policy paper

European Politics and the Euro Crisis: Ten Failures

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Introduction

The euro crisis is deepening and accelerating week by week. It is a political and economic crisis not only of the eurozone but of the European Union as a whole and with potentially far-reaching consequences. There is intense debate over the different likely outcomes to the crisis: whether the eurozone will survive intact with 17 members (although very likely with many member states mired in recession), or whether the eurozone may split or collapse entirely. All of these scenarios have major implications for the European Union as a whole – politically as well as economically. If the eurozone collapses this could threaten the future of the EU altogether. If the zone splits or is mired in low growth, there will also be substantial economic and political impacts – across European and internationally. Yet the focus of most of the discussion, and action, is on the fire-fighting to hold the eurozone together rather than on the wider political and democratic failures that have emerged starkly across the EU as a whole.

Efforts to contain and manage the Greek debt crisis over the last 18 months have failed, with attention shifting to Italy, on to Spain, and with bond market pressures rising in November in so-called core euro countries including France and the Netherlands, and with even Germany struggling to sell its bonds towards the end of the month. Yet the mantra of the German-led strategy to solve the crisis is 'no change', budgetary discipline remaining the core element of the Merkel-led containment strategy. But it is not working, and the crisis is clearly now a political and social crisis not just an economic one – and one that affects the entire EU, and beyond.

This note outlines ten main failures of leadership in managing the eurozone crisis: three political and leadership failures, four democratic failures, and three economic failures. These are all, inevitably, intertwined and each implies fairly directly a more positive and desirable alternative route.Whether the euro can be saved remains to be seen but if the EU and its member states are to come through this deep crisis in the least damaging way, the EU's (and not just the eurozone's) leaders must rapidly confront their political, democratic and economic failings in the handling of the crisis and start to tackle it in a strategic and comprehensive way.

Above all, there is a need for a clear, positive political strategy and vision for the EU, to show that the EU is more than just a single currency, that it has a current and future political, social and economic purpose and dynamic. The EU's leaders should be acting now both to change how they tackle the eurozone crisis and to limit the deep damage it is also doing to the EU's political role, dynamics and influence at home and internationally.

A. Political and Leadership Failures

Political, leadership and democratic aspects of the crisis are closely interlinked. But while some of the failures identified below suggest weaknesses in, or even contempt for, the role of democracy, others are failures of leadership and strategy not of democracy per se. So this first section concentrates on the main strategic political and leadership challenges, while the next section identifies the key democratic failures.

Failure No. 1: Lack of European political vision and strategy

Over the last 18 months or more, the sequence of summits, emergency meetings of the Merkel-Sarkozy duo, and more recently of the Frankfurt Group, and general fire-fighting in the face of volatile and panicked markets have dominated the headlines. Throughout this whole period, there has been no serioushigh-level political leadership in the EU setting out a positive overarching vision or strategy of what today's EU is and where it is going. The talk has been only of austerity, of discipline, and of free market routes to growth.

In the midst of crisis, fire-fighting may come first, but, given its depth and breadth, putting the crisis in context and showing that the EU is a major political, social and economic organisation with a clear role at home, in its region and in the world is vital to limiting the political and geopolitical damage the crisis is doing. Showing both in Europe and globally, that the EU still has a clear, strategic, positive political role and purpose should have been,and must become, a priority.

Germany's Chancellor Angela Merkel has talked of saving the euro as central to the future of the European Union but the treaty changes she envisages are more integration to enforce budgetary discipline through a tougher role of the European Commission and of the European Court of Justice. She calls both of these 'political' solutions and refers to 'fiscal union',although hers is a partial fiscal union of budgetary discipline but without fiscal transfers[1]. She does not talk of the positive domestic, democratic, social, political, regional or geopolitical role of the EU – her vision is crisis management, little else. And the leaked draft German proposals[2] for treaty change in 2012 suggest that issues of political integration and possible debates around questions of democracy and legitimacy are for a later date, 'in the longer term', with nothing to say about these central and urgent questions now. So the route to treaty change in 2012 risks being one that increases the democratic deficit and political crisis through strengthening the centralised imposition of the existing technocratic, highly deflationary and failing solutions to the euro crisis.

