and identification and a willingness to accept that more radical options have to be discussed, if not necessarily taken. In so doing, the chapter suggests that the current crisis offers the seeds of a new phase in European integration.

Christian Schweiger in chapter “The ‘Reluctant Hegemon’: Germany in the EU’s Post-Crisis Constellation” shows that the financial crisis and the subsequent sovereign debt crisis in the Eurozone have caused a fundamental shift in the EU’s internal power balance. The economic weakness of France and the other two larger Eurozone countries Italy and Spain has pushed Germany as the largest Eurozone

member state with the strongest economic performance into a dominant position as agenda-setter. The German Chancellor Angela Merkel has been reluctant to accept her country's new unintended position as a hegemon in the EU. Under her leadership the EU has responded to the crisis by creating a new complex policy framework with multiple levels of responsibility. The new set-up poses substantial risks for Germany's future position in the EU. Germany's insistence on putting fiscal austerity at the heart of the EU's emerging post-crisis agenda has alienated many member states, particularly those who face grave social consequences as a result of the crisis. Moreover, the German ambition to push the Eurozone towards full political integration risks dividing the EU's membership base into a core Euro insider versus a periphery outsider group. The strengthening of the supervisory powers of EU's institutional level has as of yet unpredictable consequences for sovereign national policymaking. This chapter argues that the post-crisis internal set-up in the EU poses the substantial risk of long-term political isolation for Germany if its leaders fail to present a broader vision for the future of the EU. At the same time Germany's good relations with countries in Central and Eastern Europe present an opportunity for the country to form new leadership alliances and to counter renewed fears of a "German Europe".

José M. Magone in chapter "Divided Europe? Euroscepticism in East Central and Southern Europe" maintains, convincingly, that European integration is at the crossroads. A growing divide in terms of politics, society, economy and culture is emerging in the European Union. The peripheralisation of central, eastern and southern Europe after 2008 due to the financial crisis has accordingly changed the perceived benefits of being a member of the European Union. A growing instrumental Euroscepticism has become more prominent in most central, eastern and southern European countries. Although the divide between core and periphery Europe became more prominent after 2008, this chapter argues that a divergence between rich and poor countries started already at the beginning of the millennium. The cleavage between rich net payer member states and poor net receivers has certainly contributed to the consolidation of a centre-periphery divide. Magone describes the transformation of the discourse or discourses among the member states at the European level—a discussion of what is Euroscepticism and which varieties of the phenomenon are involved in national debates. Magone argues Euroscepticism is largely instrumental and related to the negative impact of the austerity policies of the European Union. The austerity policies have exposed the myth that the EU could be instrumentalised to transform ailing socio-economic structures. The EU as *vincolo esterno* has changed from a soft touch approach of transformation to a hard one. This clearly alienated many populations from the EU. The chapter addresses this change of mood and how it is being instrumentalised by more radical groups such as Golden Dawn in Greece and Jobbik in Hungary to return to nationalist policies. In spite of differences, Euroscepticism has become a phenomenon in central, eastern and southern European countries. However, this chapter outlines different groups of countries and the level of Euroscepticism in each one of them.

EMU and Legitimacy Crisis

Philomena Murray and Michael Longo in chapter “The Crisis-Legitimacy Nexus in the European Union” contextualise the Eurozone sovereign debt crisis and examine current challenges of EU governance in an era of mixed sovereignty. This chapter focuses on the relationship between the crisis and the EU’s long-standing legitimacy challenges. It examines key debates representing the range of views and perspectives on the genesis of the crisis. Driven by domestic attitudes and political imperatives, the crisis debates are demonstrating the highly contested nature of EU policy prescriptions to overcome the crisis. Social tensions and old prejudices, both within and between states, are resurfacing, testing long-standing assumptions about European integration. At the same time, political leaders in the EU and in some member states are rapidly losing the trust of their people as economic hardship and a concomitant rise in populism harden the citizens’ feelings towards them. Fiscal deficits and enduring deficits of democracy and legitimacy are conflating with emerging deficits of solidarity, growth and social justice to present a potentially damning vision of European integration. Renewed faith in the European Union as a politico-economic endeavour with a focus on solidarity, participation and equality is essential if Europe is to avoid disintegration and decline.

