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PROOF

Part I

State–Society Relations

PROOF

1

Not Just Singing the Blues: Dynamics of the EU Crisis

Dennis Smith

The Brussels Blues

Woke up this morning feeling rough;
Got no job and life's real tough.
Winter's coming, feel the cold;
Gonna be hell when I get old.

A soulful *chanteuse* should sing this mournful verse at the Brussels Jazz Festival, preferably during a rainy afternoon. It mourns the European dream, now seemingly dead. Since 2007, Europe's citizens have been handed a large dose of humiliation. The recession and its attempted cure through austerity have undermined the expectations of millions, with little sign of an early exit from near-static economic growth.

This chapter's objective is to suggest broader historical, geopolitical and theoretical perspectives. The recent boom and bust make more sense when seen as part of a history of displacements and dislocations within the European Union (EU) since at least the 1950s.

That post-war tale is part of a still larger European narrative reaching back to the mid-19th century, driven by bloody rivalry and tense cooperation between Germany and France. In fact, we have three overlapping European stories: the first beginning in the mid-1980s, the second commencing in the mid-1940s and the third harking back to the 1850s. These three historical dramas are 'nested' one inside the other like a Russian doll.

Let us put this Russian doll together, starting with the innermost figurine. This tiny lady has a song to sing. It is, of course, the *Brussels Blues*, whose narrative begins with excitement during the so-called big bang in 1986¹ and ends with misery following the 'big bust' in 2007. Here are

two more verses parodying the bankers' voices as they ride up and down those waves followed by an exegesis of their rhyming couplets:

*Turn junk to gold, it's money for free;
We've reinvented alchemy.
The game is up. Got nothing to say;
We're just not coming out to play.*

*Crumbs for the plebs, cream for the bankers;
Quite all right, no need to thank us.
You're gonna get it good and hard;
Enjoy the gutter, we'll take the Shard.*

'Turn junk to gold, it's money for free; We've reinvented alchemy'

Gillian Tett² has shown how a mountain of 'fool's gold' was built up in the finance sector during the decade before 2007. Credit derivatives combined with slice-and-dice securitization fed a false belief that default risk had been eliminated, opening the way for repeated leverage to maximize profits. Even very large and respectable banks adopted this approach.

Abundant credit became available to householders, businesses and government. This eased the pains of Eurosclerosis³ and filled the financial gap left by the end of the long post-war boom. It seemed quite feasible that the EU could set about building a Europe in which

All workers have the right to a fair remuneration sufficient for a decent standard of living for themselves and their families, . . . Anyone without adequate resources has the right to social and medical assistance . . . Everyone has the right to protection against poverty and social exclusion . . . [and] . . . Everyone has the right to housing', to list some of the Maastricht Treaty's promised benefits.⁴ As late as 2004, Jeremy Rifkin declared that 'Europe has become the new "city upon a hill."' (Rifkin 2004: 358).

But credit default swaps, securitized loans and subprime mortgages fuelled a drive to disaster. Many traders knew that when the game went bust they might still hope to walk off with a tidy stash of gains. Tax havens were part of the calculations made by 'new and powerful international political alliances' forged in the post 'big bang' world 'between tax havens, large international accountancy firms, international law firms, and international banks and libertarian think tanks' (Palan 2003: xv).

Meanwhile, players in the game were busy placating potential critics and buying political cover. Between 2002 and 2012, the cost of political lobbying by the US finance industry, in collaboration with insurance and real-estate dealers, more than doubled.⁵

'The game is up. Got nothing to say; We're just not coming out to play'

When the housing bubble burst, it affected almost all finance sectors simultaneously, bringing down the whole structure. Banks refused to borrow from each other and stopped lending to their customers: in effect, there was a banking strike. When bank depositors lost confidence, businesses cut back on investing and householders cut down on spending. Trading shuddered to a virtual halt.

European citizens have suffered a slow-motion apocalypse made in Wall Street. Protest and resistance have been muted and disparate because instead of one single massive cataclysm there has been a sequence of four crises spread out over several months: the credit crunch, the rocketing of sovereign debt, the imposition of austerity and the challenge to social democracy delivered by the rise of neo-fascist movements.

Many citizens, politicians and businesspeople became disoriented, unable to grasp what was happening. We do not yet fully understand whether and how the specific transformations imposed by these successive crises were 'inevitable' or 'necessary', or the part played by opportunistic choices serving particular economic, political or ideological interests. It is best to keep our minds open on this matter.

