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## **The Legacies of 1989**

*Alina Mungiu-Pippidi* ■ *Grzegorz Ekiert & Jan Kubik*  
*Venelin I. Ganev* ■ *Vladimir Tismaneanu*

## **Breaking the News: The Role of State-Run Media**

*Christopher Walker & Robert W. Ortung*

## **The Criminal Subversion of Mexican Democracy**

*Andreas Schedler*

*Ivana Cvetkovic Bajrovic & Janet Rabin Satter* on Albania

*Pierre Manent* on the Crisis of Liberalism

*Charles H. Fairbanks, Jr.*, on Georgia

*Tom Ginsburg & Aziz Huq* on the Afghan Constitution

*Matthias Matthijs* on the Euro Crisis

*Jeffrey Gedmin* on Moisés Naím

## **Reconsidering the “Transition Paradigm”**

*Francis Fukuyama* ■ *Larry Diamond* ■ *Donald L. Horowitz* ■ *Marc F. Plattner*

# MEDITERRANEAN BLUES: THE CRISIS IN SOUTHERN EUROPE

*Matthias Matthijs*

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The euro was legally born on 7 February 1992, when twelve countries signed the Treaty of European Union in Maastricht, a Dutch provincial city on the river Meuse, one of medieval Europe's main commercial waterways. At the time, the creation of the single currency was praised as a visionary act of international statesmanship. The reasoning behind the idea was straightforward: Through further economic convergence, EU member states would better align their core national interests, grow into a more politically integrated unit, and create a liberal-democratic zone of stability. Economic and Monetary Union (EMU) was Europe's imaginative and bold response to the new geopolitical landscape that emerged after the fall of the Berlin Wall. Not only would EMU relegate any internecine military conflict to the distant past, it would also further foster the consolidation of southern Europe's fledgling democratic systems by underwriting their economies with sustained growth and prosperity. This was especially true for the Mediterranean catalysts of the "third wave" of democratization, Portugal, Spain, and Greece, which had joined the European Community (EC) in the 1980s; it was also true for longstanding member Italy, which, with 61 different governments in less than fifty years, had experienced more democratic volatility than any other country in the EU since 1945.

Fast-forward just over twenty years, and the reality is a far cry from the intended ideal. With Europe reeling from the existential uncertainty brought about by the sovereign-debt crisis, some analysts have gone so far as to liken the euro to Dr. Strangelove's Doomsday Machine—a mechanism devised to trigger a financial Armageddon that once begun

cannot be stopped. Rather than producing wealth, affluence, and peaceful harmony for southern Europe's still relatively young democracies, the euro has become synonymous with general strikes, mass protests, violence, riots, and tear gas in the streets of Athens, Madrid, Lisbon, and Rome. New antiestablishment parties have emerged to challenge their countries' elites and EU membership, and popular support for the EU has plummeted. The project of European integration is now being assailed by critics who warn that EMU has severely damaged national sovereignty and fails to comply with fundamental democratic principles.

What happened? As we will see, the erosion of southern Europe's democracies and the decline in popular support for the EU had their roots in the euro's original design, which took away legitimate economic-policy tools from national governments and enabled the formation of structural imbalances within the EMU. The tension between legitimate domestic democratic choices in the South and the demands from technocratic supranational institutions dominated by the North would be exposed in 2010. The unequal politics of economic adjustment during the euro crisis laid bare the clashing interests between the "surplus countries" of northern Europe and the "deficit countries" of southern Europe. Europe's sovereign-debt crisis consequently caused a growing awareness in the South that EMU had clipped the wings of its governments, leaving national electorates bereft of any democratic agency. The euro crisis thus created the fertile soil for protest politics and the rise of extremists both left and right on the political spectrum of Europe's periphery.

