

# Policy Paper

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## Politics in the Austerity State

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## Politics in the Austerity State

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# Politics in the Austerity State

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## Abstract

Europe's mainstream political parties are fighting a grand ideological battle between growth and austerity which they believe will define the post-crisis political era. However, electorates largely reject these new dividing lines which parties on the Left and Right seek to draw. They appear to mistrust the level of influence that policymakers claim to have over economic outcomes in the globally integrated austerity state. This paper considers the extent to which political choices are still feasible in today's Europe. Firstly, it considers the policy 'straitjackets' policymakers are locked into – brought about by pressures arising from globalisation, EU monetary union, and the heavy legacy of debt accumulation. Secondly, it discusses why a majority of European populations appear to have accommodated themselves with this new settlement, voting for pragmatism and credibility over big ideological promises related to small state free market capitalism or one nation socialism. Finally, it offers some ideas on how sharper political dividing lines can be drawn within the narrow policy space available.

## Key Words:

Austerity, globalization, politics, ideology, European Union.

## Politics in the Austerity State

Campaigning for election to the European Parliament in 2014 is about to start – and the political positioning of the main parties, the centre-right European People’s Party (EPP) and the centre-left Party of European Socialists (PES), seems to be already written on the wall: while the former will advocate a strong and stable Europe in which budget consolidation goes hand in hand with structural reforms, the latter will argue for a social Europe that relentlessly focuses on unemployment and prioritises the pursuit of growth above all other concerns. Austerity versus growth is the slogan. With the help of personalised campaigns shaped around leading candidates on either side, some indeed hope that the politicisation of Europe is finally taking off.

The outcome of this political contest is likely to be encouraging and disappointing at the same time: encouraging because there is a genuine opportunity to generate some new energy for the European project and put the reform ambitions of EU representatives centre stage. It will also be disappointing, however, because people are unlikely to recognise the political choice which they are confronted with. Austerity versus growth fails to resonate with a public that is unsure about what mandate would lead to what kind of results. As a consequence, we are likely to get an eclectic mix of parliamentarians representing all sorts of ideas and pulling in different directions. Governing Europe after June 2014 won’t get any easier.

For all its problems, it is wrong to assume that the difficult task of making the EU more political is merely due to its idiosyncratic and complex set of institutions. Of course, the EU has created a system in which traditional Left-Right political debates come to the surface with great difficulty. But the challenge is by no means uniquely confined to the EU-level. Politics in many European nation-states is equally running on empty, offering little in the way of genuine ideological choices. Concerns about Entideologisierung (the disappearance of ideology) have re-emerged after they first entered public debate in the 1950 and 60s when some social democratic parties ditched their Marxist legacies. Unsurprisingly, the mantra of “there is no alternative” is booming again.

The response of Europe’s populations to this on-going political spectacle has been unambiguous: since the financial crash of 2007/08, incumbent governments are recurrently shown the exit door, blamed for widespread social injustices and an uncertain economic outlook. Retrospective voting has thus been re-enforced during the Great Recession (Bartels, 2012). Yet there is an important caveat: it is the centre-right that disapproves the odds far more frequently than their centre-left counterparts – at least in EU member states.

One influential explanation put forward goes like this: parties who are most “trusted” to manage the economy dominate the post-financial crisis politics. The public is frightened about simplistic commitments to economic stimulus through borrowing more and appear to support the view that fiscal prudence is required to correct excessive spending in the past (Pew Research, 2013). Any party who wants to win the argument

on austerity versus growth has therefore to accept that trust is as low in the state as it is in the market (Policy Network, 2011).

From this perspective, the Left-Right ideological contest is held back by legitimate popular anxieties. Big promises quickly fall on deaf ears, only reinforcing widespread cynicism towards public representatives. Yet there also seems to be a much deeper suspicion which increasingly dictates electoral behaviour: namely that political parties have far less room for manoeuvre as well as influence over economic outcomes than they care to admit. The “policy space” for a radical ideological alternative appears rather limited.

Against this backdrop, this paper offers some reflections on the extent to which political choices are still feasible in today’s Europe. It does so by looking at the principle terms of references which influence the behaviour of political agents, before exploring how ideological differences can manifest themselves in a more confined space for policy-making and governing choices.

## Changes in the policy space of Europe's advanced economies

### *(a) Globalisation overdrive?*

The reduction of the policy space in Europe is generally ascribed to two developments: first, fully-fledged globalisation, and second, monetary union (EMU). Critics of the former, like Dani Rodrik, argue that we are close to repeating the mistakes of the 1930s when the Gold Standard locked policymakers in an intolerable straitjacket whereby the use of macro, financial, tax and structural policies had to be heavily restricted in order to minimize impediments to the free flow of capital and goods. The current form of "hyper-globalisation", it is claimed, equally leads to an obsession with eliminating transaction costs on international trade and finances, prioritising regulatory harmonisation over recognition of the diverse policy needs of different nation-states, let alone legitimate democratic demands.

