

# Whither the Vision? Institutional Change During Europe's Financial Crisis

Written by Theofanis Exadaktylos

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THEOFANIS EXADAKTYLOS, DEC 5 2012

The breakdown of the European Union budget talks, the nationalistic projections at the press conferences by the European leaders, the constant postponing of a decision for Greece in the Eurogroup meetings, among plenty of other smaller events or minor statements by political figures around Europe bring about the question of how far have we gone into the learning process from this crisis about the future of Europe. We have learned too little too late and the failures of the past couple of years in terms of institutional intervention to safeguard a future economic collapse within the Eurozone have not yet been established as the springboard for moving the European project forward. This article is structured around five main interrelated headlines: (a) economic models for the crisis; (b) institutional design at the national level; (c) institutional design at the European level; (d) the political impact of change on public trust in Europe; and (e) the overall vision for Europe.

### The Economic Models of the Crisis

From the origins of the Economic and Monetary Union (EMU), the German model of economic production and the German variety of capitalism has been championed as the most fitting for Europe. Germany was seen as the role model of economic growth, fiscal discipline, and innovation in global competition. At the same time, the European economic model shared some of the neo-liberal principles of the UK in terms of liberalization of markets, services, closed-shop professions, while maintaining a certain level of corporatism, unionism, and welfare state stemming from the French tradition.

The beginning of the creation of a single currency area for the European Union was in fact an effort to merge these models in a way that could synchronize the economies of the Eurozone, coordinate fiscal and monetary policies and allow economic business cycles to harmonize.[1]

Nonetheless, economic cycles were never properly synchronized and policies were never coordinated in the envisaged way across Europe, leading countries like Germany and France to break away from the agreed fiscal norms. In addition, specific economic models became role models for copying in less fortunate countries. Hence, market liberalization, alongside imported models of production and capitalism entered the national picture without incorporating or accounting for certain idiosyncrasies or exigencies of the respective national social and economic patterns or relations. This emphasis on Europe-defined or in some cases German-driven models as applicable to every country in trouble during this current crisis has led to the creation of monstrosities not only of policy but also of institutions.

### Institutional Design at the National and European Level

This brings leads effectively to the second point: the current remedy to the crisis—that of harsh austerity—may or may not be the right solution. Yet once countries embark on the austerity path, there is no way back and also no way out, than keep walking on that path. Any reversal of policies at this stage would be detrimental to the efforts put up by citizens of more affluent and less affluent societies within the European Union family, and halfway house measures could in fact intensify the effects of recession and prolong economic underperformance in most affected Eurozone

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countries.

Nonetheless, most Eurozone countries are on this pathway of austerity which champions not only severe cuts in the welfare state in a horizontal fashion, but also the implementation of public administration reforms in truly short periods of time. The new reformed institutions that come out of this process are often put together in haste, without any particular consultation mechanisms and potentially without the right regulatory frameworks for operation. At the same time, these institutions seem to be thoroughly disconnected not only with the reality on the ground at the national level but also horizontally due to intermittent funding across the different policy sectors. An example here is the Greek local government reforms that took place at the same time as the bailout agreements came through. The absence of regulatory framework, institutional continuity and funding has led to serious failures at the national level of the implementation of austerity measures and has undermined the success of new institutional structures.

At the same time, Europe suffers from a similar institutional discontinuity. Leaving aside the original institutional architecture of the single currency as an impaired monetary union without a political and fiscal component as designed within the Treaty of Maastricht in 1992, the new institutions and corrective mechanisms that have been put in place at the European level do not seem to be convincing enough. In parallel, the old institutional architecture of the European Union has repeatedly stumbled across a number of rigidities in the instrumental competencies of its institutions and in the decision-making processes.

## The Impact on Political Trust Across Europe

Over the last 3 years, the European Union has repeatedly failed to convince markets and citizens alike that there is a solution to the mess. The new financial institutions of the ESM and the EFSF, the bazooka arsenal of the European Union, the inertness of the ECB and its creativity in redefining its role outside the Treaties, the general sluggishness on behalf of the Council to agree on certain principles, the sloth of the Eurogroup meetings and involvement of external institutions (to name but a few of those new institutional players) in the process have placed us in front of a chaotic situation where any effort to understand what's included in everyone's job description becomes an achievement.

This dire combination of institutional chaos at both national and European level has shaken up the political trust of the public, the citizens vis-à-vis the established structures, has brought whole political systems to a halt (e.g. Greece, Ireland and Italy), social relations into convulsion and the relationship between citizens and the state to a complete overhaul. Trust in political institutions has suffered dramatically with recent Eurobarometer data revealing the shrinking of trust to single-digit percentages.[2] There are currently no institutions that can infuse a sense of certainty or security to the citizens, the middle classes have pulverized and voters are turning to radicalism, left and right, trying to hold on to a glimpse of hope. The support for radical elements (left and right) in recent electoral contents in the most affected countries but also the rise of stereotypes across Europe and the stigmatization of certain nationalities reveals that people are not afraid of the unknown any more.

What does this imply for institutional change in Europe at both national and supranational level? Well, certainly European leaders need to be thinking whether the institutional structures in place serve the purposes they were created for. Have they gone too far without significant reform of the institutional framework that governs European integration? Was this integration framework that is in place adopted with a view of shifting responsibility for failure to future governments advocating a short-term consensus only?

## The Vision for Europe

And this leads to the final point, the vision for Europe. European integration has lost its orientation; European integration is now a lackluster process; European integration lacks vision. And it lacks leadership too. The f-word of federalism has been pulled out of the time-capsule, and academics and practitioners alike all seem to agree that greater integration should be the way forward, new supranational structures should be constructed, more monitoring of member-state decisions should come into place, yet not accepting the finality of the project itself. European integration is in a state of trance, a certain limbo, where political decisions fall victims of markets and economic

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governance architectures. Europe is at a stage where its political leaders are afraid of bold moves—not for the sake of saving the European dream, but more due to looming national nightmares—and its citizens have lost the fragile notion of a polity that they had started to develop. The federalist vision for Europe is there, but seems to be liminal and occasionally flickers dangerously.

Has the crisis taught us something about the need for economic governance? What we have learned is that our current institutional architecture of European economic governance falls short of expectations. We have also learned that (as always) there is a certain capability gap as to what Europe can achieve with its current institutional arrangements—we have stretched the limits out and continue to do so to date. How useful are these lessons for future institutional design at both national and European level? We cannot know; once again we are resting our hopes on the abstract European dream of integration and our assumption that Europe has come out of previous crises stronger rather than weaker.

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[1] For a full account of EMU see Dyson, K. and K. Featherstone (2000) *The Road to Maastricht: Negotiating Economic and Monetary Union*, Oxford: Oxford University Press.

[2] For the latest Eurobarometer surveys see the Spring wave (number 77) of 2012 on the Eurostat website ([http://ec.europa.eu/public\\_opinion/archives/eb\\_arch\\_en.htm](http://ec.europa.eu/public_opinion/archives/eb_arch_en.htm)) and specifically for issues of trust see national breakdown in Questions 13.1-13.6 of the Annexes.

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