Exactly a decade back, at the Laeken summit in December 2001, the EU's then leaders set out a vision of a more effective, and a more democratic Europe with a bigger, clearer role in the world[3]. Today's European leaders seem to have no such vision or strategy. In the midst of crisis, Europe's leaders, backed by their finance ministers, are solely on the defensive. And the foreign ministers of the 27 member states are notable by their absence. The Lisbon innovations meant to give clearer strategic leadership to the EU through the permanent European Council President – Herman van Rompuy – and a stronger foreign policy high representative/ commissioner – Cathy Ashton – have for now failed, with Rompuy and Ashton competing for invisibility, albeit with Commission presidentJose Manuel Barroso much more visible, if often on a parallel track to France and Germany, and at least trying still to ensure decisions encompass the EU 17 or 27 not just the directoire.

Failure No. 2: Mishandling political relations between member states – directoire of two, inner core of 17, or EU of 27?

The EU is not always a happy consensus-driven political family – summit rows explode, policy differences run deep. But a balance has usually been maintained over time: the big countries know or knew they couldn't just run the show and ignore smaller member states, and long run differences of view between north, south and eastern members on free trade, or regional funds, or relations with the US, were all factored in.

As an example, back in 2001, when Tony Blair hosted a dinner in Downing Street – with the then French and German leaders Jacques Chirac and Gerhard Schroeder, Romano Prodi (as head of the Commission but also from a large member state Italy) and Javier Solana as the EU's foreign policy supremo (but from Spain, another larger country) – the Dutch prime minister Wim Kok memorably flew in uninvited, in time for dessert, seeing it as vital that the 'big5' did not think they could have such meetings and ignore the fundamental political need to have coalitions and groupings that included smaller as well as bigger member states.

Germany above all, amongst the bigs, used to understand this dynamic, and would often make common cause with smaller countries, not least the Benelux trio. But in the euro crisis, Germany has become the dominant player, even within the Merkel-Sarkozydirectoire of joint press conferences and emergency bilateral meetings. To the extent that this has broadened recently, with meetings since October 2011 of the so-called Frankfurt Group, it is a group of officials, not member states (including a non-EU institution, the IMF): Merkel, Sarkozy, Barroso, Van Rompuy, Olli Rehn (as European economic and finance Commissioner, Mario Draghi (head of the ECB), Jean-Claude Juncker (as chair of the euro group of finance ministers) and Christine Lagarde (head of the IMF)[4]. Unusually too, some German commentators and politicians have been publicly frank about Germany's growing dominance – a senior member of Merkel's CDU party, Volker Kauder's, statement in November that "suddenly Europe is speaking German" has already become infamous.

This concentration of decision-making on the euro crisis on two countries and a few unelected officials represents the worst of all worlds. In the midst of deep crisis, rapid executive decision-making may be vital – yet the eurozone decision-making remains too often behind the curve, too little, too late, too slow. And at the same time, it has often visibly failed to bring even the other members of the eurozone 17 clearly into decisions. There have been euro 17 summits – but the only press conference that matters is Merkel-Sarkozy, who then also frequently meet bilaterally without the other 15 and who representthe dominant part of the Frankfurter Group. This is no way to build a political consensus, let alone one that has some democratic legitimacy.

Even less attention has been paid to demonstrating that the EU of 27 still matters or is relevant, even though 23 of the 27 member states signed up to the 'euro plus pact' in March 2011 showing their political intention to remain firmly part of core EU policies (only the Czech Republic, Hungary, Sweden and the UK remaining outside)[5]. And while British prime minister David Cameron, has positioned Britain almost as if it were not in the EU – as if he were prime minister of Canada – other member states such as Poland, and Sweden have very clearly been concerned to be part of the future of the EU, to be part of a solution to the crisis[6].

Talking up the wider policies and activities of the EU as a whole, at 27, including but going beyond the single market, ought to be an obvious part of political management of the crisis from the short to the longer term, but with the partial exception of Barroso, it has barely happened.

This neglect of political dynamics across both the 17 and the 27 has weakened European political solidarity amongst the EU's leaders, and seriously aggravated the alienation provoked by the sight of Merkel and Sarkozy apparently giving out diktats to the rest of Europe, in particular but not only to Greece and Italy. This puzzling and unnecessary neglect of all the known and best lessons of European political dynamics is a failure of leadership and adds to the sense of weakening democratic legitimacy of the management of the euro crisis.