This stands in contrast to the decades that immediately followed the Second World War. Then, the Bretton Woods compromise guaranteed that industrialised nations had the capacity to embed capitalism in a wide range of regulatory and redistributive institutions, helping to create a manageable balance between competing social and economic requests. Keynesian macro-management and an active industrial policy targeted growth and full employment, while the building up of welfare states lifted millions out of precariousness or outright poverty. Finally, capital controls and a highly permissive General Agreement on Tariffs and Trade (GATT) ensured the primacy of the public interest, inasmuch as nation-states could use their power over the flow of money to curb excessive private and corporate enrichment.

Without a doubt, *de jure* (formal) sovereignty in national economic policy was far greater before the period of stagflation put a brutal end to the post-war boom. But true autonomy in policymaking is defined by more much than theoretical choice and full sovereign command over policy instruments: it also depends on a notion of specific policy targets and, importantly, a relationship between the available instruments and those targets (Mayer, 2009). In other words, the magnitude of true policy space is contingent first and foremost upon the effectiveness of policy instruments to achieve set political objectives. *De jure* sovereignty is complemented by *de facto* (actual) control over instrument-target relationships and their implications for real economic development.

A comparison between the Bretton Woods system and the era of liberalised trade and finance must start from such a perspective: while international economic integration certainly reduces the national policy space in *de jure* terms (since WTO rules and other legal commitments adversely impact on the range of available policy instruments, such as capital control and quotas), its effect on *de facto* control over policy autonomy can either be negative or positive. The principle question is whether global economic

integration has helped to strengthen or rather undermine the effectiveness of domestic instrument-target relationships.

As a matter-of-fact, this assessment differs from country to country. For instance, while some advanced economies have successfully managed to harness internal reforms to create scale economies fit for global markets, others saw their industries shrink because of unwanted competition. The former tends to enlarge the national policy space, say by tapping new sources of taxation; the latter is bound to limit it further. No fixed pattern exists.

### ***(b) EMU straitjacket?***

The second qualitative shift is said to be brought about by the EU's single currency. Whereas the liberalisation of the global economy still very much rests on the commitment of nations to respect the harmonised regimes under international law, Economic and Monetary Union (EMU) enforces a strict division of responsibilities which directly cuts through national policy autonomy. For some, such as the renowned German academic Fritz Scharpf, this bereaves member states of any effective macro-economic control and management: monetary and exchange rate policies are firmly placed under the auspices of the European Central Bank (ECB), while fiscal policy is increasingly subject to restrictions and interference from the European Commission. Addressing demand-side economic problems are thus largely left to wage policies.

In this analysis, the reduced policy space does not only create an inextricable dilemma for input legitimacy, that is permanent conflicting demands between and within Euro countries, but also fails the test of output legitimacy, since constrained macroeconomics would not produce satisfactory results in a non-optimal currency area. Scharpf goes on to argue that the price for EMU might therefore not be worth paying – a view which more and more people seem to share.

This line of argument is powerful in two respects: first, it shows that the origins of the Euro crisis were caused by incomplete and flawed design rather than failures by individual countries. Second, it highlights the difficulty with which diverging social and economic interests can be reconciled in an interdependent Europe. However, what such an analysis fails to offer is an idea of the extent to which the policy space, and with it national sovereignty, would actually increase outside monetary union.

A comparison with Britain, for example, is rather discouraging: despite the extensive use of exchange rate (Sterling devaluation by approx. 25% since 2008) and monetary policies (a staggering £375bn of quantitative easing to kick-start the economy), the effectiveness of the domestic instrument-target relationship appears to be not much better. Like in any globally integrated economy affected by the financial crisis, the trade-off between different objectives such as stability and growth, or equity and efficiency, seems to be taking its toll.



Some have consequently argued that EMU, if rightly designed, offers a significant “insurance potential” for its member states, which in turn should have a positive impact on the national policy space (Schelkle, forthcoming). This assumption starts with the view that the temptation of mercantilist strategies and exporting domestic problems, such as unemployment, or the wide use of discriminatory policies and beggar-thy-neighbour practices, such as competitive devaluation, can only be dealt with through deep(er) integration. Managing interdependence, not diversity, is the real challenge for maintaining autonomy over policymaking.

