The Troika and its policies: the way to condemnation or redemption for the periphery?

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Abstract

The Troika-induced reforms in the peripheral countries of the EU intended to transform their capitalism models such that they fit more to the requirements of the European Economic Governance. The provisions which were laid down in specific Memoranda aimed at making export-oriented economies out of hitherto mainly consumer-driven models. In order to achieve that, the direct intervention of the supranational level into national policy fields was dramatically extended.

The goal was to complement the missing institutional arrangements for a working currency union by transforming the least adaptable national capitalism models of the EU's periphery by specific conditionalities. As a result, the structural heterogeneity between the EU's centre and periphery has been further entrenched and deepened.

This text will show which of the Memoranda's provisions are detrimental to the goal of a convergence of the periphery towards the centre, thus trying to sketch out what would instead be necessary. Furthermore, it will contrast those necessities with their odds to be realized when the context of the Economic and Monetary Union's institutional architecture as well as the current balance of forces within the EU are considered. The latter point will also include the question, in how far the latest electoral outcomes in various peripheral countries indicate a shift in this balance of forces.

Introduction

The Troika programmes as written down in the Memoranda, which the national governments agreed to implement, mark the beginning of a new mode of transforming the member states' national capitalist models in order to make them more suitable to the requirements of the European Economic Governance.

Their explicitly formulated goal was to restructure the programme countries into export-driven economies instead of their traditional consumption-led models. They enhanced the supranational institutions' capability to intervene and change national policy fields which were and still are by EU-law excluded from this very same intrusiveness (EC 2010, 2011a,2011b, Theodoropoulou 2014).

This happened within a framework of a political project whose main intention is to save the Eurozone and its financial integration (Bieling 2013). To achieve that, the danger hailing from the threat of state bankruptcy of a member of the Eurozone had to be superseded.

The promise of this technocratic and anti-democratic procedure was a new economic growth dynamic providing jobs and welfare for all. Implicitly, it entailed also the promise for the peripheral countries of making a big step towards becoming more like the core countries.

Six years later none of these promises has materialized in any perspective. Not only did the programmes fail to solve the problems which were the imminent causes of the crisis but they also failed to realise their promise of convergence towards the core countries. Inequality as shown by many economic and social indicators between and within the member states has risen. Economic growth has been subdued at the best. The question, therefore, is why things turned so badly after all.

This text will provide a short overview of the measures of the Memoranda and their impact on the national capitalist models of the programme countries. It intends to provide an explanation why not only the Memoranda of the Troika but also the European mode of integration in general are detrimental to what the European periphery needs to really achieve convergence. This analysis is informed by regulationist and neo-gramscian approaches which show a clear centre-periphery dichotomy within the EU bound together in a dynamic relationship which is densely integrated and regulated. There is a structural fit between the architecture of the European Economic Governance and the structural configuration of the core countries. The peripheral countries deviate in differing degrees from this configuration.

This in turn is the cause of the trajectory of the crisis and the political endeavours to manage and overcome it. A further important explanatory element is the configuration of the balance of social forces within the EU and its member states, materializing besides in different economic growth strategies also in the different role and functions the states have.

The Centre-Periphery division within the EU

The determining structural feature of the European Union is its division between a centre and a periphery (Becker/Jäger 2012). The core countries are defined by an economic structure which is export-oriented resulting in surpluses of the trade balance whose benefits allow for a bigger political maneuvering space. A great number of transnationally active companies are located in those countries whose decisions regarding the flows of goods and capital have a huge impact on the peripheral countries. Their representatives have also a big say on the economic strategies within their countries. Furthermore, they have been very influential in the conceptualizing of the European Economic Governance and a strong social force pushing for its political realization.

On the other hand, there are the peripheral countries which are dependent on the goods and capital flows from the centre. Economic growth has traditionally been generated by domestic demand. There a fewer big companies which often are also joint holdings with foreign companies. The organization of employers and employees are fragmented and their relationships often conflictive (Bieling/Kompsopoulos 2016). Capital class fractions above all in the small countries consist of just a handful of persons and their extended families with privileged contacts to state representatives.

The structural dependence of the peripheral countries and their fragmented organization of their civil societies have determined the role of the state in these countries. It has to serve as an important element generating economic growth dynamics by its demand or by creating demand for example by a public sector offering employment. Furthermore, it has to protect the vulnerable peripheral economies from external shocks (Rhodes 2015).