Failure No. 3:Geopolitical failure – neglecting the EU's role in its region and globally

The EU's leaders have failed to maintain any serious political space on the agenda for other political issues, not least foreign policy ones. This is a multiple failure of leadership. It is inevitable that the euro crisis dominates the leaders' attention but ensuring that it is not to the exclusion of all else, should have been a vital priority too.

The EU, at a time of major shifts in global power balances, should be asserting and defining its role as an important political and economic pole in the new multipolar order if it is to retain influence. Yet there is no clear and high profile EU geopolitical strategy[7] – Solana in 2003 developed the EU's first general security strategy but the EU appears to have lowered its ambitions since then. Paragraphs in summit conclusions are no substitute for active high-level strategic leadership.

The EU should at the very least have a clear strategy for its most important foreign policy issues. One of these close to its borders is the 'Arab Spring' and all the associated challenges of how the EU can best support and work with other countries in the region to ensure democratic, peaceful, economically successful transitions, and contribute to an end to violent suppression by states including Syria and Yemen, and increasingly once again in Egypt. Yet there is only an essentially technocratic, low profile EU approach offering 'money, markets and mobility' as its mantra (focused mostly on Egypt, Tunisia, Morocco and Jordan) – but with divisions aplenty amongst the member states as to whether in fact to open markets or borders or to invest in any meaningful way[8]. There is no clearly stated overarching political strategy to the region.

Turkey is asserting itself strongly as a major actor in the region but the EU's relations with Turkey have hit a nadir as the long stalemate in the accession negotiations continues. Ashton meanwhile has a below-the-radar foreign policy dialogue with Ahmet Davutoglu, Turkey's foreign minister, but in the absence of a clear political strategy, consensus and real political engagement by the EU's foreign ministers, backed by their leaders, the EU is a low key, low influence player both with Turkey and across the Middle East and North Africa region.

In other vital global issues, such as climate change, and development assistance, the EU is present in meetings but there is an absence of top level political leadership or prioritisation from the EU and its member states – partly reflecting the focus on the euro crisis, partly the shift in politics in individual member states. For example, the UK Conservative-led government is much less progressive and active on climate change than its predecessor, and on development, Sweden, the UK and the Netherlands among others are starting to turn the EU's once progressive development policy into something more politicised, aligned with EU foreign policy interests (a trend reinforced by the new EU External Action Service) and putting a higher ideological emphasis on the role of the private sector[9].

At the technocratic level, where the EU is more active, it is also in various areas, both in its development policies and in its policies towards northern Africa,talking of more political conditionality. But how can the EU expect to have influence whether at trade negotiations or on human rights, or the defence of democratic principles, if at home, it is managing a euro crisis in ways that are less than transparent, less than democratic, and showing insouciance in the face of millions of unemployed across the EU with social and political dislocation increasing in many countries.

All these issues – from geopolitical change to the Arab Spring, climate change, and development – and many others are vital in their own right, and important to the EU but its leaders are neglecting them. This is a serious error. If Europe, in the midst of this crisis could show it is still a strategic influential political and geopolitical player, this would pay large dividends in situating the euro crisis and the EU itself in a more positive context, rather than an unhappy continent ever inward-looking as it wobbles before the markets.It would show that the EU has a political dynamic and purpose that is shared across the 27, spans many key European and international issues, and is important enough to be strategically prioritised by leaders at this time of economic crisis. Instead, the impression of the eurozone leaders focused only on the immediate fire-fighting of the euro crisis to the suppression of all else, has unnecessarily intensified the wider politics of the crisis and increased the perceived fragility of the EU itself. It is an unnecessary own goal by the EU's leaders.

The EU's neglect of its foreign policy as the multipolar world continues to take shape means that, for now, as the euro crisis evolves, the Asian century (including in that the US) has arrived rather

B. Democratic Failures

The euro crisis has sharply highlighted a series of democratic failings and inadequacies at both EU and member state level. These are often interdependent so that failings in member states reinforce EU failings and vice versa.

Failure No. 4: National and EU failures – lack of policy choices and debate

There is an apparent lack in most EU countries of real open policy debates, engaging the public and offering genuine political choices, as to how to tackle the impacts and dynamics of the euro crisis. The Merkel-Sarkozy austerity recipe for handling the euro crisis – reinforced both by the European Commission and the so-called Frankfurt Group – has certainly had its critics. But it is hard to identify really major political and economic alternative strategies offered by the major competing, mainstream political parties in most EU member states despite much public disquiet and periodic large protests and demonstrations from Greece to Portugal to the UK.