In short, the debate remains somewhat inconclusive. There is no doubt that both globalisation and monetary integration significantly reduced the policy space in de jure terms. This in itself has a considerable impact on the politicisation of social and economic policies: politicians have so far struggled or even resisted translating multi-level governance into political contestation (of the Left versus Right nature) at the national level. The shifting relationship between available instruments and defined policy targets thus obscures the choices with which voters are confronted in the absence of adequate interest representation and channelling by political parties. As a consequence, the ‘procedural legitimacy’ (Bartolini, 2011), which depends on a common understanding of how decisions are arrived at, has taken a hit. Politics “feels” displaced.

However, the same cannot be said about the de facto control over national economic development. Both globalisation and monetary union unleash trends and changes that can pull in opposite directions with different impact on the domestic policy space. What is more, the relationship between the two remains ambiguous: is the liberalising influence of global economic integration exacerbated by the governance structure of EMU or does the latter have the potential to be a supportive mediator for the intensifying interdependence of Europe’s economies, if not a corrective to the destructive forces of financial capitalism? No straight-forward answer jumps out.

Perhaps unsurprisingly then, very few senior policy-makers dare to contemplate a reversal of either global economic integration or monetary unification despite serious concerns about the scope for political choice. In the light of the unclear gains of such a move, the adjustment costs appear simply too high: opting out of liberal trade agreements would require new incentive structures for businesses, possibly eroding skills sets, institutions and systems built up over decades. Capital flight would loom in addition to the emergence of new imbalances. Similarly, a break-up of the Euro would have a sizeable negative impact on employment and growth rates. A rise in beggar-thy-neighbour economic policies would likely be inevitable – a course of events which has brought Europe a lot of misery in the past.

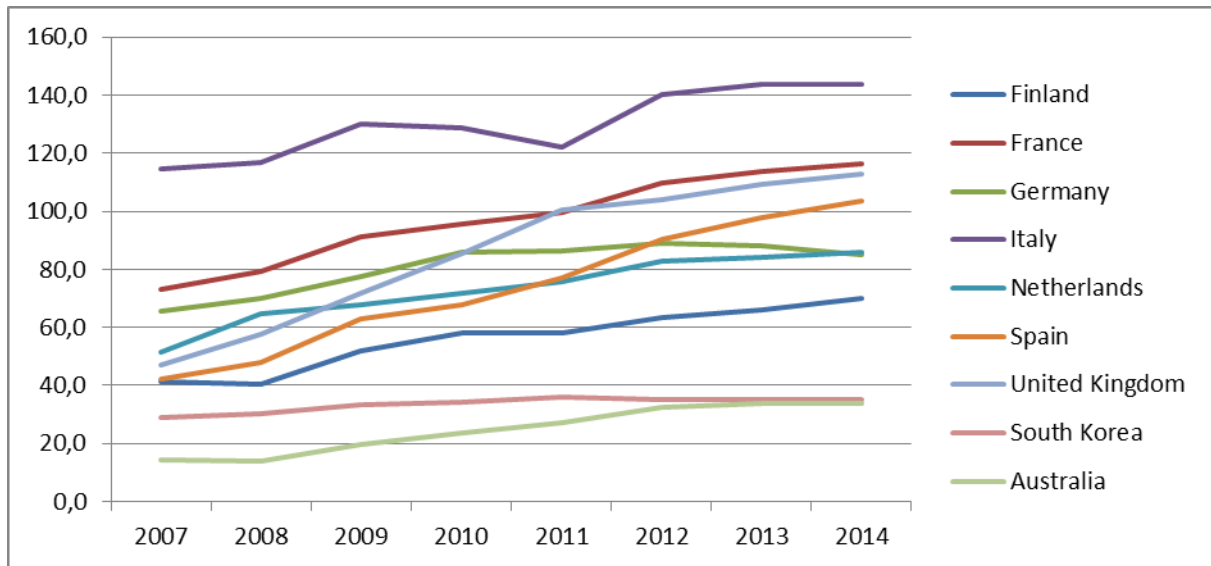
### ***(c) After the debt state***

Institutions are at the heart of policy-making. If any kind of economic integration or sovereignty pooling restricts institutional power, the political debate begins to shift. This does not only happen when external constraints (WTO, EMU, etc.) affect national policy space but also in the wake of deliberate internal changes to how a country is

governed. The general trend towards Central Bank independence, taking away interest rate policies from political interference, best exemplified this. Yet lately, many advanced economies have also started to outsource budgetary supervision to independent bodies, paired with moves to legislate to enforce balanced budgets over the business cycle. While this development seems most pronounced within the Eurozone – sold as a necessary response to continued bond market uncertainty – other advanced economies have taken similar steps.