The public sector is also an important safeguard who guarantees that basic welfare needs of its population are met. State interventionism has been instrumental in industrial relations where it has served as arbiter and as the instance which decides labour disputes and wage bargaining. The transformations which the core countries underwent since the late 1970s in order to meet the challenges set up by the end of the Bretton-Woods-System had to be imposed on the peripheral countries by means of the integration process. Moreover, since the peripheral countries lack the functional equivalents which the core countries possess, the effects of this transformation process could not be cushioned neither by the state and its welfare provision nor by the investment and dynamic sustainable job creation by the private sector

(Simonazzi/Ginsburg 2015).
This precarious situation was entrenched with the basic principles codified in the Maastricht treaty which are known as the four freedoms. The most influential aspect here is the prohibition of industrial policies in the traditional developmental understanding of this term. State programmes of development, subsidies and preferential treatment of domestic companies in procurement provisions are seen as a distortion of the competition rules underlying the four freedoms, thus making any state-led developmental effort impossible (Teixeira et al. 2014).
The traditional role of the peripheral states is therefore contradictory to the mode of the European integration process which has been a strong driver for liberalization and deregulation as well as privatization. As a result, the European integration proceeded in a competitive mode (Ziltener 2000) in which state interventions are mainly seen by the supranational institutions of the EU as distortion of competition. Since the strongest competitors come from the core and state interventionism in the periphery has been increasingly constrained, inequality between the member states has grown.

The periphery in the Eurozone and the outbreak of the crisis

These tendencies were accentuated after the accession of a number of peripheral countries to the Eurozone. The peripheral states had experienced a differing degree of privatizations and liberalization since the middle of the 1990s which had already impaired the fulfillment of their traditional role. Now they lost a further series of instruments, which they had employed to compensate for the weak productive structure and uneven growth periods of their economies, for example the instrument of currency devaluation (Gambarotto/Solari 2015). This led to increasing trade deficits vis-a-vis the core countries and a deteriorating debt to GDP ratio.
Additionally, unrestricted credit flows from the banks in the core allowed for the alleviation for the worsening balance of payment situation and at the same time the perpetuation of consumption growth which was made possible by an ever increasing amount of inflowing bank loans utilised as consumer credits (Lapavitsas et al. 2012). The only drivers of economic growth in the periphery during the first decade of the Eurozone were portfolio investments fuelling banking and housing bubbles as well as private indebtedness.
The whole periphery became thus more dependent on the functioning of the credit flow provisions within the Eurozone. When those virtually collapsed after the outbreak of the

world financial crisis the peripheral economies were laden with unbearable amounts of debts which made their credit worthiness hugely precarious.

The Troika programmes

The Troika programmes starting with the first one for Greece in May 2010 were designed to avoid the bankruptcy of several countries hit by the crisis. If that had happened, the servicing of their debts which then were mainly owed to private lenders, above all banks in the core countries, would have been stopped threatening in turn the lenders with bankruptcy. Therefore, the main goals of those programmes were formulated as following.

1.) Reducing the debt to GDP ratio to sustainable levels.

2.) Stabilising the finance sector and regaining credibility of finance market actors.

3.) Implementing structural reforms in the labour and product markets

(EC 2010, 2011a, 2011b).

The first goal should be attained by a mix of expenditure cuts above all in the social security systems and a broader revenue basis mainly by tax increases in income taxes, VAT and the abolishing and/or lowering of tax allowances. A further element was a privatization of the last remaining SOEs.

The second goal was to be achieved by deleveraging the debt amounts of households, banks and companies which has brought credit and investment flows to a virtually standstill which still has not recovered.

The third goal was the most intrusive because it entailed the transformation of decade-old regulation modes especially in the field of industrial relations. The state’s role of guaranteeing working rights, the covering of non-unionised workers by wage bargaining agreements, the extension of such agreements in case when no new agreement could be achieved etc. ensured the power of organised labour to protect its interests and demands.

Finally, the overarching object of these reform policies was to make the peripheral countries more competitive by transforming their economic models from consumption-led to export-driven economies.

Another important aspect in this regard was the so-called internal devaluation that is the lowering of the price of labour in order to achieve cost competitiveness. Important steps in this regard were the lowering of wages and pensions in the public sector as well as basic income programmes since they generally have a great influence on the wage and pension developments in the whole economy (Schulten/Müller 2013). Furthermore, the industrial relations systems have been transformed profoundly. Wage bargaining has been decentralized and the mostly state-led coordination systems have been abolished always unilaterally by the governments (Campos Lima 2015). This resulted in a compounded degree of lacking legitimation of those policies in the eyes of European citizens.