In Spain, the new government commits to following as much or more austerity as the outgoing government. In the UK, the Labour opposition talks of somewhat slower cuts to public spending. In Greece, Papandreou's ill-timed referendum call was designed by him to elicit public support for austerity not to allow a debate on real alternatives. This lack of real policy choices is even more surprising given the nature of the global economic and financial crisis since 2007, and the widespread if not consensus view, that free market, deregulated, neo-liberal approaches to economic policy drove the crisis, including the risky, unstable, eventually catastrophic practices of the financial markets. Economic issues are discussed further below, but there is a deep political failure here of European democracies to debate and put forward real policy choices. This same failure is clear at EU level too – whether in the pronouncements of the European Commission or European Central Bank. So while German views of austerity, budgetary discipline and economic competitiveness are dominating – since Germany holds the purse strings – the democratic and political failure is much wider than this. Some broader debates have taken place in the European Parliament but these have lacked visibility or traction in individual national political discourse.

This lack of real debate, choice, communication or even serious efforts by governments (or EU leaders such as Barroso and Van Rompuy) to fully engage with the public on the economic and political choices being made is corrosive over time. The various protests – from large demonstrations in Greece, to the Spanish indignados, to the British 'Occupy London' protests and big protest strikes in Portugal – at least show that there still is some public spirit of democracy, concern and political participation in European countries, but they also show up the failure of much of normal politics.

Failure No. 5: Failure to prioritise people and societies over markets – hopelessness and democracy are not good bedfellows

Linked to this lack of policy choices is an extraordinary failure – both national and in the EU management of the crisis – to consider in any serious way, the impacts of crisis management on the citizens of the different member states, or on the functioning of European societies.

European governments and leaders have acted as if they were almost academic economists. In the language of neoliberal (beginners-level) economic textbooks, they wish to get from 'equilibrium A' of too much debt, to 'equilibrium B' of balanced budgets. The fact that the transition route through massive cuts and austerity is condemning millions of people to unemployment, with several member states with youth unemployment rates over 20% (to over 40% in Spain), so that young people are facing hopelessness is ignored or barely acknowledged. Nor is there any apparent more sophisticated economic understanding that transition routes from one desired state (or equilibrium) to another are unstable and may get you to somewhere unplanned – and undesirable.

Yet the fact that the transition routes to budgetary discipline are causing major political and social unrest and protests and therefore do not seem to have the support of a large part of the European population is ignored, as are the deeper trends that are being sparked of political extremism, social instability, the beginnings of social breakdown.

Political leaders who do not act to create inclusive societies, to give all citizens and especially the young hope for the future, certainly do not deserve the label 'leaders', and in their slavish devotion to economic solutions with no attention to political and social outcomes are helping to undermine the very legitimacy of Europe's democratic and political systems.

Failure No. 6: Emergence of technocratic governments

There has been much criticism of the emergence of technocrat-led governments in Greece and Italy, and of the mixture of market and EU pressures that in many ways led to the falls of the former governments. But this is a failing of national politics too.

George Papandreou called a referendum in Greece in the face of huge public protests at the immensely heavy cuts that appear only to be leading to a downward economic spiral of recession and debt. But he did so (as mentioned above)without thinking that there were any real alternatives to be put forward, rather he wanted support for austerity. Even so, at the very least, democratically he did see that public support in such a crisis was central. While many commentators, opposition politicians, and politicians within his own party all criticised him for his handling of the referendum call, they didn't suggest either that there were alternative choices. So a national unity government to impose austerity was a mainstream Greek political choice – even if one that big sections of the public appear to oppose.

But these Greek political reactions do not excuse the inappropriate pressures and comments from Olli Rehn, the European economic and finance commissioner,intervening in Greek politics by pushing for a national unity government. Nor do they justify the public display ofanger bordering on contempt of Merkel and Sarkozy in their reaction to Papandreou, particularly at their impromptu late press conference on the eve of the Cannes G20 Summit. While Papandreou's timing and communication was woeful, Merkel and Sarkozy's reactions added powerfully to the sense of a eurozone run by diktat. In a crucial and damaging decision, the Merkel-Sarkozy statement[10] – in that press conference – that Greece could leave the eurozone opened a Pandora's box that cannot now be closed, admitting that the eurozone is not an irreversible project, and so ensuring contagion from Greece to others, and higher uncertainty in financial markets.