The legitimacy of external constraints rests on the assumption that economic performance will be enhanced, while the policy space can be maintained, if not increased. Deliberate internal constraints, however, tend to have a distinctive *raison d'être*: they are imposed when governments believe that a particular process of policy-making has to be shielded from short-term pressures in the interest of long-term objectives. Of course, internal constraints are first and foremost defined by constitutions, spelling out basic rights for instance in relation to private property or industrial action. The guiding principle of modern constitutionalism is to carve out as much political space as possible, provided that the freedom and dignity of the entire population is preserved at all times. Adding institutional constraints which are unrelated to basic rights seems a more recent phenomenon.

In this context, the most powerful driver today is clearly the burden of debt which industrialised nations, in particular in the EU, have accumulated over the last few decades. The figures are truly staggering: according to the latest OECD calculations, almost all of Europe's richest nations have debt to GDP ratios in excess of 60%. In 2013, Germany is expected to reach 87.9%, the Netherlands 84.2%, France 113.5%, Britain 109.1%, Spain 97.8%, Italy 143.6%, and even fiscally prudent Finland 66.2%. Each one of them would thus breach the Maastricht criteria, not to mention those countries, like Greece or Portugal, which have seen their debt burden balloon. As a matter-of-fact, this contrasts in a highly negative light with the financial liabilities of some other globally integrated countries, such as Australia (33.7%) or South Korea (35.0%). High levels of debt in the US or Japan therefore offer little comfort.



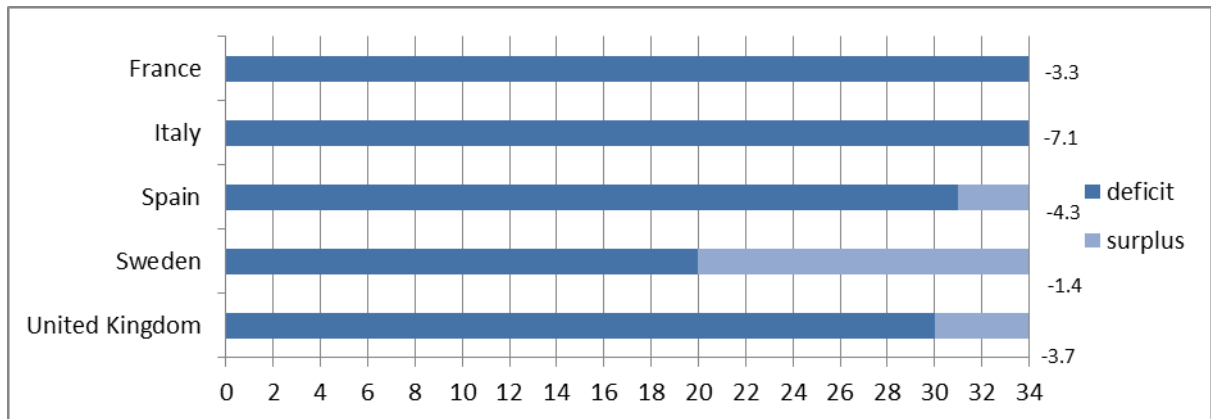
Government Debt: general government gross financial liabilities as a percentage of GDP (OECD data)

As this graph indicates, the debt burden considerably accelerated in the aftermath of the global financial crisis. The reasons are well known: the ‘deadly embrace’ of sovereigns and banks (De Grauwe, 2013) led to costly bail-outs in which troubled European nations propped up wavering or falling banks with public money. In the absence of a European deposit insurance, EU member states decided to go it alone, rather than coordinating their actions to take on problems that were bound to have adverse cross-border implications. The debt-financed rescue operations were subsequently justified by policy-makers to avoid a total financial collapse which, it is argued, would have had much more devastating consequences on people’s lives than the pain currently being dealt-out. Regardless of whether this is true or not, debt burdens are much higher now than they were five years ago.