'Crumbs for the plebs, cream for the bankers; Quite all right, no need to thank us'

As the world of business faltered, governments and central banks took the initiative.⁶ Two goals were to boost the finance industry and give some help to struggling workers and consumers. There were moves to stimulate demand: for example, by increasing the national minimum wage (Spain), giving aid to low-income families (Italy), persuading unions to accept a voluntary reduction of workers' hours (Germany) and introducing a temporary cut in Value Added Tax (VAT) ~~cut~~ (UK).⁷ The total spend on such measures across the EU from 2008 to 2010 was about €200 billion, roughly 1.5 per cent of total EU GDP. As a point of comparison, the combined wealth of the ten richest people

in Europe is €217 billion.⁸ Much more financial aid was pushed across to the finance sector, author of the recession. Between 2008 and 2011, about €4.5 trillion was provided to bail out large banks in trouble. This amount was equivalent to 36.7 per cent of total EU GDP.⁹ By October 2013, the European Central Bank (ECB) reportedly saw ‘tentative signs of recovery’, but banks were hardly lending at all and few businesses were seeking loans.¹⁰

Meanwhile, many EU member states increased their national debts to cover banks’ losses and liabilities. Before the credit crunch struck in 2007, government debt-to-GDP ratios in the Eurozone were, in aggregate, just over 60 per cent. By 2011 that figure had risen to over 80 per cent, and by early 2012, 90 per cent. In the United Kingdom, home to some of Europe’s largest banks, the increase was especially dramatic: from 43 per cent in 2007 to 87 per cent by 2011 and 90 per cent by 2012.¹¹ By 2010, the credit crunch was overlaid by a political panic over high levels of sovereign debt. Then up rode the third horseman of Europe’s apocalypse: austerity.

‘You’re gonna get it good and hard; Enjoy the gutter, we’ll take the Shard’

The Shard in London is the tallest office block in the EU. In 2012, the year of its inauguration, it overlooked a scene of relative devastation across the continent. In that same year, top bankers’ salaries in the City of London rose by a third.¹² Meanwhile, governments throughout the EU were cutting their annual budget deficits by reducing government spending. Some such as the British and Dutch governments decided to do this voluntarily. Others such as Greece and Ireland had this approach forced on them by the International Monetary Fund (IMF) or the so-called *troika*,¹³ which provided loans with draconian repayment timetables while insisting on major reductions in public sector expenditure.¹⁴

In September 2013, Oxfam published a survey of austerity’s effects on the EU. Its authors found that ‘From 2010 to 2014, total public spending will have been cut by 40 per cent of GDP in Ireland, approximately 20 per cent in the Baltic States, 12 per cent in Spain, and 11.5 per cent in the UK’; that spending on health had dropped for the first time in decades; that employment rights had been reduced; and that real wages had fallen, for example in Greece, where employees had seen a 10 per cent decrease, and in the United Kingdom, where earning had returned to 2003 levels. Ironically, ‘The experience of the UK, Spain, Portugal,

and Greece shows that the harsher the austerity, the higher the increase in debt ratio'.¹⁵

The main burden was being placed on the less well-off: 'for every £100 of deficit that is reduced, £85 comes through spending cuts, while £15 is through increased taxes'. One of the most significant tax increases was in VAT, a regressive tax on consumption. The starkest index of austerity's effects was youth unemployment. In 2000, the EU average was 15.6 per cent, ranging from 7.7 per cent in Germany to 25.5 per cent in Spain.¹⁶ By 2013, the EU rate had increased to 23.5 per cent: still just 7.7 per cent in Germany but 26 per cent in France, 28 per cent in Ireland, 36.9 per cent in Portugal, 40.4 per cent in Italy, 56.5 per cent in Spain and 57.3 per cent in Greece. In 2013, more than three million young men and women were looking for work in those countries.¹⁷

Whatever the intentions of the austerity measures, their main effects have been as follows:

- to weaken the bargaining position of wage-earners (*precarization*); to support the trading position of businesses by either reducing or not increasing their tax burden (*protection*);
- to open up new opportunities for investment by corporations in parts of the public sector from which the state disinvests, such as health, education, prisons and social care (*privatization*); and
- to undermine parliamentary politics, not least by increasing relative support for parties of the far left and far right, meaning that centre-left and centre-right parties are liable to be drawn together for survival into shifting coalitions increasingly susceptible to the long-term influence of business lobbyists (*polarization*).