In the Italian case, Silvio Berlusconi lost his majority in the Italian parliament and, as many have pointed out, Italy has had technocratic governments before[11]. But as with Greece, this was an outcome clearly encouraged from Brussels and by the Merkel-Sarkozy tandem – hardly a respect for the independent democracy of an individual member state. Nor does it reflect well on Italy's democracy, that at a time of huge crisis for the country, technocrats rather than politicians are seen by many as the reliable way to govern the country. This is a failure of national politics.

Arguably, other governments – notably in those countries most pressured by the markets including Portugal, Ireland and Spain – are also following 'technocratic' policy recipes, though at least voted in with democratic legitimacy, but with no policy independence or alternative choices offered to the voters.

Failure No. 7: The EU's democratic deficits

The EU's broader democratic challenges and weaknesses did not need a euro crisis to expose them – they have been much discussed. The lack of a real pan-European political culture and debate that links publics of different member states, the opaqueness and bureaucracy of Brussels, of EU summits and legislative processes, and the complexity of the EU treaties all contribute to these democratic challenges. But at a time of EU crisis, especially when greater fiscal union is being discussed as a route out of the euro crisis, these democratic deficits are a major problem since political legitimacy and economic solutions do not necessarily match (what Paul Krugman has called the non-intersecting euro-venn[12]).

While the long treaty reform process after the Laeken Summit of 2001 was intended to bring the EU closer to the people, the rejection of the constitutional treaty by French and Dutch voters in 2005 showed that the EU's politicians had not succeeded in that aim. This outcome was further aggravated by the deliberate and rather democratically cynical replacement of the constitutional treaty by the more technical, hard-to-read, but very similar Lisbon Treaty in 2008 – which was rejected by Irish voters in June 2008, who were duly asked to vote again and which, after an Irish 'yes' at the second attempt, came into force in 2009.

Nor has the Lisbon Treaty aims of creating clearer, stronger political leadership at EU level so far been a success – either in giving clear political or strategic leadership or in making the EU much clearer either for the EU publics or for outsiders. Whether on the euro crisis or on foreign policy, van Rompuy – and Ashton on foreign policy – are close to invisible. And Van Rompuy does not appear to have acted as an effective EU leader to ensure that all member states feel they are included and participating or to limit the dominance of the Franco-German tandem and the Frankfurt Group.

Overall, the fact that the EU is a mixture of the confederal and the federal has always been both a weakness and a strength. While the confederal or intergovernmental elements of the EU, with heads of government representing their member states at summits has conferred some democratic legitimacy, at the same time this has meant executive power has not had the same scrutiny as it would have in a purely federal system. The more that major powers and decisions are handed to EU level, the more problematic the confederal aspects of the EU structures are – as the euro crisis has highlighted only too clearly. Letting decisions on budgets go to intergovernmental summits or to the Franco-German directoire has democratic deficit written all over it, and the Merkel-Sarkozy pronouncements appear to be grating increasingly on fellow leaders and European voters alike. Some even more bizarre ideas have had an airing with Finnish foreign minister Alex Stubb[13] suggesting that those 6 eurozone countries with a 'triple A' rating should have more of a say on economic policy than others – a truly market-driven approach to political decision-making (with presumably political power being lost if markets downgrade any of the six?).

While some argue that building a truly federal EU politically as well as economically is the answer to the current crisis, this seems – as the 2005 'no' votes also suggest – at best premature. Are Greek, German, Spanish and Irish voters ready for a fully federal political EU? This is not what current national debates would appear to show and the absence of a strong pan-European culture is still highly problematic, despite the role of the European Parliament, in moving the EU in that direction. And certainly, for a federal EU to be part of the solution whether in the medium or longer run, then the democratic failing of a lack of serious policy choices in this crisis would have to be seriously addressed.

C. Economic Failures

The economics of the euro crisis have received much more attention than the political and democratic failings of the crisis. Without the global financial and economic crisis of 2007/08, the weaknesses of the eurozone may not have been felt or exposed in such a severe way or at least so rapidly. But the fact that the economies of the eurozone are not sufficiently close or convergent in economic performance for a single currency to function smoothly has been shown only too clearly by the crisis, together with the deep and related problems arising from the lack of sufficiently integrated common fiscal policies.

