The Politics of Austerity in Comparative Perspective

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Abstract

The introduction explores the politics and political economy of austerity in comparative perspective, setting out the context of current austerity policies and discourse in Europe. It places the specific exploration of the dynamics and particularities of French austerity politics under Hollande within a broader context of changes since the 1980s to democratic institutions and electoral practices, the politics of European integration, and the conditions of complex economic interdependence resulting from processes of deregulation, liberalisation and globalisation. It establishes the rationale behind the focus of the articles in this special issue on, firstly, the link between popular approval of elected politicians, democratic legitimacy and austerity; secondly, the politics and dynamics of state reform processes at the national and subnational levels which are integral to delivering on austerity-oriented commitments to reduce public expenditure; and thirdly, on the increasingly asymmetrical Franco-German relationship whose changing contours have major implications for the politics of austerity in Europe – notably facilitating the dominance of German ordo-liberal economic ideas at the heart of Eurozone crisis responses initiatives.

Keywords

European Politics, Political Economy, Eurozone, French Politics.

When the global financial crisis first hit in 2008-9, settled economic ideas about appropriate economic policies were buffeted by sharply rising debt and deficit levels. As another 'great Depression' loomed, and the standard levers of and ideas about economic policy seemed ill-equipped to counter it, governments of every hue embarked upon 'unconventional' monetary

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policy, and embraced hitherto frowned upon Keynesian ideas about fiscal stimulus. As the global financial crisis morphed into the European sovereign debt crisis from 2010 onwards, the prevailing economic ideas underwent a further transformation. Austerity and fiscal consolidation became the pervasive policy prescriptions of the age, in particular in Europe, given the ongoing Euro-zone crisis.

Key sources of authoritative opinion on economic policy in Europe – notably the European Commission (EC), European Central Bank (ECB) and the German Government, remain convinced of the merits, and necessity of austerity policies as the only viable and credible response to the crisis. This is seen as essential because of the parlous state of public finances in many key euro-zone countries, compounded by the fragilities and liabilities of many major banks. Yet as fiscal consolidation and austerity continue to take their toll on European economies – delivering low or no growth and high and rising unemployment - the tensions at the heart of the Euro-zone, and its economic governance architecture, make the crisis deepen. How did this policy approach to the Eurozone's economic problems come to prevail? To what extent has democratic legitimacy for this approach been secured? How will the requirements to curtail public spending be enacted at local and central government levels?

This special issue addresses these questions at the heart of the politics of austerity by placing the French case in comparative perspective. The articles place the politics of austerity in the context of political science debates about the management of the economy, reform of the state, the politics of economic ideas, and the relationship between economic policy and public opinion. The French case provides a particularly revealing lens through which to assess the comparative political economy of response to the Euro-zone crisis at the levels of economic ideas and economic policies. Its *dirigiste* policy norms are with the rules-based regime which is becoming an increasingly powerful constraint on the conduct of economic policy within the EU. Linked to this, the dynamics of presidential politics in France make securing a democratic mandate for a realistic economic programme reconciled to the policy constraints of Europe-wide austerity politics particularly difficult. All the papers in the special issue reveal, in their different ways, how recessions can trigger policy responses, but also can limit government room for manoeuvre because of budgetary constraints. They also show how politicians find it difficult to incorporate recognition of these constraints in to their electoral campaigning. This feeds a broadening gap between expectations and outcomes which corrodes social and political acceptance of austerity politics.

Democratic Legitimacy and the Politics of Austerity

Long before the collapse of Lehman Brothers in 2008, political scientists had voiced concerns about a crisis of representation in the advanced economies – with reducing government satisfaction amongst electorates, increasing abstention and protest voting, decreasing electoral participation, and declining support for mainstream governmental parties. The sovereign debt crisis in Europe, and dominant economic and social policy responses anchored around austerity measures and fiscal consolidation, proved to be even more corrosive for the already depleted resources of democratic legitimacy enjoyed by major parties.

The deep economic downturn which followed the global financial crisis, and was prolonged by the European sovereign debt crisis, had a major adverse impact on the popularity of governments. As unemployment rose, recession became entrenched, and cuts in public spending threatened to reduce public service provision, public discontent increased at the politicians' inability to solve the economic and social problems the crisis generated. As Grossman and Sauger's article indicates, many incumbent governments paid a heavy price at the ballot box for the economic crisis. The sense that those who caused the have got off scot free, while it is the ordinary taxpayer and poor and vulnerable social groups who bear a disproportionate burden of adjustment is widespread. This was re-enforced by bank bail-outs ramping up government debt to levels which are subsequently used to justify welfare spending cuts because the country is 'living beyond its means'.