From the mid-1990s onward, capital from the North flowed en masse into the markets of southern Europe in anticipation of the higher yields that would result from the introduction of the euro in 1999. Institutional investors and many other financial-market participants implicitly assumed that the impending adoption of the euro was a *de facto* guarantee against any future sovereign default by those countries. This shaved off most of the existing national-risk premiums that had prevailed on Mediterranean country bonds. The initial result of these financial flows was rapid interest-rate convergence, which held as long as economic times were good (between 1998 and 2008), and seemed to vindicate the view that the euro had brought about deeper economic integration in the Eurozone. But rather than leading toward convergence, as anyone focusing just on EMU sovereign-bond spreads would have concluded, this process actually resulted in unsustainably large balance-of-payments disequilibria within the Eurozone.<sup>1</sup>

Over the years, there was a gradual widening of the popular-perceptions gap separating a "financially more orthodox" northern core of surplus countries that mainly saved, invested, produced, and exported, from a "debt-ridden" southern periphery of deficit countries that predominantly borrowed, consumed, and imported. This economic divergence—enabled by the euro's institutional design, which allowed capi-

tal to flow freely and almost risk-free across EMU borders—created the conditions for the European sovereign-debt crisis. It was little more than a year after the bankruptcy of U.S. investment bank Lehman Brothers triggered the global financial crisis in September 2008, that the Eurozone's imbalances were exposed. When Greece's newly elected socialist prime minister George Papandreou first revealed in October 2009 that his country's public finances were actually in much worse shape than originally believed, it came as no great surprise, and the markets initially remained calm. It was not until the early months of 2010, when European heads of state seemed to be dithering on a joint response to a pending Greek default, that the markets began to panic.<sup>2</sup>

### The Politics of Unequal Adjustment

As the crisis quickly spread from Greece to Ireland and Portugal in the second half of 2010, and then to Italy and Spain in 2011, the main consequence for Europe's periphery was an excruciating process of forced economic adjustment. By joining the euro, they had given up two national shock absorbers—namely, external devaluation and domestic fiscal stimulus—leaving austerity as the only available policy option on the table short of outright default. In the absence of any solidarity mechanism at the EU level—such as fiscal transfers from the North to the South to ease the financial blow, or fiscal stimulus in the North combined with fiscal retrenchment in the South—the whole burden of adjustment through austerity fell on the periphery, even though the core was just as much to blame for Europe's predicament.<sup>3</sup> In an ironic twist, the sovereign-debt crisis reawakened old political divisions on the Continent—the very problem that the euro was introduced to put to rest once and for all. It also brought to the fore the issue of democratic legitimacy and laid bare the conflict at the heart of EMU between the national (“democratic”) sovereignty of its member states and the supranational (“technocratic”) demands coming both from Brussels, where the EU has its headquarters, and from Frankfurt, the seat of the European Central Bank (ECB).

Between 1945 and the early 1970s, countries in financial distress had at their disposal four national-level economic shock absorbers to help them out of a crisis: 1) Keynesian demand stimulus (inflation); 2) austerity policies (deflation); 3) external currency realignment (devaluation); and 4) debt restructuring (default). The 1944 Bretton Woods deal between the United States and the United Kingdom, characterized by John Ruggie as the compromise of “embedded liberalism,”<sup>4</sup> had incorporated the main lessons learned from the Great Depression when the gold standard had forced deficit countries to deflate, which had extended the slump. Through a system of fixed exchange rates, capital controls, and domestic discretion over monetary policy, the Bretton Woods

compromise allowed countries to balance internal priorities (such as domestic welfare and full employment) with external ones (gradual trade liberalization and the maintenance of a balance-of-payments equilibrium). In other words, it was understood that modern democracies had to be given occasional leeway to rebalance their national economies in favor of growth and higher employment, even if this meant temporarily going against the international rules of the global economy, which primarily represented the interests of international creditors and favored more free trade, capital openness, and price stability.

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***Austerity is not a politically neutral policy: It puts the main burden of adjustment on debtors and workers, and all but leaves creditors and capital-owners off the hook.***

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When U.S. president Richard Nixon took the United States off the gold-exchange standard in 1971, it ushered in a new era of flexible exchange rates, deregulation, and rising international capital flows. Most industrialized countries, including the United States, Japan, Britain, Australia, Canada, and later the emerging economies of China, India, and Brazil, kept all four shock absorbers in their national repertoires. While there was a great deal of talk about market discipline and strict economic-policy rules during the early 1990s, in practice most countries were careful to preserve the levers of their domestic fiscal and monetary policy through a variety of capital controls, exchange-rate measures, and outright prohibitions. That is, most countries continued to adhere to the central tenets of the embedded-liberalism compromise. The exception was continental Europe, where France and Germany, along with other members of the EC, gradually surrendered their national economic sovereignty and eventually agreed to tie their economic fates together by creating the euro.<sup>5</sup>