Precarization, protection, privatization and polarization have all strengthened the capacity of large business corporations to maintain and increase their profits. Although we cannot assume that all these effects are deliberately intended, many voters seem to have concluded that they have been turned into victims. This has political consequences, as Brussels is well aware.

'Unkind! Unfair! It makes us sick! Kindly tell us who to kick'

In November 2013, President Barroso issued two warnings: unemployed European youth might become 'a lost generation' unless existing education and training facilities were radically enhanced and 'fuelling anger

against Brussels would help far-right parties gaining ground in several member states'.¹⁸ So, following on the credit crunch, the sovereign debt crisis and draconian austerity measures, the fourth horseman of the apocalypse arrived in the form of resurgent extreme nationalist and neo-fascist movements exploiting popular resentments against foreign immigrants. Golden Dawn (Greece), Jobbik (Hungary), Front National (France), *Vlaams Belang* (Belgium), The Finns Party/True Finns (Finland), the *Dansk Folkeparti* (Denmark), *Freiheitliche Partei Österreichs* (Austria) and *Partij voor de Vrijheid* (the Netherlands) have all been rising on this tide.

In other parts of the political spectrum, SYRIZA (Greece), *Alternative für Deutschland* (Germany) and UKIP (UK) have all been doing well, as has Beppe Grillo's *MoVimento Cinque Stelle* (Italy).¹⁹ Voices hostile to the EU have become louder and more numerous.

After 1986: Cross-cutting conflicts

Since the 1980s, the balance of power has shifted away from organized labour and drifted away from the state. It has moved towards large corporations, which promote their interests through heavy advertising, extensive patronage and assiduous lobbying in Brussels and national capitals. This shift in power balances has been influenced by factors such as the following: the fragmentation of the Soviet Bloc, the decline in trade union membership across Europe, the strategy of privatization within the public sector, the weakening of citizen participation in political activity and debate, the increased use of credit from the private sector for public works such as hospitals, the prestige of globalization and information technology as powerful forces with big business at the forefront and the heavily advertised attractions of individualized lifestyles focused on personal possessions and family holidays on sunny beaches.

However, there are other factors at play, pushing in another direction. Post-war Europe has been decisively shaped by two projects of bureaucratic 'empire-building': the Soviet Union and the European Union. Since 1945, Europeans, both east and west, have been socialized within their precincts and this has shaped their habits and expectations. Brussels has acquired some of the authority and prestige enjoyed by the national states that, in the end, collectively control the EU. As an institution, central government may bore and annoy voters in Europe, but it does not have such a thoroughly bad reputation as its American equivalent has with US citizens.

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However, the European Union is less tightly integrated and politically coherent than the United States. Northern victory in the American Civil War gave 'yankee capitalism' the whip hand on the continent. By contrast, the EU is the product of two troublesome marriages of necessity and opportunism. The first was between France and Germany, or, to oversimplify, between alumni of the *École nationale d'administration*, imbued with a *dirigiste* bureaucratic spirit, and adherents of the *Bundesbank*, with its penchant for market-oriented ordo-liberalism. The second was between members of two teams whose leaders were bitterly opposed to each other before 1989: the protégés of Washington in Western and Southern Europe and the orphans of Moscow in Central and South-Eastern Europe. Imposing order on this turbulent mishmash has been a major challenge. Despite centralized budgetary monitoring within the Eurozone, there is still plenty of scope for confident and ambitious opportunists to go their own way in the rough *bocage* of contemporary European business and politics.

The EU's current condition is best described as one of conflictual interdependence. A sharp distinction has appeared between two types of political economy. In countries such as Germany, the Netherlands and the United Kingdom politico-economic behaviour is typically guided, or at least justified, with reference to 'the market'. By contrast, in France, Italy and Greece, for example, leaders prefer to assert a duty to serve 'the people' rather than follow the lead given by bankers. So, on the one hand we find those that give priority to big business (and 'the market') and on the other hand advocates of big governments (and 'the people').

Politicians acting 'in the name of the people' sometimes abuse the state's influence and authority for clientelist purposes. Such leaders create extensive patronage systems. They may even divert tax revenues towards their friends. In some other parts of the EU's complex political ecology more enthusiasm is provoked by risk-taking entrepreneurs who have achieved commercial success than by careful regulators preserving the sanctity of the official rules.