These adverse consequences of austerity policies on public support for governments and governing parties are an enduring reality of democratic politics in the advanced economies whose public finances will take decades to restore. Indeed, in many cases, the worst of the cuts programmed under fiscal adjustment have not kicked in yet, and there are harder times ahead. These are crucially important issues for the politics of austerity since, without public acceptance of austerity programs, questions of their political sustainability are begged which could in turn raise concerns about credibility with financial markets.

This means that a degree of support for or at least acquiescence to the austerity programmes is necessary in the long term, and that successive governments will have to work within these limits. As even the European Commission president recognised in 2013, citizens' tolerance for austerity policies may be running out. José Manuel Barroso said policies focused on reducing public and private debt were 'fundamentally right', but that EU member states were 'reaching the limits of the current policies ... I think it has reached its limits in many aspects, because a policy to be successful not only has to be properly designed. It has to have the minimum of political and social support ... We need to have a policy that is right. At the same time, we need to have the ways, the means of its implementation and its acceptance, [politically and socially].'[2]

Thus there are underlying, ongoing and profound social tensions and contradictions within the politics of austerity. The tensions between the politics of austerity and democratic accountability and legitimacy are exacerbated by the political economy of the Euro, and they are heightened still further by political infrastructure created to oversee the Eurozone's economic governance. The modus operandi of Eurozone crisis response in remote technocratic fora and amidst European summitry, none of which is embedded in a wider democratic debate about the policy options and merits and demerits of response measures, makes the vulnerabilities and instabilities of the Eurozone all the more marked.

In a world characterised by an overlapping network of economic governance regimes, politicians face what Colin Crouch has termed the "paradox of neo-liberal democracy"[3]: their political mandate is to pursue the interests of their citizenry under conditions of complex economic, legal and regulatory interdependence where large parts of economic governance are no longer exclusively within their control. The Eurozone crisis may have revealed these contradictions, but this is a universal phenomenon endemic within interdependent markets and a permanent feature of contemporary capitalism (Clift & Woll 2012a&b). Contemporary European economic governance lays bare these contradictory tensions and incongruities in part because of the constraints of international agreements, and legacies of prior integration (the EU, the Euro, the Fiscal Compact and so on). The deepening of European integration, and the process of economic and monetary union heralded an important scaling up of these contradictions and tensions. The increasing density and intrusiveness of transnational jurisprudence is exemplified in the New EU Treaty on Stability, Coordination and Governance (TSCG) of 2012 and the Fiscal Compact at its core, as detailed in the articles by Cole and Clift and Ryner in this special issue. These initiatives, and the way Germany, the

[2] Nick Mann 'People haven't bought into austerity-led policies, warns Barroso' *Public Finance International* 23 April 2013

[3] I owe this expression to Colin Crouch and would like to thank him for a very helpful discussion of these points.

ECB, and the EC have handled the countries on the Southern periphery, has raised these tensions to new levels.

In the specific French context, as Grossman and Sauger spell out, the problems of low popularity facing Hollande are part of a broader pattern dating back to at least the 1990s. They unearth ‘an unsolvable equation’, a toxic combination – for presidential popularity - of French presidential candidate political rhetoric promising substantial social and economic change, and a track record of limited major change in policy settings. French presidential elections continue to structure time and space within the French political system, and French presidential politics raises expectations about the capacity of leaders to deliver, notably on jobs and growth. This is a long-standing facet of French political life. The inflationary spiral of claims and counter-claims about restoring French Grandeur and reviving France’s once ‘glorious’ economic growth, is evidenced by Mitterrand’s ‘Break with capitalism’ of 1981, to Chirac’s promise to heal France’s ‘social fracture’ in 1995, to Sarkozy’s promise of neo-liberalising transformation in 2007. Those with more modest, tempered, arguably realistic programmes, such as Balladur or Jospin, are – Grossman and Sauger noted- rewarded with failure.

In this light, Hollande’s promise to tackle the Eurozone crisis and French unemployment through activist fiscal policy and changes to the Eurozone economic policy architecture of 2012 is but the latest in a long line. All these presidential promises went un- or under-delivered, but all *presidentiables* felt obliged in their campaigns to make such promises on a maximalist scale. The upshot, as Grossman and Sauger note, is that ‘unpopularity and disappointment have been the usual fate of Presidents since the 1980s’. This is all part of the condition of post-*dirigisme* (Clift 2012), wherein processes of Europeanisation, globalisation, liberalisation and deregulation, undertaken by successive French governments, have hemmed the autonomy and policy capacity of French leaders in the habit of steering the tiller of the French economy in a directive and interventionist manner. Whilst societal and elite expectations of such directive intervention endure, means French leaders reach exceeds their grasp.