In the face of the euro crisis, there are three particular,interconnected,economic failures in the EU's response to highlight.

Failure No. 8:Macro-economic failures – neoliberalism still dominates

There has been much debate and disagreement as to whether cuts and austerity can reduce government deficits, and tackle the problems of illiquid, or in some cases (Greece at least) insolvent, member states. The German school of budgetary discipline and austerity as the route out of the crisis presumes that this can appease financial markets and lay the basis for growth – outside the euro, this is the route the UK Conservative-led government is also following.

From a macro-economic, and Keynesian, point of view, this risks, and in many cases already is, creating a downward spiral of cuts, leading to falling demand, falling consumer and business confidence, and lower growth or actual falls in output[14]. The worst example of this downward spiral is in the vicious circle evident in the Greek economy. While, in the UK economy, monetary policy has at least been looser with the policy of so-called quantitative easing (though the cuts still leading to almost no growth at all), in the eurozone, monetary policy seems to have also been too tight along with over-tight fiscal policy. An alternative route of maintaining demand in the shorter term while looking to manage budgetary deficits in the medium term, through growth and better budgeting (whether tax rises once growth allows and/or some cuts) has been suggested by various commentators. This would stand the best chance of actually creating growth, and of facing down the markets in terms of their judgement on such a strategy, if it was implemented across the EU. As it is, this is an approach that to some extent has been followed in the US (with consequently better growth performance) but not in the EU.

This reflects the continuing hold of neoliberal orthodoxy including in German, European Commission, and ECB economic analysis as well as in other EU member states. The dominance of Germany in eurozone decision-making on this is particularly problematic. The fact that Germany has essentially seen itself for decades (and not just in this crisis), in its economic policies, as a small open economy – and so as an economy that can effectively ignore issues of demand management in a European or international setting – is one part of the underpinning of this damaging German approach to eurozone macroeconomic policy. To run the large German economy let alone the very large eurozone economy as if it were a small open economy in a much larger world economy is deeply damaging to the EU's economic prospects. Creating a more federal, more integrated eurozone to implement such 'austerity-only' macro-economic policies will not solve the eurozone's problems.

Linked to this is Germany's reluctance to see that the trade deficits in eurozone countries such as Greece, Portugal and Italy are linked to, or the mirror of, its own trade surplus (and the same follows globally) and so that there are macroeconomic issues of demand expansion for surplus countries that are needed if either the EU and/or the global economy are to avoid slow growth or a double dip recession. But Germany sticks to a resolutely micro-economic view – as well as a small, open economy view – of competitiveness in its understanding of how surpluses and deficits work. And, of course, euro membership does not allow for competitiveness adjustments through devaluation.

In the context of the escalating crisis of the eurozone, with bond yields in Italy and Spain at crisis levels in November 2011, more urgent fire-fighting is inevitably needed along with more appropriate macro-policies. But the disagreements in the eurozone on whether the ECB can and should intervene in a much bigger way through to acting as a lender of last resort or whether the EFSF can act instead as a eurozone bank or issue some form of eurobonds[15] and so confront the liquidity problems have not been resolved other than on the side of inaction. The European Commission has now put forward a set of proposals on eurobonds – which Merkel rapidly labelled "extraordinarily inappropriate".

France and Germany have been increasingly differing on these central issues. But for now, Germany's views on managing the crisis are still dominating –

and the two leaders, Merkel and Sarkozy, in a brief summit with Italy's new leader Mario Monti, agreed to stop airing these differences in public[16]. Merkel and others argue the treaty does not allow the ECB to be lender of last resort and that this would be the wrong policy response anyway. But if it is the right policy response, and if the crisis threatens the survival of the euro – and the lives and dignity of millions across the EU – then there would be some political chance of finding a way for the ECB even so to act. It is in other words very clearly a political as much as a legal choice for the eurozone to have no lender of last resort.

Failure No. 9: Failure to confront financial markets

One striking feature of the euro crisis has been the desperate but ineffective attempts of the eurozone's political leaders to appease the financial markets, just a couple of years after the behaviour of financial markets led to the worst global financial and economic crisis since the 1930s.