So a further distinction must be made between those who sternly implement the rules of business and government, and those adventurers that break them. Some political leaders and market operators proudly stick to and enforce formal rules and clear principles. Some others definitely do not. They are more flamboyant and have greater tolerance towards rule-bending. There are even, it seems, cases of quite deliberate deception, even on a large scale. Consider the LIBOR scandal.²⁰ Think of the alleged doctoring of Greek debt.²¹

In sum, the European Union is being shaped by the relationships between actors of four kinds: the *high priests*, the *cavaliers*, the *puritans* and the *buccaneers*. *High priests* sternly enforce governmental rules and procedures. The most prominent examples are to be found in Brussels, within the bureaucracy of the European Commission (EC). However, the EC has been forced to confront defiance, evasion and rebellious rule-breaking by political *cavaliers* in member states such as Italy, Romania and Hungary, where prominent examples of political clientelism may be found, now and in the recent past.

In Frankfurt, home of the *Bundesbank*, we encounter the third type of player. These are the punctilious *puritans*, followers of the ordoliberal tendency.²² They should be distinguished from the final type of player, the *buccaneers*, whose main European base is London. As has been noticed, it is not unknown for at least some of that city's traders to look to the bottom line first and the official rule much later, if at all. One of the most prominent public advocates for the City of London and its adventurous entrepreneurial spirit is Boris Johnson, who became London's mayor in 2008.

There are four political struggles currently under way within the EU. One is between the puritans (the ordoliberal in Germany) and the cavaliers (especially the Greeks). However, equally prominent has been a confrontation between the buccaneers in the City of London and the EC's high priests.²³ Two other struggles are also under way. Frankfurt traders would really like to win business from the United Kingdom and make the City of London play by their rules. Finally, a little-noticed battle is under way between Brussels and the cavalier leaders of Hungary and Romania, who are both keen to remodel their countries' constitutions in favour of their own parties and patronage networks.

Taken together, these cross-cutting conflicts produce a kind of stability. This is reinforced by two key partnerships across the government/market frontier. One is between the bureaucratic high priests of Brussels and the market-oriented puritans in Berlin, both sharing the task of disciplining the Eurozone. The other type of partnership, equally pragmatic, facilitates mutually convenient arrangements between cavaliers and buccaneers. These allow oligarchs to thrive and privatization to flourish across central Europe.²⁴ Text Text

The bonds of interdependence and reciprocal hostility that shape the EU's political life give almost all players a definite but limited degree of freedom of action for themselves, as well as some kind of veto power over action by others. The European Union in the early 21st century holds many possibilities of new life within its complex structures.

Imaginative high priests, dedicated puritans, heroic cavaliers and energetic buccaneers could each move mountains if given the space to do so. But in Europe, for the moment, these potential springs of dynamism are both protected and imprisoned. The seeds of energetic transformation are both sheltered and stunted.

So let us turn to the medium-term past, since 1945, and seek recurrent socio-political mechanisms and unfolding socio-historical processes which may continue into the medium-term future. In pursuing this line of enquiry, we can draw on the wisdom of Albert Hirschman.

After 1945: Learning from Hirschman

Albert Hirschman, a friend of Altiero Spinelli, had some involvement in the rebuilding of post-war Europe.²⁵ He was ‘one of the invisible men behind the Marshall Plan’ (Adelman 2013: 261). The American administrators of Marshall Aid based in Paris faced a familiar challenge. It was how to persuade France, Italy, Germany and other governments to coordinate their economic exchanges without triggering resistance from either nationalist politicians or advocates of global free trade.

Hirschman was asked to explore possibilities for setting up a common monetary authority in Europe. His approach was as follows: if you knock people off balance they will be forced to make adjustments, and they are likely to end up doing things differently. The art is to know what direction to push them in, and how hard, to get the results you intend. His biographer sums it up more abstractly as follows: the ‘creation of “pressures, tensions and disequilibrium”’ would ‘prime the motion and then unleash more frictions and tensions. There was a “hidden rationality” to the chain of tension-producing constraints or challenges: by creating them, people are lured into solving them’ (345–356).²⁶

This approach is best thought of as the Hirschman–Monnet strategy, since Jean Monnet thought along similar lines.²⁷ When this strategy worked smoothly, the result was consensual displacement: ‘displacement’ because people were faced with the partial dislocation of their social arrangements and the disappearance of some key markers of their identity; ‘consensual’ because this dislocation did not threaten the broader commitments and interests of those affected and, at best, produced their enthusiastic cooperation, even to the extent of suggesting further changes.²⁸

The Hirschman–Monnet strategy is a practical application of neo-functional spillover theory,²⁹ sometimes known as ‘bicycle theory’.³⁰ The last term refers to the fact that once you commit to the bicycle

experience sufficiently to push down on one pedal, perhaps hoping that is all you need to do, you very quickly discover that you also need to push down on the other pedal to avoid the humiliation of falling off, and so on. And, lo, you are gradually moving forwards, perhaps further and faster than you originally intended.