Hollande fought his campaign wanting to be elected as a ‘normal’ president. Grossman and Sauger reveal that in an important sense he achieved this, though it’s a case of be careful what you wish for, since, as they note, ‘conservatism and discontent seem to represent "normal" politics for a French President'. The significant drop in popularity (albeit not on the same scale as Hollande) has become a feature of French presidents tenures since the mid-1990s, with the time since election being a reliable predictor of a large drop-offs in approval ratings for both Chirac and Sarkozy. Hollande's fall from grace in popularity terms has, however, been particularly vertiginous. In seeking to explain the particularly tortured experience of Hollande compared to his predecessors, Grossman and Sauger find that aggravating impact of economic conditions and the economic crisis play a significant role. This compounded the 'unsolvable equation' Presidential campaigns are won by bold promises and raising expectations to levels which inevitably will not be met. The French Presidential Elections of 2012 reflected this dynamic in that economic policy issues were presented in misleading terms, with neither Sarkozy nor Hollande recognising the scale of fiscal adjustment required for France. Furthermore, the crisis resolution strategy intimated by Hollande was not built on realistic or practicable foundations, given the constraints of other European partners, and the political economic model underpinning EU authorities such as the ECB and the Commission, and EU Treaties. As a result, the path to restore the French and European economies that a narrow majority of French citizens thought they had voted for in May 2012 had little prospect of gaining sufficient support beyond French borders.

Austerity Politics and the Reform of the State

The aftershocks of the sovereign debt crisis have increased already strong pressures to curtail public expenditure not just in the Eurozone periphery, but also in core countries such as France. The politics of austerity in Europe since the Eurozone crisis erupted has heralded a renewed focus on public expenditure and public investment, reinvigorating debates about which kinds of spending should be protected in the context of the crisis. What Pierson identified many years ago as the condition of 'permanent austerity' for welfare states in advanced economies (2001) has become more pronounced. 'Big government' and fiscal profligacy was not the primary cause of the economic crisis, with the possible exception of Greece. Nevertheless, the response to Eurozone crisis has involved some pointed attempts by the likes of the EC, ECB, and the German government to induce countries to reduce the size of government as part of the structural economic reform packages deemed necessary to revive competitiveness of Europe's economies. The politics of austerity involves the terrain of state/market relations being redrawn on the coat-tails of the crisis. In some political economies, the politics of austerity have accelerated processes of 'new public management' inspired state reform involving marketisation, privatisation and retrenchment and contracting out of public service provision. This has amounted to the significant recasting of the relations between public and private, and the changing nature and scope of the state.

Efforts to cut state spending link to entreaties to reconsider what can and should be the scope of state activity in the economy and society, and to confine public investment and expenditure activities to realms where it is demonstrably supportive of growth. For some, the ideas of trying to make fiscal consolidation 'growth friendly' entails preserving these economic efficiency enhancing state expenditures, whilst cutting back in other areas. Amidst these debates, austerity politics has been seized upon by some – including the Coalition Government in the UK as an opportunity to challenge the political economic settlement, and reduce the size of the state in advanced European economies.

Cole's article focuses attention on some of the policy mechanisms through which this fiscal consolidation and retrenchment of state agenda is pursued. Primacy is afforded to the reformed European fiscal governance which has augmented budgetary supervision, the 'six pack', 'two-pack' and Fiscal Compact, as detailed in the articles in the Cole and Clift & Ryner articles in this special issue. The Six Pack and the Two Pack give a crucial role for the European Commission in enhancing European macroeconomic coordination through the European semester process. Its increasingly intrusive oversight of national budgets entails national budgets being submitted to European authorities for approval before being voted by national parliaments. In the wake of the Eurozone crisis the forces of fiscal consolidation, public sector retrenchment have gained ground. Mechanisms of change include specific criteria, intrusive monitoring welfare or local government expenditure and sometimes sanctions. As noted above, questions of political legitimacy are raised by the EC pronouncing on the taxing and spending plans of democratically elected governments.