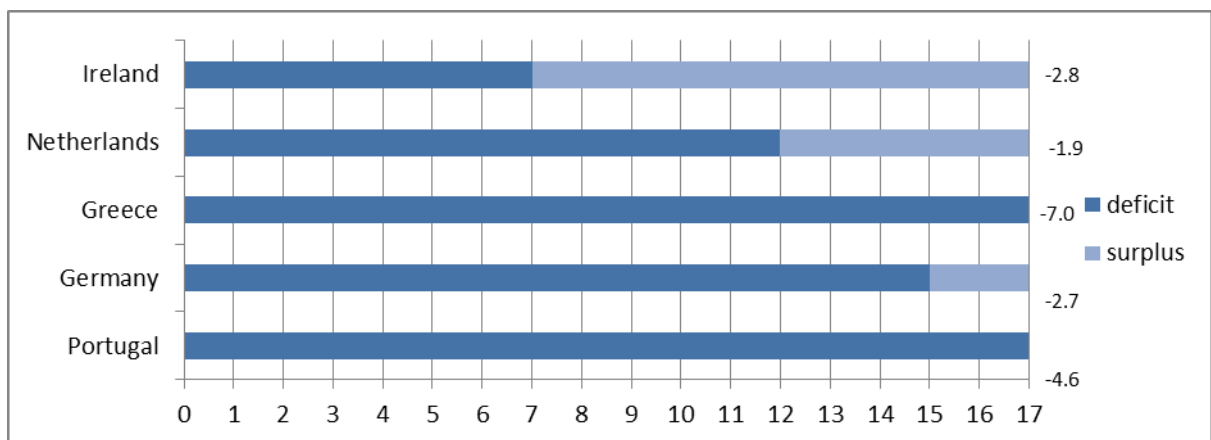
However, this is not the entire picture. In the current debate about the available space for policymaking, there is little appreciation of the fact that debt to GDP ratios have actually been rising almost continuously for the last 40 years (and not just as a result of the financial crash) – a trend occurring in almost all rich and industrialised (OECD) countries. Wolfgang Streeck, together with his colleague Armin Schäfer, offers a compelling explanation: up until the 1970s, debt was kept in check either by high growth rates, often exceeding 4% or 5%, or high inflation. Since most debt is fixed in nominal terms, inflation erodes its real value, thus shrinking the relative burden. Yet with the arrival of monetarism as a response to the collapse of the Bretton Woods system, both high growth and high inflation became a matter of the past. Instead, a rise in structural unemployment, the end of the ‘bracket creep’ (the “automatic advancement of taxpayers with nominally increasing incomes to higher tax brackets under progressive taxation”) and lower nominal growth rates in addition to lower real growth all pushed up debt to higher levels.

The underlying reason, nonetheless, was the extensive mismatch between government income and public expenditure. In particular from the 1990s, but already before, deficit-financing became the order of the day in Europe. As the charts below seek to illustrate,

countries like France and Italy did not achieve a single balanced budget, let alone significant surplus, for the last 34 years, averaging a deficit of respectively -3.3% and -7.1%. The situation does not look that differently in countries like Britain or Spain. Even Sweden, which ran surpluses for 14 years during those three decades, holds a negative balance of -1.4%. Readily available data for other European countries, such as Germany or the Netherlands, does not go back until the 1970s, but nevertheless confirms the trend.



Government budget balance, 1978-2011. Average budget balance, % of GDP. (OECD data/The Economist)



Government budget balance, 1995-2011. Average budget balance, % of GDP. (OECD data/The Economist)

What are the primary causes of this mismatch? Evidence remains somewhat elusive but a number of factors stand out. First, welfare states across Europe have entered a period of 'maturation' whereby entitlements which were previously only enjoyed by a small percentage of the population (e.g. state pensions) are now much more widely shared. This comes in addition to pressure from demographic changes that enlarge the pool of recipients even further. Second, growing tax competition, on top of growing tax resistance, has tended to undermine government receipts. Research suggests that in particular larger countries will see their fiscal capacity erode if the ability to tax mobile capital is constrained by the combination of economic integration and tax competition (Genschel/Schwarz, 2013). Revenue-raising thus increasingly concentrates on immobile factors, penalising labour and consumption.

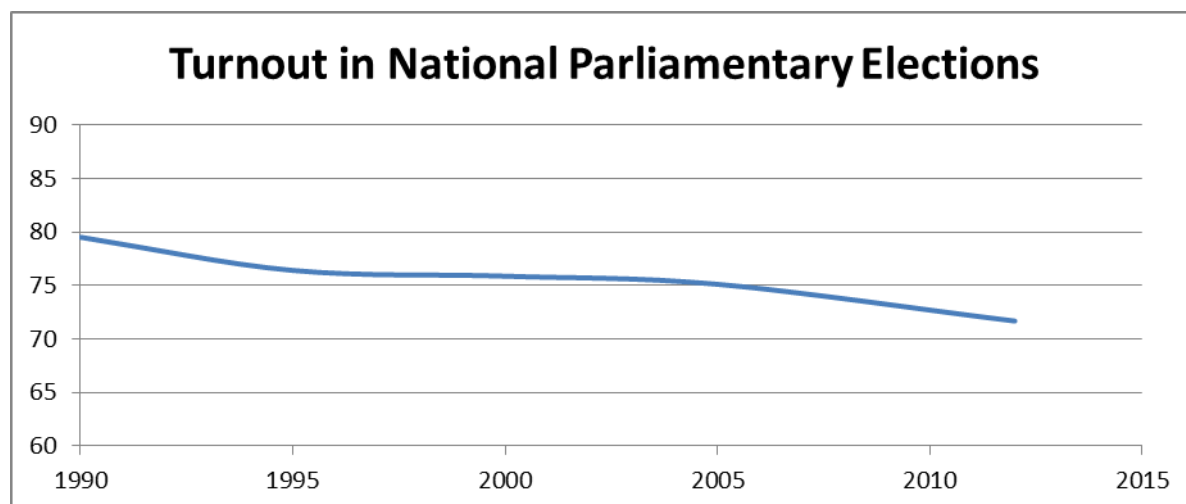
To be sure, none of this can fully explain why governments seemed unable to create a better balance between income and expenditure over the past decades. Streeck therefore goes further and argues that the process of economic liberalisation created the constraints that impeded the state adequately taking care of the public interest. In other words, the state had little choice but to revert to deficit-financing. From this perspective, liberal democracy was preserved by the deliberate increase of debt, both public and private, in order to compensate for high unemployment, stagnant wages, and the rise in inequality or job insecurity. This view stands in sharp contrast to those who believe that democratic demands and untenable political promises contributed to widening fiscal imbalances, even though there is little to no evidence that citizens actually expressed requests for more public spending in a more organised or structured way than during the Bretton Woods years.