Mark Baimbridge in chapter “Economy and Monetary Union” reviews the substantive issue of the contemporary intertwining of both national and overall EU economy in relation to the spectre of monetary union through first evaluating a country’s readiness for euro entry through a comparison between the convergence criteria stipulated in the Treaty on European Union and the theory of optimal currency areas, which leads to a discussion of the economic costs and benefits of euro membership. However, given the unprecedented strain the Eurozone has now come under, this chapter also examines the background to the current Eurozone crisis. Specifically, how the Global Financial Crisis induced Great Recession triggered the problems within the Eurozone. Subsequently, Baimbridge explores how the advent of EMU has significantly redefined the operation of fiscal and monetary policy with the former retained by member states, but proscribed by EMU-wide rules, whilst the latter has been assumed by a specifically created independent central bank. Hence, the chapter explores the theoretical underpinnings of the operation of monetary and fiscal policy within EMU, where it examines the conduct, coordination and philosophy of macroeconomic policymaking. This analysis is then extended by discussing a series of potential remedies, consisting of an evaluation of EU instigated solutions, together with a series of alternative propositions. However, whilst the economic remedies to the Eurozone crisis may eventually succeed, the greater long-term damage may well emerge through the political sphere with the imposition of unelected technocrat governments, together with growing dissatisfaction of mainstream political parties with support for either the far-right, protest parties, anti-euro parties, anti-EU parties or member states losing confidence in the direction of “ever closer union”.

Chapter “Suspending democracy? The role of unelected bodies in the governance of the EU economic crisis”, by Diego Giannone, is a revealing account of

how the economic crisis of the EU is threatening also the fragile foundations of European democracy. It is not, however, as it might seem, a transitional stage of “authoritarianism of emergency” due to the severity of the crisis and the need to face it as quickly as possible. Giannone argues that the economic choices made in recent years, the policies imposed on States and European citizens as well as the method chosen to implement these policies—in brief, what he defines as the “economic governance” of the EU—can be read as a further step towards its neoliberalisation. This new constitutionalism of the EU is based on a twofold development: on the one hand, the onward de-democratisation of European politics, with the substitution of democracy with forms of neoliberal governance; on the other hand, the onward de-politicisation of European economy, based on the empowerment of unelected bodies, such as the European Central Bank (ECB), and the marginalisation of elected representatives. Giannone’s chapter describes the neoliberal restructuring of the EU and national states on both the political and economic level, by analysing the EU’s responses to its democratic deficit and the role played by the ECB in the economic and financial crisis.

(iL-) Legitimate EU?

In chapter 7 Gulshan Khan (“Habermas’ Europa”) reviews Jürgen Habermas’s book *The Crisis of the European Union*. Khan shows that Habermas’s suggestions for transition from monetary to political and democratic union are persuasive, as are his calls for a unified Europe to have stronger global presence. However, it is shown that there is a gap between contemporary pressing realities and the optimism of Habermas’s cosmopolitan aspirations. Indeed, Habermas acknowledges just how far we are presently removed from this normative vision, and how the institutions of the EU are currently controlled by technocratic elites with their neoliberal agenda. With this in mind, Khan argues that there are inherent problems with the way Habermas links the possibilities of future political union to the high ambitions of his cosmopolitan ideal. The chapter introduces the reader to some of the key elements of Habermas’s wider theoretical project focusing on his conceptions of democracy and legitimacy, and what this implies for the relationship between law and democratic politics, as well as his thoughts on cosmopolitanism and the legacy of the European Enlightenment project. Then, it outlines his argument for a European Constitution, and connects this to his more general reflections on democracy. In the final section Khan focuses on Habermas’s conception of the future of Europe, with particular reference to his vision of Europe as a key player in world politics. This chapter suggests that a unified Europe as a countervailing force in global politics is possible and desirable, but without the cosmopolitan ideal that underpins Habermas’ approach.

Hardy Hannapi in chapter “Defeating Nationalism in Europe. Voting mechanisms for highly integrated economics” shows how dense economic links in Europe are, basically by using intra-European trade flows and some financial data on the increasingly oligarchic ownership structure of financial intermediaries. Such

a highly integrated area with this enormous amount of households needs a quantum jump in democracy design—the advances of the division of labour come at the price of dramatically increasing alienation. A problem which has not even been properly conceptualised yet. What we observe is unreasonable piecemeal engineering guided by fundamentally inappropriate ideological model fragments maintained by the leading political elite. Some ideas on voting theory that highlight the difficulties of such a political design are provided. Hannapi concludes that such a “pilot project Europe” has to be enforced rapidly to prevent radicalisation of nationalism—to avoid a new totalitarianism.

