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THE IMPLICATIONS OF THE FINANCIAL CRISIS ON THE EU AND DEMOCRACY

A globalizáció és a demokrácia viszonya sokáig kívül esett az elemzők érdeklődési körén. A fenntartható fejlődés és az átláthatóság imperatívusza a gazdasági növekedés korszakában reálisabbnak, míg a pénzügyi válság idején sokak számára illuzórikusnak tűnhet. A válság nem oldható meg a szabad piac ideológiájának elveihez való ragaszkodással, sem a megszorítások politikájára hagyatkozással. A pénzügyi-gazdasági globalizáció hatásainak kiegyensúlyozása a politikai globalizáció hatékonysága és intenzitása erősödésének lehetne az eredménye, aminek feltétele, hogy létrejöjjenek a polgárok – és nem csupán az elit – közötti társadalmi és gazdasági párbeszéd és együttműködés új transznacionális formái és struktúrái.

INTRODUCTION

The concern, recently, is to minimize irrational panic in response to crises and this reveals a dysfunctional pattern of thinking. The real challenge is not the particular crisis of the financial system which everyone talks about, but lies in the pattern of derivative thinking that has sustained the system and denied its problematic nature. A basic question arises: does our way of thinking deny the existence of other systemic challenges and repress consideration of potential implications in other areas like the crisis of democracy and climate change? Is the subprime crisis, and its consequences for the financial system an indicator of a dysfunctional mode of thought in which we collectively participate today? Many social, political and economic organizations, even nation states have forgotten about the public good and concentrate on narrow individual and institutional self-interests. Governments serve politicians and corporate interests rather than the public good; educational institutions serve educational bureaucracies instead of their students, parents and societies.

In this era of unprecedented economic growth for some and financial meltdown for many in the developed world, the imperative of achieving sustainable development and transparency may seem more illusionary than aspirational. Economic globalization provides both new opportunities and increasing inequalities. The positive improvement of many lives around the world is contrasted to alarming environmental degradation, growing social and economic polarization, and poverty and hunger inflicted upon millions of people. One of the key challenges is the demand for new and innovative ways of thinking to resolve the threats to the sustainability of our social relations, environment and economies. New knowledge is required by the social sciences to meet the demands of technological innovation, management and public policy, and civil society.

A recent survey of 1000 experts from the private and public sectors by the Global Confidence Index reports that 70% of respondents remained pessimistic about the state of the global economy; confidence in global governance also remained at 60% with most respondents pointing to the lack of trust in political leadership to deal with global risks to account for this consistent pessimism. In addition, there is a rise from 50% to 60% over the same time period regarding concern about major societal disruptions that are likely to occur over the next year [Kerala News 2011].

The question is whether more vigilant analysis of the financial crisis as it evolves, and the language used in “saving the system” can help to develop a framework to analyze emergent crises that have been subject to the same neglect through “derivative” and not “innovative” thinking. A major danger is the current assumption that the only “confidence” that needs to be (re)built is defined by market terminology and not by democratic terminology. It is curious the way “faith” is now vigorously encouraged by the most hard-headed economists and businessmen at the focus of the financial crisis. It is seen as central to recovery of the health of the global economy.

According to the World Bank, financial crises have become more frequent over the past thirty years. 93 countries experienced an astonishing 112 systemic banking crises between the late 1970s and the year 2000. The current crisis may be even deeper now, however, than past systemic crises because today both the political and cultural legitimacy of global capitalism are threatened. This extends to the abusive and discredited cultures of finance in Europe and the United States and raises questions concerning the ability of democratic institutions to respond effectively. Robert Holton argues that: “Confidence in the capacities of financial and political institutions to find a way out of the crisis is currently lacking. The breadth and depth of crisis means that recourse to ideological preferences for ‘free markets’ or tougher public regulation, no longer provide answers that are analytically satisfactory or sufficiently precise and fine-grained as guides to action.” [Holton 2012]

Nation-based democratic structures are exposed as inefficient and too self-interested to adequately navigate the seas of financial uncertainty and perform the necessary financial reforms. Economists have typically thought of markets as systems that are autonomous from politics, societies and cultures and function under the rationality of self-interest. Such confidence has been exhibited by traditional economic analysts in the market principle that many economists have been persuaded that even non-economic institutions, like the family or the state, could be analyzed as if they were markets. Studying the economics of markets cannot explain institutional legitimacy or trust, nor can it grasp or address the non-rational aspects of social and economic action like greed, for example.