The bottom line is that years of debt accumulation have increased the likelihood of a permanent 'austerity state' (Pierson, 2001), one in which deficit-financing of public entitlements and private prosperity over a longer period of time becomes a matter of the past. Instead, fiscal prudence and consolidation is the new norm, not the exception. This is different to claiming that something like a maximum level of debt (say 90%) exists beyond which macro-economic performance would inevitably suffer. Such a debate has proven flawed then and now. But it does mean that in an era where creditors can rapidly lose confidence in the ability of debtors to repay loans, some form of austerity – however broadly defined – is likely to prevail. This creates an additional dimension of constraint for policymaking space at the national level, which is caused by legacy as much as institutional and political choice.

## Politics in the austerity state

Against the background of the pressures arising from globalisation, the limited use of policy instruments under EMU rule, and the heavy legacy of debt accumulation, today's politics appears to be trapped in a void. Attempts to re-politicise the European policymaking space by offering a new choice between austerity and growth have so far failed dismally, not least because all parties, whether on the centre-right or centre-left, realise the necessity for pursuing both. Whether this is best achieved, say, through continuous "expansionary fiscal contraction" or a short-term, limited stimulus to kick-start the economy followed by fiscal discipline, hardly lends itself to emphasising great ideological differences. Inevitably, the ordinary voter is somewhat perplexed.

This begs the question as to whether democracy itself is being undermined, or whether the electorate has settled itself with the reduced space for political manoeuvre. The headline data is unambiguous: for example, voter turnout in national parliamentary elections is falling steadily across most of Europe. While this trend began in the 1970s, it particularly accelerated during the last two decades. Average percentage turnout is now at 72%, affecting countries with all kinds of democratic traditions, be they crisis-hit Greece and Spain, or states close to full employment, such as Austria and Germany. This is more than 10 percentage points lower than during the 1960s, almost rivalling the decline in turnout for the elections to the European parliament between 1979 and 2009.



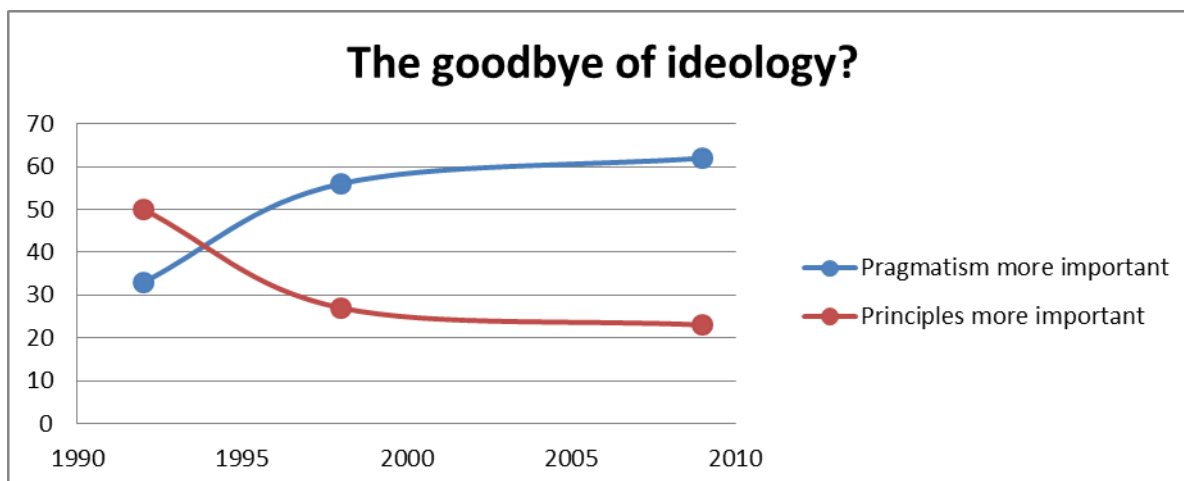
*Average percentage turnout (1990-2012) aggregated for the following 12 members of the Eurozone: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. (Eurostat data)*