The golden age of European bicycle theory was between the 1950s and 1980s. Jean Monnet and Robert Schumann encouraged an open-ended process of consensual displacement by promoting the European Coal and Steel Community (ECSC), established in 1951. This prepared the ground for the creation of the European Economic Community (EEC) in 1957, which in turn led, eventually, to the Single European Act (1986). After a pause to catch breath and absorb the ending of the Cold War, the bicycle was wheeled out once more in the 1990s.

As is well known, when Germany reunified in 1990, Europe's leaders agreed to build a new super-charged EU giving greater power and authority to the EC and the ECB. In hindsight, it was an 'obvious' but 'deliberate' mistake to create the Euro currency in 1999 without coordinated and continuing fiscal supervision and political control. It was hoped that governments and bankers would respond to the challenges posed by the new Euro in ways that would drive the EU towards increased centralization and closer to political integration. In 1957 Jean Monnet had argued that 'Via money, Europe could become political in five years'.³¹ Monnet got the timing wrong and did not factor in the worst recession since the 1930s, but recent measures such as the European fiscal treaty³² seem to confirm his general drift.

However, the bicycle got stuck in the mud and the EU's leaders have been busy constructing a more powerful vehicle, a kind of bus, to drive through the mud and back onto solid ground. This 'bus' is the Eurozone reinforced by the fiscal treaty and a panopoly of supervisory and disciplinary instruments. Members outside the Eurozone, including the United Kingdom and Poland, are on the upper deck, excluded from direct participation in Eurozone decision-making. Meanwhile, various member states have been considering their situations. Should they seek to be drivers, navigators, conductors or passengers within this new bus under construction?³³ Should they even stay on the bus?

Hirschman is best known for his book on exit, voice and loyalty (Hirschman 1970),³⁴ so can he help us understand our current dilemmas? Looking at the EU through the glasses Hirschman provides suggests that it has a loyalty deficit, a factor that looms even larger after the 2014 elections to the European Parliament. Will it be possible to increase loyalty levels by demonstrably strengthening the voice

of member states, especially their currently disaffected citizens, within the EU? One approach worth exploring is to give national parliaments throughout the EU a larger and more highly publicized capacity to monitor and shape the policies of the EC on a regular basis. How can this be implemented? That is a major challenge for the team of EU leaders that took power in 2014.

Hirschman's ideas can only take us so far. *Exit, Voice and Loyalty* is an exciting and stimulating work, but it does not pay sufficient attention to the power relationships in which people and organizations are embedded, or the socio-historical processes that shape them through time. Another limitation is that Hirschman tends to drill the wide range of politically relevant human emotions, such as fear, anger and sorrow, into a rather narrow frame consisting of two categories, satisfaction and disappointment.

Hirschman has been useful in helping us analyse the workings and limitations of consensual displacement in the European Union after 1945. However, we now need to ask how the long-term dynamics of displacement have worked themselves out in Europe over the period that began in the 1850s, and how these dynamics have shaped the European Union, leading to its current state. At this point we may turn to the work of Norbert Elias.

After 1850: Learning from Elias

Norbert Elias's central idea is the civilizing process. This is illustrated in his book *The Court Society* (Elias 1983), based on the French case, which examines the transformation of feudal warriors, disarmed and forced into submission by a victorious king, into pacified aristocratic courtiers doing their new master's bidding. Elias observes that in such cases, forceful pacification is likely to be reinforced by law-making and tax-gathering bureaucracies extending into the surrounding society. These are central aspects of state formation. If peace is successfully maintained, trade, industry and urban centres develop and the civilizing *habitus* is strengthened throughout the population at large. These themes and others are explored in Elias's book *The Civilizing Process* (Elias 1994).