In addition, the *laissez-faire* principles based on markets cannot address the welfare needs of large sections of societies. The growth of the welfare state, now in contraction throughout Europe in response to calls for austerity, in the past provided a necessary break to and mediation of the most detrimental operations of the capitalist system. Holton observes that the resurgence of financial deregulation has been simultaneous with welfare state contraction in Europe.

He continues that the shift from face-to-face trading to electronic trading increasingly separates trading activities from a wider social context and orientation and magnifies the separation between finance and economics, and society. This results in highly destructive behavior on the parts of economic actors. It encourages impropriety and misconduct, destroys values, employment and trust. The major challenge, as a result, for regulatory agencies and governments is to how best to reintegrate markets with the values of social responsibility. To meet both the analytical and practical challenges, it is necessary to reconnect politics and culture with the operation of markets and with the broader patterns of social change [Holton 2012].

We need only to look at the Hayek-Polányi debate to view similar political-ideological orthodoxy. Hayek's model of economic management has brought us to the current crisis; while Polanyi, with extraordinary prescience, warned that the crisis would come; he rejected the idea that the market is "self-regulating" and can correct itself. There is no "invisible hand" such as the neoliberals maintain, so there is nothing inevitable or "natural" about the way markets work: they are always shaped by political decisions.

1. THE GREAT CONSOLIDATION?

In a recent New York Times article, Ross Douthat looks beyond what he calls the "anti-establishment theatrics" of populist protest to the deeper structures of political and economic power. He maintains that "From Washington to Athens, the economic crisis is producing consolidation rather than revolution, the entrenchment of authority rather than its diffusion, and the concentration of power in the hands of the same elite that presided over the disasters in the first place" [Douthat 2010].

When considering the European situation, he writes that for a week after the fiscal meltdown in Greece, all the talk was about the weakness of the European Union, the recklessness of its too-rapid expansion, and the failure of the continent's governing class of elites to anticipate the crisis. After the Greek bailout of nearly a trillion dollars, and dictating economic terms to Athens that resemble "the kind of thing a surrendering field marshal signs in a railway car in the forest at the end of a bloody war," [Applebaum 2010] the EU's authority over its member states will be dramatically enhanced. The crisis that was created by rapid, perhaps incautious, elite-driven integration will have led, unrelentingly, to further integration and a more powerful elite. The public interest or public good has become too intertwined with private interests for the latter to be allowed to fail, and everything that has been done consequently to stop the panic in the Eurozone has only strengthened the symbiosis. Insiders have been further empowered at the expense of outsiders and the interests of financial markets, bureaucrats and politicians are tied together as never before. It appears that the system only knows how to move in one direction towards further economic centralization. "If consolidation creates a crisis, the answer is further consolidation. If economic centralization has unintended consequences, then you need political centralization to clean up the mess"

[Douthat 2010]. If a system of governance, like the EU, fails to prevent economic disintegration, then it clearly needs to be given more powers to prevent crises in the future. The argument continues that once a system grows sufficiently complex, it does not matter how badly “experts” mismanage things because every crisis increases their authority, since they seem to be the only ones who understand the system well enough to fix it. But quick fixes tend to make the system even more complex and centralized, and more vulnerable to the next surprise, natural disaster or economic crisis. This is why, Douthat concludes that despite all of the popular unrest and protest in Europe and abroad, “this isn’t the end of the ‘too big to fail’ era. It’s the beginning” [Douthat 2010].