Other indicators of democratic health point in the same direction. Trust in politicians and political parties is worryingly low in the entire EU. Party membership is collapsing while electoral loyalties are disappearing gradually. Those who have disconnected from politics and no longer go to the ballot box at national elections tend to have a similar profile:

research suggests that non-voters predominantly have low educational attainment levels, live in areas with high unemployment rates or face other forms of economic hardship (Streeck 2013, Bertelsmann Stiftung 2013). In a nutshell, this means that a social divide in relation to political participation has opened up in many European countries. The less well-off tend to opt out; the better-off dominate the political agenda.

Does it also mean that democracy itself is being dismissed? Here, the evidence is far less clear. A detailed study by the Bertelsmann Stiftung analysing attitudes towards democracy in Germany found, for instance, that there are considerably more people who are pleased with the democratic system as such than people who are willing to vote. Similarly, in Britain the polling company YouGov recently compared data sets of the 1970s with surveys from today. Then, 68% considered the UK a functioning democracy, while 20% disagreed and 12% were uncertain. In 2012, the figures were respectively 67%, 17% and 17%. To be sure, both studies only provide snapshots in two countries. Nevertheless, they certainly do not support the argument that Europe's citizens have generally and everywhere turned towards a negative view about democratic government in an era of global and regional integration.

What is more, citizens at least in Germany and Britain hold this view while acknowledging that ideology has largely disappeared within the political system and that differences between mainstream parties are less and less recognisable. And they also do not seem to mind that much. The Allensbach Institute found that at the beginning of the 1990s German voters still believed political parties take their decisions mainly on the basis of their principles and deep convictions rather than pragmatic considerations. Over the last two decades this picture has completely been reversed (see graph below). At the same time, however, the electorate by and large approves of the party spectrum and interest representation. The UK looks little different: almost half of the population agrees that there is a "good choice of parties at election time", whereas 58% believe that there is "little real difference between the main political parties." (YouGov, 2012). The ostensible contradiction is misleading. Pragmatism is appreciated in a society which increasingly favours problem-solvers over ideologues and dogmatists.



Percentage of people in Germany on how they think politicians approach the most pressing problems of their country (Allensbach Institute)

Some therefore argue that Freud’s narcissism of small differences has never resonated stronger than in Europe’s post-democracy. It has become almost impossible to work out how society, let alone one’s own life, will actually be affected by whoever governs, so trust, honesty and competence in an increasingly ‘presidential’ parliamentary system count for the difference. Swings towards the Left or the Right are better explained by the attractiveness of the respective leaders than big changes in the political preferences of the electorate. Credibility is the first benchmark.

Yet there is also another set of explanations. Research on party choice demonstrates that value schemas still determine voting behaviour on a Left-Right axis. Traditionally, this has played out above all in relation to attitudes towards the free market and the role of the state. However, this socio-economic dimension is now complemented by a second value schema referring to social-cultural concerns (individual freedoms, equality of rights, life-style questions, etc.) and a third one opposing those who favour more openness and integration (particularly on migration and Europe) with those who prefer a higher level of control (Walczak et alii, 2010). Evidence confirms that the latter two cleavages have gained in importance over the last two decades (Kriesi, 2008). Structural conflict in Europe has thus become multi-dimensional.

Ultimately, this suggests that politicisation is now firmly balanced between an economic and a cultural sphere. The perception of a reduced policy space and the emergence of new conflict lines did not suppress political choice but shifted some important points of contestation. From this perspective, the rise of single-issue and populist parties across Europe can be explained by the inability of mainstream parties to capture this shift and offer meaningful alternatives that respond to legitimate democratic demands and anxieties. In other words, Left-Right politics has not lost its appeal – it is mainstream politics that struggles to cope in this crowded field.



## What room for ideological debate?

From the above discussion, two lessons ought to stand out: First, the space for policymaking and governance in many European countries has been affected in multiple ways and over a long period of time. Integration into the globalised economy has led to a re-organisation of public institutions, social contracts and business models. Monetary union seeks to revolutionise macro-economic management through pooling sovereignty for the benefit of greater insurance and risk mitigation.

On top of this, the debt state after decades of deficit-financing is on a steady transition to the permanent austerity state, notwithstanding current debates about the right pace of fiscal consolidation in no-growth Europe. The effects on the policy space seem non-linear but restrictive on balance. However, there is clearly no quick fix with which to shake off any of the accumulated constraints. Opting-out from either globalisation or EMU is unlikely to significantly improve the policy instrument-target relationship, all the more if done in an uncoordinated fashion. And the debt burden, requiring expensive servicing, cannot be wished away.