With the creation of the single currency, Europe effectively reinstated its own gold standard. By adopting the euro, EMU members supplanted their national currencies and put in place a forever-fixed exchange rate controlled by an independent and supranational central bank that focused exclusively on price stability but lacked de facto lender-of-last-resort functions or a common debt instrument. EMU members thereby lost two shock absorbers—inflation and devaluation. Given the growing significance of international financial markets and the importance of sovereign-credit ratings for the liquidity of most countries' bond markets, default also became a much less appealing option, leaving deflation as the only viable response. Thus there was little room for legitimate democratic debate within Eurozone member states about what to do in a crisis, as there were no alternatives to austerity. With the euro, European elites “disembedded” the component of the Bretton Woods compromise

that gave national democratic politics de facto control over economic policy, but without putting in place a safety valve of supranational mechanisms of fiscal solidarity. During a crisis, the demands of international financial markets would again take precedence over domestic economic concerns, just as had happened during the years between the world wars, when the gold standard worsened the Great Depression.<sup>6</sup>

In scrambling to keep the euro together in 2010, the surplus countries, led by Germany, insisted that the periphery's "irresponsible borrowing" was to blame for the crisis. The periphery countries therefore needed to implement strict budgetary cuts and enact far-reaching structural reforms considered necessary for rebalancing their economies. National leaders in the South—especially in the big economies of Italy and Spain—retorted that those policies were misguided and only focused on the borrowers while giving the lenders in the North a "get out of jail free" card. Austerity measures only made the debt problem worse in the short term and ultimately threatened to tear apart the already fragile social fabric in periphery countries. Hence, there was a real danger that sustained deflation could lead to the rise of extremist political parties, both left and right, which would only serve to accelerate the breakup of the Eurozone. But, of course, this was not a debate among equals: The euro's design left the South with little choice.

Austerity is not a politically neutral policy: It puts the main burden of adjustment on debtors and workers, and all but leaves creditors and capital-owners off the hook. The austerity debate became heavily politicized, with critics noting that at least part of the blame for the crisis should be on excessive lending and "greedy" bond investors chasing after higher yields. Particularly with the growing income gap between rich and poor in periphery countries, the majority of their citizens were bound to find unpalatable the proposition that they should bear the greatest burden of adjustment—through higher unemployment, higher taxes, lower wages, and fewer public services—in order to protect a privileged wealthy minority whom they held responsible for the crisis in the first place.<sup>7</sup> Those same citizens were further angered by the fact that this policy, with its substantial distributive consequences, was imposed by supranational entities in Brussels, Frankfurt, and Washington, without any consideration for the policy verdicts conveyed by national elections. While most advanced industrial countries—from the United States to Britain and Japan to Australia—could spread the burden of adjustment of the financial crisis among different economic constituencies, making the adjustment process a lot more sustainable and less overtly political, there was no such democratic choice in the Eurozone.

The long duration and depth of the euro crisis, which plunged the Eurozone back into recession by the end of 2011, has therefore not only called into question the wisdom of the euro's original design and the logic of economic integration underpinning an "ever closer union"; it

has also caused a broader crisis of democracy in southern Europe and of democratic governance in the EU as a whole. Matters previously thought to be the responsibility primarily of nation-states—such as labor-market policies, social security, budgetary priorities, taxation, and the size of government—now increasingly fall under the direct supervision of a technocratic European Commission in Brussels.

As national electorates on the Eurozone's periphery began to realize that the euro was no longer a magical instrument enabling them to borrow at cheap German rates, but rather a ball and chain constraining their national economic-policy choices, longstanding left-right divisions reemerged over economic policy. On one side were the "Latin" neo-Keynesians, who focused on demand stimulus and were in favor of more policy discretion at the national level; on the other side were the "Germanic" ordoliberalists, who relied on strict rules and prioritized quicker deficit reduction through austere budgets. Yet regardless of what voters in periphery countries thought about demand stimulus versus budgetary consolidation, they would have no democratic means by which to reject the status quo: The "Germanic" view would always prevail.