Anyone familiar with *The Court Society* will surely recognize its key elements in Western Europe after the Second World War: exhausted warriors who had fought themselves to a standstill (Germany, France, Italy, Britain) and a victorious warlord who established himself as the supreme authority (US) and insisted that all other warriors put down their weapons and negotiate with each other peacefully. This was done

according to rules the monarch imposed, in this case through institutions such as the North Atlantic Treaty Organization (NATO) and the Organization for European Economic Cooperation (OEED), later OECD. NATO's military exercises provided 'jousting' opportunities for pacified warriors. The OEED managed the distribution of the monarch's chest of gold (Marshall Aid) to those worthy and compliant subjects who were able to hide their resentment at being humiliated.³⁵

One way of describing a civilizing process is the transformation of forced displacement into consensual displacement. To put it another way, as people adapt, not without tension and struggle, to their subordinated condition and develop increased self-awareness, self-control and non-violent negotiating skills, their survival and advancement chances are improved. These are the rewards of acquiring a civilized *habitus*. As part of the process of becoming more 'civilized', they typically acquire a capacity of self-detachment that enables them to negotiate role changes and status changes more easily than before.

Proto-state formation processes and civilizing processes were evident during the 1990s in Brussels, the EU's 'court society'.³⁶ Lobbyists, politicians and civil servants were engaged in a 'Euro-civilizing' game. This game induced 'a process of socialization, habituating players to each other, forcing them to think through other points of view, and subsequently live with them' (Middlemas 1995: 684). Cris Shore was impressed by the amount of *engrenage* (Shore 2000: 147) or collaborate meshing of bureaucratic gears he found in the multi-national European cadres at work in Brussels.

The EU's court society was a dual monarchy consisting of the political leaders of France and Germany. The key load-bearing unit was the pragmatic political bond between these two national governments. So we have finally arrived at the EU's dark heart. Fortunately, Norbert Elias can help us to understand the complex Franco-German relationship. After all, it was one of his main preoccupations.

As Elias reminds us in *The Civilizing Process*, French culture and elegance continued to be widely recognized as supreme in modern Europe. Their dominance was expressed in many ways, including the prestige of the French language and French architecture. However, from the mid-19th-century Germany was a rapidly rising outsider. Norbert Elias spotted differences of *habitus* between French and German intellectuals that expressed national variations of socio-political attitude and behaviour. Elias found in Germany, among people with his bourgeois background, a desire to develop an honest self, well-cultivated in art, science and philosophy, guided by clear moral rules, living in

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a well-structured world where authority lines are clear. For their part, the French had supreme elegance, exquisite taste and cool detachment. How things were done mattered at least as much as what was done.

French intellectuals acknowledged German rigour and vigour; their German counterparts saluted French style, but with reservations. Adherents of *bildung* and *kultur* admired Parisian ways but felt morally superior to their French counterparts who seemed overly preoccupied with trivial worldly business. In German eyes, the salon and counting house were basically disreputable places where people valued superficial civilized manners rather than inner worth.³⁷ Bourgeois German intellectuals disapproved when their political masters in Berlin copied French ways.

After Prussian troops stormed Paris in 1870, Franco-German rivalry hardened into mutual contempt. The Franco-German relationship between 1870 and 1945 is well expressed by the title of Tom Scheff's book *Bloody Revenge* (Scheff 1994). After the Second World War, the prevailing atmosphere was a mixture of mutual dependence and mutual suspicion. France was welcomed among the ranks of the victors. By contrast, defeat and denigration confirmed the outsider status of Germany. This permitted the French to reassert their traditional claim to act as the dominant political establishment in Western Europe, especially after de Gaulle became president of France in 1959. De Gaulle reportedly declared that Europe was a coach and horses with Germany as the horse and France as the coachman.³⁸

German leaders reluctantly agreed. In the late 1970s, a recently retired *Bundesbank* president, Karl Klasen ruefully stated that 'if there is one thing I admire it is the French bureaucracy: it has been trained to the highest level by centuries of experience and is vastly superior to us in the diplomatic pursuit of national interest'.³⁹ By 2001, Larry Seidentop could justifiably declare that 'the French are taking over Europe'. He added: 'They have an enormous advantage. They know what they want. The European Union is a French creation. The major initiatives – from Schuman's plan for a Coal and Steel Community, through the Common Agricultural Policy, to the single currency – have been French and have served French interests' (Seidentop 2001: 115).