Second, the large majority of our populations have accommodated themselves in this new democratic settlement. They recognise the socio-economic constraints and express their political attitudes and preferences on the back of different structural conflicts. The serious challenge to democracy comes from the rise of unequal political participation. In particular the less well-off in society feel increasingly unrepresented and tend to dismiss the political choices offered by established political parties, opting instead for fringe groups or abstention at elections. The Left-Right axis of political contestation thus remains the central frame in European politics but nowadays competes with a new mainstream versus populism cleavage. While there is no clear evidence (in Western Europe) that the support for democratic government has so far suffered from this trend, the risks for future developments are obvious.

This alone should spur political parties of all colours to “claim back” the economic sphere and sharpen their political choices so that they can resonate again with the entirety of the population. In truth, politicisation within the globally integrated austerity state still enjoys considerable room for manoeuvre.

For a start, the debate about the purpose of public spending in the light of fiscal consolidation requires both the Left and Right to re-state and re-explain their spending priorities. In almost all European states, fiscal consolidation happens predominantly through cuts in expenditure rather than tax rises. In the absence of a more rigorous contest over the scope for new taxation, the challenge will thus be to reconcile competing claims for either ring-fencing mandatory spending or increasing discretionary spending in the pursuit of new social objectives.

Evidence suggests that discretionary spending is declining rapidly when a growing share of public expenditure goes to either pensioners or creditors (i.e. debt repayment). The politics of spending choices flows from here: if the fiscal space is limited, it is not the level of

traditional public investments in a country's infrastructure which can easily be politicised. Instead, the political value of discretionary spending is increasingly measured in terms of 'social investment', including education policies, research and development, family policies and active labour market policies (Streek/Mertens, 2013). For some, those are the policies which have a significant impact on the life chances of the least well-off and should therefore be championed. For others, they will always remain of secondary concern.

If spending choices will be at the heart of new ideological dividing lines at the domestic level, differing attitudes towards the state and market will somewhat re-emerge at the European level. As I argued above, a polarisation between austerity and growth is failing because it does not credibly differentiate between opposing value schemas. However, citizens in Eurozone member states are only too aware that budgetary consolidation comes with a price: the quest for fiscal discipline can either be guided by market pressure or institutional compromise.

To be sure, any future governance arrangement will create some sort of balance between the two, but different world views remain. For instance, a greater reliance on market pressure points to a continuation of EMU's rules-based system in which bond market judgement on yields is the main corrective for individual action. This approach is driven by deep scepticism that public institutions and mutuality can remedy temptations for deficit-financing. On the other hand, there are compelling arguments in favour of using the potential of further risk pooling to shield euro countries from the volatilities in financial markets. This then would require a more powerful administration to police and advise national jurisdictions, resulting in a redefinition of solidarity and responsibility in a more deeply integrated EU. So far, such a Right-Left debate is held back by the stark divisions between creditor and debtor nations. But once the EMU's crisis mode has been abandoned, further politicisation seems all but likely.

None of this will satisfy those on the Right or the Left who would prefer a "purer" ideological battle between small state free-market capitalism and one-nation socialism. Neither option, however, is credible in the light of global economic interdependences, challenges such as climate change or prevailing social inequalities. The danger is that parties continue to inflate public expectations at the expense of serious political choices that tackle the big questions of our times. Mainstream political parties can get back on track if infused with a new realism; equally they will continue to sink to dangerous debts if they opt to bury their heads in the sand.

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## About the Crisis Observatory

In the context of the worst economic crisis in the history of post-war Greece and the wider European debt crisis, initiatives for the systematic and scientific documentation, study and analysis of the crisis in both Greece and Europe are sorely needed.

The Crisis Observatory aims to answer this call. The Crisis Observatory is an initiative of the Hellenic Foundation for European and Foreign Policy (ELIAMEP), with the support of the Stavros Niarchos Foundation.

Its primary objective is to become a central hub for information, research and dialogue for both the Greek and European crises. The Crisis Observatory's guiding principle is the presentation of new research, policy proposals and information, which are based on solid arguments and empirical evidence, with a view to improving the level of public discourse about the crisis. In order to achieve this objective, the Crisis Observatory's work is organized around three central pillars:

- The provision of educational material with a view to enhance the ability of the average citizen, who often does not have a good hold on economic issues, to understand basic parameters of the crisis.
- The provision of serious, evidence-based and representative, in terms of subject focus and theoretical/political approaches, information about the crisis.
- Intervention in the public discourse about the crisis, through the creation of a venue for the free expression of different views and policy proposals promulgation of new research about the crisis.

The team of the Observatory is:

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