As the euro crisis intensified, the monetary-policy decisions of the ECB gradually became more politicized as well, lowering public trust in the institution. The crisis reignited the debate about the Bank's democratic credentials and called into question the rationale for its institutional independence.<sup>8</sup> Furthermore, the European Commission increasingly scrutinized the fiscal-policy decisions made by national governments. The consensus that existed prior to the euro crisis—that monetary policy should focus solely on price stability and fiscal policy should be conducted by rule (the 3 percent deficit-to-GDP ratio and 60 percent debt-to-GDP ratio agreed upon in the 1997 Stability and Growth Pact), while allowing for substantial political discretion during hard times—was shattered by the euro crisis in the summer of 2010.

According to Fritz Scharpf, before 2010 the need for democratic legitimation in the EU was relatively low, as Brussels derived its legitimacy from offering effective solutions to common problems faced by EU citizens.<sup>9</sup> Therefore, the EU needed to focus only on "output" legitimacy (delivering growth and public benefits to the people) rather than "input" legitimacy (maximizing the EU's institutional responsiveness to its citizens' democratic demands). In other words, as long as the EU could deliver on output, it did not need to worry about input, and Europe's voters would happily put up with it. But starting in 2010, the EU's output promise collapsed, and given the lack of national choice in policy responses, the sovereign-debt crisis exposed the dearth of democratic input. As Scharpf put it: "The capacity of democratic member states to legitimate the exercise of European governing functions [was] being destroyed in the . . . euro crisis."<sup>10</sup> From Athens to Lisbon, national electorates, whose elites had enthusiasti-



cally signed onto the euro in the late 1990s, started to question whether those same elites, who now had little choice but to follow the EU's deflationary prescriptions, were really serving their countries' national interests.

## Europe's Widening North-South Gap

Beginning with the Greek bailout in May 2010, the so-called troika (the ECB, the IMF, and the European Commission) has responded to the sovereign-debt crisis by offering direct financial assistance and liquidity injections to struggling members in return for debt reduction through spending cuts and tax increases in combination with structural reforms. This was the logical response in light of Europe's decision to abandon the embedded-liberalism compromise in the early 1990s. But the deflationary policies that all four Mediterranean countries have been enacting since 2010 have so far failed to bring about the desired effects. Between 2007 and 2013, Greece's debt-to-GDP ratio rose from 107.2 to 175.7 percent; Italy's increased from 103 to 132.3 percent; Spain's jumped from 36.3 to 93.7 percent; and Portugal's almost doubled from 68.3 to 123.6 percent.<sup>11</sup> This should have been unsurprising given basic economic logic. To lower an economy's debt-to-GDP ratio, one can either cut the numerator (debt) or grow the denominator (GDP). Aiming solely for debt reduction in the short term, however, will most likely trigger a recession, which will lower the economy's GDP, thereby increasing rather than decreasing the ratio.<sup>12</sup> Furthermore, if new debt has to be financed at much higher interest rates, which was the case in southern Europe given the risk premium over German government-bond rates that financial markets began to demand, then maturing debt must be rolled over at higher interest rates. All this created a snowball effect. Greece, even after a partial restructuring (or "default") of its outstanding debt (in 2011 and again in 2012) and multiple bailouts, has not managed to get its sovereign-debt situation fully under control, with a third restructuring in 2014 more than likely.

Apart from Greece, the other Mediterranean countries initially had a strong recovery in 2010 after the global financial crisis in 2008 and the resultant world recession in 2009. Greece's GDP collapsed, however, and between 2008 and 2013 its economic activity declined by 24 percent—a full-blown depression. The euro crisis pushed Portugal back into recession in 2011, and Spain and Italy in 2012. All four Mediterranean countries remained in recession throughout 2013. At the same time, Germany's economy performed well in 2011, with a strong growth rate of 3.1 percent, though it has since slowed to 0.9 percent in 2012 and an estimated 0.4 percent in 2013. The rise in overall debt-to-GDP ratios and the continued shrinking of economic activity in the Mediterranean countries have translated into steadily rising levels of unemployment. In



the summer of 2013, Greece topped the list with an overall unemployment rate of 27 percent, followed by Spain with 26.9 percent, Portugal with 17.4 percent, and Italy with 12.5 percent.<sup>13</sup> At the same time, Germany's unemployment rate fell to a historically low level of 5.5 percent in September 2013, and German chancellor Angela Merkel's European policies were rewarded at the national polls that month as her Christian Democratic Union emerged triumphant, finishing just five seats shy of an overall majority in the Bundestag.