Economically, the results were devastating and could not achieve the intended goals of transformation towards export-oriented economies.

While the budget deficits could be reduced, the relieving of the credit flows, the reducing of non-performing loans and the general debt to GDP ratio could not be attained. In the cases, where the trade balance deficit could be reduced, it was due to the collapse of the imports not because of increased exports, with the notable exception of Ireland.

Economic growth has nowhere reached levels which could reduce unemployment and rise demand again with the exception of Ireland, whereby the outcomes here are greatly distorted by the manner of the balance reports of transnational companies. The privatizations of public companies have strengthened the position of the few domestic transnationally active capital fractions as well as foreign transnational companies from so-called third countries above all China but also US-american financial market actors who could acquire new assets and companies thus entrenching shareholder value principles in the peripheral countries.

The state's capability of intervention has been diminished by all those measures, thus leaving the burden of generating growth to the private sector activities of still heavily indebted companies which are not competitive against the companies in the core countries and the consumption of households strongly inflicted by unemployment, poverty and substantially reduced incomes as well as regressively conceptualized tax rises.

The reactions of the citizen in the countries were manifold. There were demonstrations, strikes, new social movements with new forms of articulation of their protests and their demands. Neighbourhood councils were set up to build trading platforms outside of any money relations and many other forms of solidarity emerged. The traditional party systems either were shook up or transformed completely. Parties won the parliamentary elections or gained popularity which some years before were lingering in obscurity.

Nevertheless, neither the newly formed movements nor the newly elected governments articulated a political programme which went beyond the parameters the Troika set. The discourse and the government policies acknowledged the priority of balanced budgets, reduced deficits and the need to improve (cost-)competitiveness. They aimed only at changing aspects which were belonging into this framework which alone proved as to difficult facing the resistance of the core countries above all Germany in the Council but also of the European Commission and the European Central Bank.

Conclusion

The contents and goals of the programme were a continuation of the formerly pursued policies of liberalization and deregulation in an accelerated and radicalized way. New was their intrusiveness into the policy fields of social security and industrial relations. Those had been articulations of the specific class compromises in each country which were made in the years after the Second World War and the times of democratization. They embodied the promise of freedom but also of equality and justice which most of the peripheral countries were deprived of for much longer than the core countries.

Mainly the reforms in the systems of industrial relations and labour policies have weakened the labour organizations vis-à-vis capital in a profound and lasting way. Social rights and the provision of worker's rights and good working conditions have been subjected under the priorities of financial feasibility and thus more directly responsive to the business cycles. Labour's already feeble position in those countries has been weakened further by the enforcement of shareholder value principles in the biggest companies.

This has led to a high degree of contestation of the Troika's austerity policies within the countries and a high degree of resentment between the countries since the cause of the crisis trajectory is seen in the perceived faults of all the others.

The swift transformation of the political landscape in the programme countries together with the continuing protests of labour organizations and the resistance of new social movements reinforce the precarious situation within the whole EU and endanger the integration process. Sometimes it seems as if the opinions and beliefs of European citizens have radicalized faster and more far-reaching than the election platforms of left-wing and other progressive parties.

Political Alternatives

- Small peripheral countries need specific industrial policies to develop their economies
- Their domestic capital stocks, labor forces and markets are too small to achieve that by themselves
- Therefore, supranational funds and supportive mechanisms would be necessary
- Furthermore, being under constant competitive pressure from TNCs and economies from the core countries undermines any effort to design a developmental strategy
- The liberalization and deregulation process of the domestic countries and at the supranational as well as the global level entrench the competitive mode of European integration
- This process is codified by the four freedoms of the Common Market, legal practice of the ECJ and special regulations e.g. the EU-wide procurement provisions
- All this means that a European integration process which enables the peripheral countries to develop and thus generate economic growth and social welfare needs a supranational political entity of an “anti-EU”
- The complete transformation into export-driven economies is neither feasible nor desirable, therefore the upholding of the purchasing power of the households has to be secured by the bargaining power of the trade unions
- The protection of the social and working rights of the European citizens has to be regarded as the highest priority, this is the only way to legitimise a continuing integration process which in the last years has proved disastrous for millions of European
- The market- and competition-driven mode of integration has to be replaced with a coordinated and politically negotiated process aiming at convergence of economic and social development

- The search for the social forces who could articulate, demand and promote it is the difficult first task of implementing such a new mode of European integration

- Left-wing and other progressive parties have to change their programs and demands accordingly which implies a radical overhaul of their traditional stance towards the actual European integration process

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