Despite some EU efforts to re-regulate financial markets, the eurozone crisis has been marked by a sequence of EU and eurozone summits focused on persuading the markets that crises of illiquidity and solvency are under control. What there has not been is any clear political effort to challenge market psychology and economics. There is a markets catch-22 in the midst of this financial crisis – a reluctance to lend to countries that have large debts and deficits, and a reluctance to lend to countries that are implementing major cuts and austerity programmes as that will clearly inhibit growth (although with a clear preference from ratings agencies for the latter – austerity not growth as the way to keep a 'Triple A' rating). But not only is this a catch-22, it also reflects partly bad macro-economics (cuts leading to less growth to larger deficits), it also reflects the panic and herd mentality only too common in financial markets.

The eurozone efforts to placate markets have treated market traders as if they were rational actors with an accurate economic model in their heads. But as Keynes pointed out so many decades ago, financial markets (still today too) are like a strange sort of beauty contest where you rank the contestants not on your view of their beauty but on how you think everyone else is going to rank them (smart computer models do not undermine this basic insight from Keynes). And financial markets are not simply driven by thousands of individual traders – negotiations with banks and their representatives over proposed 'haircuts' on Greek debt show that there are powerful figures who can guide how markets and market institutions respond. Yet the eurozone leaders choose to present their failing fire-fighting tactics as the only economic response possible to unbiddable and unchallengeable financial markets. But as a route to rebuilding confidence in markets, and stopping the panicked herd mentality pushing up bond yields in a self-fulfilling spiral of increasing risks of illiquidity and default, the Franco-German approach is for now only too clearly failing.

EU attempts to re-regulate financial markets are welcome but they are slow. Proposals such as that for a financial transaction tax within the EU – resisted by the UK – could indeed raise much needed revenue and reduce market volatility[17]. But none of this adds up to confronting financial markets and challenging the herd mentality driving up Italian, Spanish, Hungarian, Portuguese and now even French and Dutch bond yields. Yet the financial crash of 2007-08 surely demonstrates that the almost three decades of neoliberalism as a rule book for global economics is over, and now is the time to build a better alternative (as happened eventually after the disasters of the 1930s including global conflict, with the Bretton Woods system of the 1940s and the start of the Keynesian decades). The EU and the eurozone for now are not the places to look for the design of the new economic approach that will replace neoliberalism. They are still repeating the errors of 80 years ago.

Failure No. 10:Micro-economic failures – misunderstanding competitiveness, inadequate industrial policies

The eurozone has shown in the last ten years, that if member states in the euro do not have converging levels of productivity then large economic strains result. If productivity is divergent, as it has been, between some member states, and wages and prices do not adjust downwards in the weaker/lower productivity countries (and if exchange rates do not exist to adjust), then unemployment, debt, deficits, and low growth are all likely outcomes.

There are both macro-economic and micro-economic dimensions to this. The macro-economic dimensions as discussed above are about managing surpluses and deficits between countries in a way that doesnot depress growth (not least when growth and productivity growth are usually closely connected). The micro-economic dimension is about how competitiveness can be stimulated. Goods and services are competitive through a mixture of price, quality, innovation, reliability and so forth. The current eurozone approach that suggests the predominant way to adjust competitiveness is for years of depression, slump, unemployment and finally downwards adjustments on prices and wages is not a recipe for successful economies, for productivity growth and innovation nor (as discussed above) for stable, open, democratic societies.

The current EU approach to competitiveness – pre-crisis – does allow for some government and EU interventions but this is very much industrial policy through a neoliberal lens. Governments must not intervene to subsidise jobs or the development of new industries – this would be 'picking winners' and would upset the single market level-playing field. So governments and EU funds can, in certain prescribed ways, subsidise R&D, give loans to SMEs and support (again in very limited ways) jobs and training in SMEs, and invest in infrastructure (hence the large number of almost empty roads that can be found in the far reaches of the EU – from the Hebrides to Sicily). This was the EU's mantra in its 'Lisbon Strategy' of 2000 (aimed at making the EU the most competitive knowledge based society in the world – a noble goal clearly not achieved) and is repeated in its '2020 Strategy'[18].

While letting a free-for-all scramble of government subsidies to foreign investment, jobs, and 'national champions' (such as the Concorde aircraft in the 1960s and 70s) would indeed undermine the EU's single market, there are intermediate versions of a coordinated European industrial policy that could boost competitiveness without damaging the single market, that couldtackle unemployment, and that could make a serious not a notional impact on turning the EU's economy and societies green – not adding to global warming – while gaining some competitive advantage at the same time. In the face of the euro crisis and of millions of unemployed across Europe, including damagingly high levels of youth unemployment, and the lack of any major shift to a competitive low carbon economy in Europe, now is surely the time to look at a new industrial policy not just to stick to the neoliberal mantras of R&D, training, SMEs and infrastructure.