But the true and lasting damage to the economies of southern Europe is visible when one looks at the evolution of unemployment for people under 25 years of age. Spain's youth unemployment more than tripled from an already high level of 18.2 percent in 2007 to 55.9 percent in the summer of 2013; Greece's almost tripled from a level of 22.9 percent in 2007 to 57.3 percent in 2013; Portugal's more than doubled from 16.6 percent in 2007 to 37.3 percent in 2013; while Italy's doubled from 20.3 percent in 2007 to 40.1 percent in 2013. Germany, by contrast, saw its youth unemployment come down from an already much lower 11.7 percent in 2007 to just 7.7 percent in the summer of 2013.<sup>14</sup> In a 2012 report citing the European Commission's own statistics on youth unemployment, the global charity Caritas Europa concluded that "this could be a recipe not just for one lost generation in Europe but for several lost generations."<sup>15</sup>

The economic downturn in Europe has also worsened levels of personal economic well-being in Greece, Italy, Portugal, and Spain, which have all seen a steep decline in real average wages since 2009. Greece is again the most severe case, with real average wages falling by 7.1 percent in 2010, 9.1 percent in 2011, and 12.4 percent in 2012, adding up to a cumulative drop of 26 percent. Furthermore, the crisis has increased the risk of poverty, especially for children. According to Caritas's report, by 2012 three of every ten children in the Mediterranean countries either were living in poverty or had been pushed to the brink of poverty. The Eurozone crisis has thus produced a sizeable "underclass" in southern Europe of inadequately fed and poorly educated young people who have low morale and scant prospects for employment.

The European Commission's Eurobarometer, a biannual public-opinion survey, illustrates the widening North-South gap in Europe by mapping the evolution of Europeans' opinions about the performance of their national economies and their expectations for the future. An overwhelming majority of EU citizens (72 percent) judged the overall economic situation in their countries to be "bad" during the spring of 2013. This finding masks stark regional differences, however. In Spain, 99 percent considered their country's economy to be "bad"; in Greece, 98 percent thought so; in Portugal, 96 percent; and in Italy, 93 percent. Compare those figures with the share of respondents in the North who judged their countries' overall economic situations to be "good"—77

percent in Germany, 75 percent in Luxembourg, 63 percent in Austria, and 53 percent in Finland. One can only conclude that the divide between the Eurozone's northern core and southern periphery has reached a critical point.<sup>16</sup>

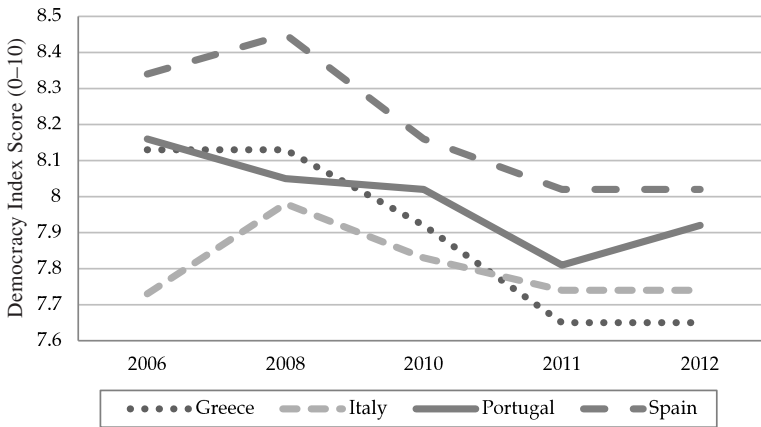
### **Mediterranean Mutiny: The Waning Democratic Center**