The state reform agenda allied to these plans to restore the public finances chimes with long-standing calls from international economic institutions such as the OECD and IMF for public sector reform to enhance the efficiency of public expenditure, allied to a desire to reduce the number of public sector employees. France has the largest size of public sector outside Scandinavia, and has been one focus for calls to reduce levels of spending and overall tax takes, and the need to improve the efficiency of government expenditure. These calls have to some extent been answered within the French state. Cole charts an ongoing spread of New Public Management practices and institutions including agencification, performance indicators, public-private partnerships and the delegation of public missions to private entities. This entrenching of what Cole terms the ‘‘this neo-managerialist repertoire’ within the French state and governance practices was not caused by the sovereign debt crisis. Rather, Hollande’s reconstitution of the French public and private spheres builds on earlier initiatives in France including the LOLF in operation since 2001, and the RGPP introduced under Sarkozy. This has changed the dynamics of public power and its relationship to the economy and wider society. The Hollande presidency is attempting further considerable structural reforms to the French state, and to centre-periphery relations in France, as part of the efforts to contain or even bring down public expenditure.

Cole’s article mobilises a ‘States of Convergence’ framework as a heuristic device to encapsulate and analyse state modernisation and decentralisation reforms under the Hollande presidency. As Cole points out, post-crisis EU economic governance has reinvigorated EU-level budgetary control and fiscal oversight not only over member-states, but also, over their sub-state governments. So the parameters of centre periphery relations are changing as the balance between public and private shifts, with implications for the wider territorial governance and constitutional settlement. Cole’s article unearths how further retrenchment of local and regional public authorities and services are prioritised within the broader push towards fiscal consolidation. This tightening of constraints upon local government finance – French central government funding has been frozen since 21011, and is due to reduce by 3bn euros in 2014 and 2015 - is part of a wider European-wide trend toward centralisation of fiscal power at the expense of decentralised territorial governance units.

The austerity-oriented budgetary programming practices, in France as elsewhere, entail commitments to significant reductions in state spending. However, the French central state and local government reform agenda has to contend with powerful veto players, be it public sector unions or constitutionally sovereign local authorities. Cole reports significant scepticism amongst key players as to whether local and central government reform will deliver the cuts, and reductions in public sector employment, needed to effect the cost reductions signalled by Hollande. Recent decentralisation reforms have not reduced the complexity of the multiple overlapping competences across various layers of the ‘millefeuille institutionel’ that is French local government. European fiscal Rules, and French medium-term budgetary programming, assume very substantial further savings on local and central state expenditure. Yet the capacity of new public management type state reform and reordering of centre-periphery relations in the latest decentralisation to deliver cost savings, or indeed real change in French public service provision, is – as Cole indicates – somewhat dubious.

The Franco-German Relationship and the Politics of Austerity

Question marks raised over the prospects of success for French fiscal consolidation take on a particular significance within the politics of Eurozone crisis resolution given the crucial role and changing dynamics of the Franco-German relationship which is the focus of Clift and Ryner's article. Concerns about French 'profligacy' and its historical record of 'unrepentant sinning' on matters of the public finances has undermined French influence within a Franco-German relationship which has been the more of European integration to date. A reflection of the asymmetric nature of the Franco-German relationship, Clift and Ryner argue, is the entrenchment of German ordo-liberal principles of budgetary orthodoxy within the Euro architecture and to Eurozone crisis management. This unequal power relationship, and the prevalence of German ordo-liberal economic thinking in recent Eurozone economic governance innovations is key to understanding economic policy actions and constraints under Hollande.

The economic credibility concerns relate not only to European partners such as Germany, but also financial market participants. Upon Hollande's victory there was concern that market credibility could easily ebb away, and that financial markets were particularly quick to distrust French Socialist governments. A desire to sure up market confidence explains the bold and ambitious fiscal targets, designed to counter market credibility and debt sustainability anxieties generated by the potentially toxic combination of France's inglorious public finance position and the ongoing uncertainties surrounding the Euro zone crisis. These tough stances on restoration of the public finances were deployed by Hollande and his government as signalling mechanisms to demonstrate to their fiscal probity, prudence and rectitude.

The newly elected Socialist government and President in France, Clift and Ryner demonstrate, found himself constrained to operate within German policy parameters. France's European and Eurozone partners, notably Germany, were averse a reorientation of European economic policy priorities, and keen that an emphasis on austerity be retained. This helps explain why the Fiscal Compact went un-renegotiated, and why Hollande's June 2012 European Growth Plan proved to be a damp squib. It also accounts for why, subsequently Hollande lacked the policy space to undertake the reorientation of policy towards supporting growth on the scale he had hoped for. As unemployment has crept up and economic activity has struggled to revive, the combined effects of the various dimensions of the politics of austerity detailed in this special issue have eroded Hollande's popularity, credibility and governing capacity still further.

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