Fernanda Neutel, in chapter “Pushing the Union forward? The role of the European Parliament in the Union crisis,” expands on the idea of the EU’s *sui generis* governance. She argues that the EU might configure a multilevel system, a post-parliamentary structure or a federal model in which the European Parliament resembles the traditional parliaments. In fact the European Parliament has been acquiring contours of a traditional Parliament. It is a co-legislator in most policy areas with the Council. It has legislative, budget and control powers and it can be influential by using consultation procedures, own-initiative reports and written declarations. Party politics is also very important within the institution. The national delegations have had no difficulties to get together in the European Parliament, the rates of cohesion are outstanding, the Eurogroups can easily make coalitions and the left–right divide can be perceived. There is a European governance tied together by means of a specific programme supported by an ideological majority in the European Union. The measures put forward to tackle the 2008 crisis submerging the Union since that time were sustained by this governance. In the European Parliament, some minor countervailing procedures have been recommended but with no impact. Although from 2012 to 2013 the economic measures presented by the Commission and the Council to the European Parliament have been received with less enthusiasm, the latter remains a supportive institution for the prevailing policies. However, there is a lot to say about this unfinished system. Following the democratic European tradition with significant levels of democratic control, Neutel argues, the lack of accountability of the European institutions still plagues European governance.

EU Deficit(s) and Legitimacies

In chapter “EU Democratic Deficit(s) and Legitimacy; System Versus Sub-System Level”, Alex Katsaitis argues that despite theoretical work on the importance of civicness and representativeness for modern democracies, less has been done to connect research on interest groups and the democratic deficit of the EU. Thus his chapter links democratic deficit frames with post-modern legitimacy conceptualisations. Different legitimacy demands (input, output) across the EU’s subsystems lead to variation in the activity of interest groups (public, private) that supply it. Utilising research on 4,000 interest groups from the Register of Interest Representatives, the analysis indicates that different frames of the democratic

deficit apply across Directorate Generals (DGs). It appears that both under- and over-representation are taking place. If the EU is to improve its aggregate legitimacy then it must address multiple democratic deficits found across its DGs, by balancing the density and diversity of different types of interest groups clustering around them.

Nicola Chelotti and Volkan Gul in chapter “Foreign and Defence Policy and Legitimacy” analyse the legitimacy of EU foreign and defence policy, by investigating the logic and practices of its decision-making process. EU foreign and defence policy is increasingly made by national diplomats in Brussels, in Council committees, with minor involvement of elected national politicians and with a certain leeway from the influence of the national capitals. In addition, some of these officials adopt supranational conceptions of their diplomatic role and undergo (partial) processes of EU socialisation. This chapter uses an original database of 138 questionnaires with national diplomats participating in the decision-making process of EU foreign policy. In this perspective, the legitimacy of EU foreign policy is evaluated, with respect to different aspects. This includes (but not limited to) the legitimacy of Council committees as decision-making sites, of their members, of their decisions and of the act (and chain) of power delegation. The authors also explore the relation between legitimacy and accountability in this context.

In the final chapter “European Union in the globalized world” Fritz Bruess demonstrates that the European Union (EU) as a regional entity is embedded in the process of globalisation. Since the entry into force of the Lisbon Treaty on 1 December 2009 the EU has increasingly emancipated itself from a “political dwarf” to a political “global player”. Although Europe’s supremacy in world trade slowly begins to crumble, the EU is still a “world trade superpower”. The euro has become the second most important reserve currency since its introduction in 2002. The EU maintains an extensive network of bilateral free trade agreements (EU’s “spaghetti bowl”). To shield against the dangers of globalisation, the EU runs several strategies. Firstly, the continuing enlargement the EU’s internal market is equivalent to an implicit foreclosure of third countries. This immunisation effect is reinforced by the expansion of the Eurozone. Secondly, the EU’s competition and anti-dumping policies are very effective in ensuring fair competition in the EU internal market. Losers of the globalisation get support from EU’s globalisation fund.⁵

Nicosia, Cyprus

Kyriakos N. Demetriou

⁵ I would like to express my sincere thanks to Alex Katsaitis for his constructive comments on the structure of this volume and his generous and insightful advice, whenever needed.

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