The French political class was determined to remake Europe in its own image. The French were helped by recurrent divisions between the *Bundesbank* and the German federal government⁴⁰ which mirror somewhat the tensions Elias noticed between the highly cultivated section of the German bourgeoisie and the German politico-military class, whom the literati held in contempt for their slavish yearning to copy French styles.

However, after 2007 the outsiders became the establishment.⁴¹ France was on the defensive with no distinctive policy options to offer. By contrast, Germany was not only the richest and strongest member state but also had its own formula to recommend: basically, that despite their weakened post-2007 condition Eurozone countries finding themselves in trouble should adopt austere economic policies such as those the Germans had applied to themselves *before* the recession took its toll.

Ironically, the centralized control regime the French established in Europe has fallen into the hands of the very rivals they were keenest to subordinate: the German government and the *Bundesbank*.⁴² Equally ironic, there is very little evidence the German population and its leaders have any real enthusiasm for the role of European leadership. Basically, they do not relish the responsibility for other European member states that this role brings. They feel they have enough on their plate solving their own problems. Some members of the German establishment convey the strong impression that they would prefer Europe to leave them alone and not, as many see it, draw their banks into risky loans to imprudent neighbours.

The upshot is we now have a resentful French ex-establishment sulking in the wings and a reluctant German ex-outsider forced into the glare of the spotlight where its leaders recite unwelcome home truths: a difficult situation for both sides and a tricky one for the rest of the EU.

Conclusion

Since the late 1980s the European Union has not yet recovered from three blows: the end of the Cold War, which led to the European strategic arena losing its place at the top of Washington's political agenda; the drying up of the vast reservoir of credit provided by shadow banking before 2007; and the fracturing of the close Franco-German informal alliance that had been the EU's political lynchpin, drawing together the Northern and Mediterranean member states. That same quarter of a century has seen a partial decommissioning of the welfare state; growing reluctance by voters to engage in party political debate; and the increasing influence of corporate lobbyists.

The European Union is likely to survive for some time even in its current condition, partly because its internal conflicts are cross-cutting and containable and partly because it is a very large single market in a generally peaceful region. Europe is a place where large corporations feel at home and their leading executives can happily reside. The EU is a vast trading area where transaction costs are relatively low, living standards

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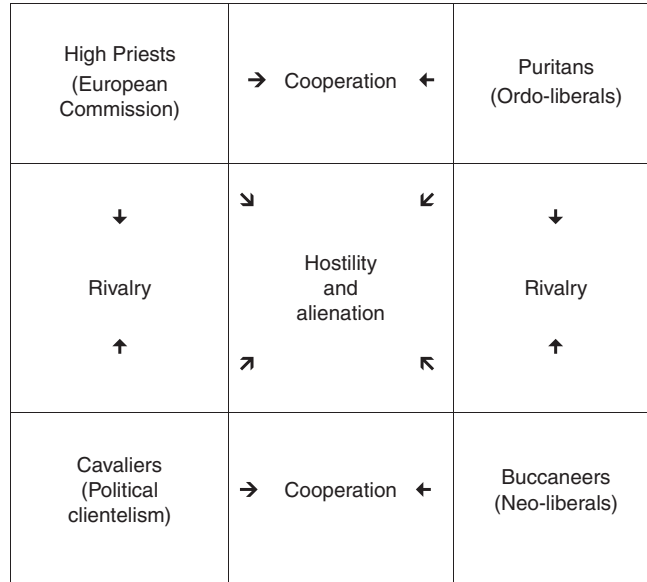


Figure 1.1 Struggles and collaborative relationships in the EU

and educational levels are high, and the infrastructure is well established and works well. Seen from the outside it has the air of a vast meadow on which several high-yielding cows are happily munching. This remains the case, in spite of current low growth rates. The EU is a rich source of pickings, and many powerful interests that currently benefit from its existence see that it is well worth making the effort to keep it in one piece, protected from outside marauders.

Ironically, although corporate executives and lobbyists played a major role in triggering the disastrous recession that began in 2007, corporate interests seem to be emerging from the crisis with their own relative influence strengthened. By contrast, many citizens feel powerless. However, the corporations depend in their daily operations upon the legitimacy that the EU's framework of law bestows upon them. Millions of European citizens periodically refresh that legitimacy by providing a democratic mandate. If the corporation's producer interest is the creation of profit, the citizenry's producer interest is the creation of the legitimacy that makes that profit possible. How will the EU's citizens deploy that producer interest in the next decade? A great deal hangs upon the answer to that question.