2. GLOBAL FINANCIAL CRISIS AND DEMOCRACY

Many critics of economic globalization claim the processes of cross-border trade and investment together with cross-border capital markets operating within deregulated markets undermine both national sovereignty and political democracy [Holton 2010].

There has been little analysis about the relationship between globalization and democracy. Trans-national, crossborder connections and interdependencies may advance globalization further in some aspects (economic and technological) while not as much in others (politics and regulation, governance in general, and societies). In the case of the EU, political integration does not match economic integration and for citizens at the national level there is no immediate political redress for market and regulatory failures through a system of EU-level political institutions. The sovereign debt crisis stems from public bail-outs of the banking system and leaves citizens at the mercy of powerful market players (global banks, multinational companies, bond markets) and political elites. Global business regulation remains organized within a complex, opaque, patchwork of national, regional and global regimes that elude or obstruct democratic accountability. In addition, financial markets operate in nanoseconds 24/7, facilitated by information technology. Democracy, on the other hand, operates across days, months and years. This “mismatch of speeds creates enormous tensions” [Houlton 2012]. Resolution of this cognitive dissonance requires both greater transparency of global finance and its mechanisms and a greater commitment of financial actors like bankers to enter into dialogue with social forces and democratic institutions. Both markets and states have failed in this crisis and if the situation is not resolved it will continue to produce dysfunctional consequences including increasing social unrest. The crisis cannot be resolved by returning to the same principles of free market ideology and austerity measures. The social costs would be too great and there is no logic in trying to reform a system through the same structures and ways of thinking that created the crisis in the first place. One path or approach to better match financial globalization with effective political globalization might be to increase international political cooperation by constructing ways to facilitate the inclusion of the citizens’ concerns (not just elites) in political and economic dialogue and processes.

3. TECHNOCRACY, POPULISM AND THE FUTURE OF EUROPE

At a recent public debate in Budapest Mark Leonard proposed that the future of the EU may be on trial today. The dialectic between technocracy and populism is being played out, he says, and the question arises can democracy survive in times of austerity in a neo-liberal straightjacket?

Technocracy and populism are mirror images: one is managerial, the other charismatic; one seeks incremental change, the other is attracted by grandiose rhetoric; one is about problem solving, the other about the politics of identity. They also have different models of legitimacy. The technocrats have sought to build legitimacy for the EU by trying to deliver positive outcomes for different interest groups - businesses, farmers, students, etc. Populism, on the other hand, has emerged during a period in which politics is organized not in factories or party meetings but on the internet. Its claims about distribution centre around identity [Leonard 2011: 3].

Leonard concludes that as EU leaders try and remove European integration from national politics, the EU's legitimacy weakens and calls for more democracy become stronger, and space is left open for the emergence of populist parties. The reverse is also possible, as in Italy, Greece and Hungary where a technocratic backlash can result in national populism. Therefore the dialectic is rather mutually reinforcing.

Crises have always driven the process of integration in the EU, but the question today is whether the present crisis can be exploited to continue the European project. Europe consists of many other institutionalized (OECD, Council of Europe) and non-institutionalized, civil forms of communication, cooperation and collaboration. This is also clearly evident in the number of coordinated events throughout Europe of civil organization, disobedience and protest. The emergence of polarizing and populist movements in a significant number of European countries poses alarming challenges for a future, unified Europe. It is clear from the present confrontation of populist-nationalists in EU countries that without proper communication channels, solutions will not be found. This may provide a new opportunity and space for civil movements, joined to other, similar forces throughout Europe, to fill the vacuum. Dominated by new social networks, networked resistance and savvy young activists do not lack innovative techniques and approaches to addressing contemporary political, economic and social problems. It no longer matters so much where you are in time and space, since these networks, supported by technology, can provide for a more equal playing field for civil actors.

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