A new European industrial policy could aim both to boost competitiveness and to tackle unemployment. It could allow member states to subsidise employment, especially youth employment, in a range of industries (and not only in SMEs) up to certain levels of funding and for limited periods of time (for example up to two years rather than for a decade) and on the basis of total transparency. The EU member states could look at a range of ways to find the financing (both loans and grants), nationally and at EU level (including regional funds, CAP, and the use of the EIB), to underpin this as part of a coherent overarching macro and micro-economic strategy designed to restore growth, tackle deficits in the context of growth and challenge financial markets dogmas.Properly designed, such a new European industrial policy would not unbalance the EU's single market.

While the 1960s approach to 'picking winners' remains discredited for many, it is clear that the future EU economy must be a low carbon one. A major programme to back at European level a range of green technologies, and investments including but going beyond energy, transport and infrastructure, could form the backbone of a serious 'European Green New Deal' that would show the EU has not forgotten the lessons of its own history of the 1930s. Such a New Deal could aim to create jobs, boost competitiveness and productivity and encourage convergence, and tackle global warming through accelerating the arrival of a low carbon EU. Freed from the narrow constraints of neoliberal 'industrial' policies, this strategy would have a chance of both macro and micro success even though it would certainly include its own uncertainties and might involve picking winners only to find some but not all are indeed winners.

Other commentators have called for Green New Deals – both in the EU and the US – as the 2007-08 recession took hold, although often staying within the constraints of the existing EU approach to industrial policy[19]. The challenge is to both scale up finance and to broaden and change the mandate if a serious-scale New Deal is to work.

This would require a leap of political courage for politicians to move beyond their neoliberal macro and microeconomics orthodoxies, and to invest in a new strategy, one that would have its own uncertainties but would show a political and strategic leadership and concern for building a successful, resilient, inclusive EU that today is entirely absent from mainstream political discourse.

Conclusion

The euro crisis is testing the EU to its limits – economically, politically, socially, democratically. This paper has suggested ten main failures – political, democratic and economic – in the EU's and the eurozone's efforts to deal with the crisis. Addressing these ten failures would open up a route to a more strategic approach to the crisis and one that promotes and defends the EU as a whole and not only the euro. There is a pressing need for a genuine overarching political strategy that emphasises democracy, political vision, and social inclusiveness and that recognises that economies, societies and political processes are all intertwined instead of presuming democracy and social cohesion can take endless battering while economic policies are designed to appease financial markets.

The EU's leaders and politicians – not just those in the eurozone – need to face up to the depth of this crisis and especially to recognise it as a political and democratic not just an economic crisis. They need to show that they have a clear and positive political strategy and vision for the EU, that the EU is more than just a single currency, that it has a current and future political and social as well as economic purpose and dynamic. Such a strategic approach would both help in tackling the euro crisis itself and in limiting the wider damage to the EU.

The EU's leaders need to take a hard look at the damage much of the current handling of the crisis is doing to democratic processes across the EU – and start to respect again member state and EU fundamental democratic norms, processes and values. Political parties across the EU need to challenge themselves as to whether they are rising to the challenge of the crisis – and to the end of the neoliberal decades – and whether they are producing vibrant and viable policy alternatives to debate with the public. They need to ask whether and how they can find policies that will build cohesive, dynamic societies that sustain democratic and political as well as economic life rather than undermine it.

For now, the eurozone is heading in the wrong direction as the euro crisis deepens daily. It is an economic crisis that has become a political crisis, and the EU will come through the crisis successfully only if it finds new political vision, courage and imagination that today is sorely lacking.

Endnotes

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18. See "Presidency Conclusions" Lisbon European Council, 23/24 March 2000, and "Europe 2020: a strategy for smart, sustainable and inclusive growth" European Commission 2010.
19. Yanis Varoufakis and Stuart Hall set out proposals for leveraging up EIB financing in "A Modest Proposal for Overcoming the euro Crisis" (2011) while remaining focused on existing mandates around cohesion and convergence.

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