Notes

1. In 1986 the City of London was deregulated and, to a great extent, Americanized.
2. See Tett 2009.
3. See Giersch 1985.
4. See Council of Europe 1996 and European Commission.
5. The cost of lobbying by the finance, insurance and real-estate industries rose from just over \$250 million in 2002 to just under \$500 million in 2012. See Opensecrets.org 2014.
6. See the positive assessment by Gordon Brown and others (e.g., Brown 2010); but for a more critical account, see, for example, James 2010.
7. See European Commission (2008).
8. Based upon Bloomberg 2013. Figures as quoted by Cavero and Poinasamy 2013, 13.
9. This figure is taken from Cavero and Poinasamy 2013, 6 and note 5. See also C. Calderon and K. Schaeck 2012.
10. Quote from EU Business 2013.
11. See ECB Monthly Bulletin 2012; Eurostat 2012; *The Guardian* 2009; International Federation of Red Cross and Red Crescent Societies 2013.
12. See, for example, West 2013.
13. Comprising the European Commission, the European Central Bank and the International Monetary Fund.
14. See Smith forthcoming-a.
15. Quotations in this paragraph and the preceding three paragraphs are from Cavero and Poinasamy (2013), 8–15. The following items are cited by Cavero and Poinasamy: Johnson 2013; Leschke and Jespen 2012; Avram et al 2013; RT.com; Huffington Post 2013; Osborne 2013; Ekathimerini (2013).
16. OECD 2001, and see Note 26.
17. See Eurostat (2013).
18. Thomas and Pineau 2013.
19. Contacts have been made between Marie Le Pen and Geert Wilders with a view to developing a pan-European political strategy. See, for example, Banks 2013.
20. See, for example, Collinson 2012.
21. See, for example, Balzi 2010.
22. See, for example Weidmann 2013.
23. The last three paragraphs and the next are based on Smith forthcoming-b.
24. See, for example, Chiriac 2012 on Romania, Best 2012 on the Czech Republic, and Blinken, 2013 on Hungary.
25. Spinelli, one of Europe's original 'federalists', helped to draft the so-called Ventotene manifesto for post-war Europe while in an Italian prison during the war. Hirschman originally met Altiero Spinelli in Rome in 1945. Spinelli fathered a child with Hirschman's sister, Ursula. Adelman 2013, 229–230, 243.
26. See also Hirschman 1998a and Nocentini 2004.
27. Jean Monnet, another of post-war Europe's leading visionaries and activists, used to talk about creating a more united Europe through the workings of 'dynamic disequilibrium'. See Duchene 1994, 376.

28. This is the kind of transformation of social locations and social identities that families routinely try to manage, not always successfully, as offspring grow up, marry and procreate, acquiring the new role of parents, while their own parents become parents-in-law, grandparents, and so on. On the varieties of displacement and their socio-political and socio-psychological significance, see Smith 2014b and Smith 2014c.
29. See, for example, Sandholz and Sweet 2013.
30. The term 'bicycle theory' has been credited to Fred Bergsten.
31. Duchêne 1994, 312.
32. The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.
33. See also Smith forthcoming-c.
34. The iconic status of this book (Hirschman 1970) is partly due to the opportunities it gave for followers of two disciplines, economics and political science, each locked into their own models and agendas, to explore overlaps between the workings of markets and political regimes. See also Hirschman 1977, Hirschman 1988, Hirschman 1998a and Hirschman 1998b.
35. On Elias, see Smith 2001 and Smith 2012.
36. As Keith Middlemas (1995, 689) wrote in 1995, the EU 'shares, in whole or part, formal state attributes such as the right to issue and defend the currency, to prescribe and enforce laws, to govern with due authority and – in embryo only – to defend itself and its members', although 'these depend to a great extent on member states' approval and execution'.
37. See Elias 1994, 10–41.
38. See, for example, BBC News 2013.
39. Quoted in Connolly 1995, 14–25.
40. Bernard Connolly, for some years head of the European Commission Unit responsible for the EMS and monetary policies, notes the long-standing conflict 'between the Bundesbank, the redoubtable, unaccountable and extremely powerful German central bank, and the forces aiming to take it down a peg: France, the German government, and financial markets' (Connolly 1995, xx).
41. For Elias's use of the concept of established-outsider relations in another context, see Elias and Scotson 1965.
42. For an analysis of the German regime in the European Commission, see, for example, John O'Donnell 2013.

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Chapter 1

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