What does this mean for democratic government in southern Europe? Should we be worried about the future of democracy as a political system in Europe's periphery countries? Looking at the economic situation in southern Europe in 2013, one inevitably sees dark parallels with the Great Depression. During the 1930s, Europe saw its fragile democracies fold due to populist revolts in response to the deflationary measures imposed by the iron logic of the gold standard. It is unlikely, however, that the economic hardship caused by the 2010 sovereign-debt crisis will lead to renewed experiments with autocratic government in southern Europe. Mussolini and Franco are not about to make a comeback. The region is much richer now than it was eighty years ago, and automatic stabilizers in the economy, such as the welfare states' safety nets (even though they have been substantially rolled back), should provide some relief.

Nevertheless, the euro crisis has cast some doubt on the durability of democracies. Is it really true, as Adam Przeworski and Fernando Limongi have argued, that democracy, once it is established in high-income countries, is virtually "impregnable," so that even during periods of deep financial crisis it is unlikely to break down?<sup>17</sup> Former British prime minister Harold Wilson once observed that a week is a long time in politics. Forever is even longer. There is already ample evidence that the strength of liberal democracy in southern Europe has diminished since 2010, as seen in a weakening of civil and political rights, the rule of law, and the functioning of government.

Citing an "erosion of sovereignty and democratic accountability associated with the effects of and responses to the euro zone crisis," the Economist Intelligence Unit downgraded Greece, Portugal, and Italy from "full democracies" (those with a score above 8 on a scale of 0 to 10) in 2010 to "flawed democracies" (those with scores of 6 to 7.9) in 2012, although the downgrade for Portugal was expected to be temporary (see Figure 1 below). Spain remained a "full democracy," but with the lowest score of all full democracies. Countries such as Uruguay, Botswana, and South Korea are now ranked higher than Greece and Italy.<sup>18</sup>

Freedom House has likewise lowered its ratings for both Greece and Italy. In 2012, Greece's aggregate score went from 1.5 to 2 on Freedom House's scale of 1 to 7 (with 1 representing the most free and 7 the least) due to declining political rights, while Italy's deteriorating civil liberties caused its aggregate rating to go from 1 in 2012 to 1.5 in 2013.<sup>19</sup> Trust in national parliaments and governments across the EU has

**FIGURE 1—DEMOCRACY INDEX IN THE EURO-MEDITERRANEAN**

Source: Economist Intelligence Unit, “Democracy Index 2012: Democracy at a Standstill” (London, 2013).

dropped sharply from 43 percent of the population in the spring of 2007 to 28 percent in the fall of 2012. Here also there are stark differences between North and South, with trust in national political institutions at much lower levels in the Mediterranean countries.<sup>20</sup>

Since the onset of the euro crisis, all governing parties in southern Europe have been voted out of office. From a domestic political perspective, Greece and Italy were the worst affected: Their traditional political elites were unable to form governments that could cope with the deflationary demands of the debt crisis. As a result, both countries have seen antidemocratic experiments with government by unelected technocrats.<sup>21</sup>

In Greece, George Papandreou was forced to resign after he called for a national referendum in early November 2011 on the terms of a new EU-IMF bailout. With the tacit support of Brussels, he was replaced by Lucas Papademos, a former vice-president of the ECB, until the May 2012 elections. PASOK, the center-left socialist party of Papandreou, saw its share of the vote collapse from 43.9 percent in 2009 to just 12.3 percent in 2012. The May 2012 polls also saw the rise of extremist parties: on the far left, the anti-austerity Syriza, which won 17 percent of the vote (up from just 4.6 percent in 2009), and on the far right, the neo-Nazi party Golden Dawn, which came out of nowhere to poll just below 7 percent. Those elections turned out to be inconclusive, however, as the mainstream centrist parties were unable to form a government. The country was forced to vote again in June 2012. Flirting with a euro exit, Greek voters narrowly elected a fragile centrist coalition led by center-right leader Antonis Samaras, even though Syriza increased its vote share from 17 to 27 percent in just one month, while support for Golden Dawn remained steady at 7 percent.

In Italy, Prime Minister Silvio Berlusconi all but lost his majority in October 2011, and offered to resign on the condition that the legislature

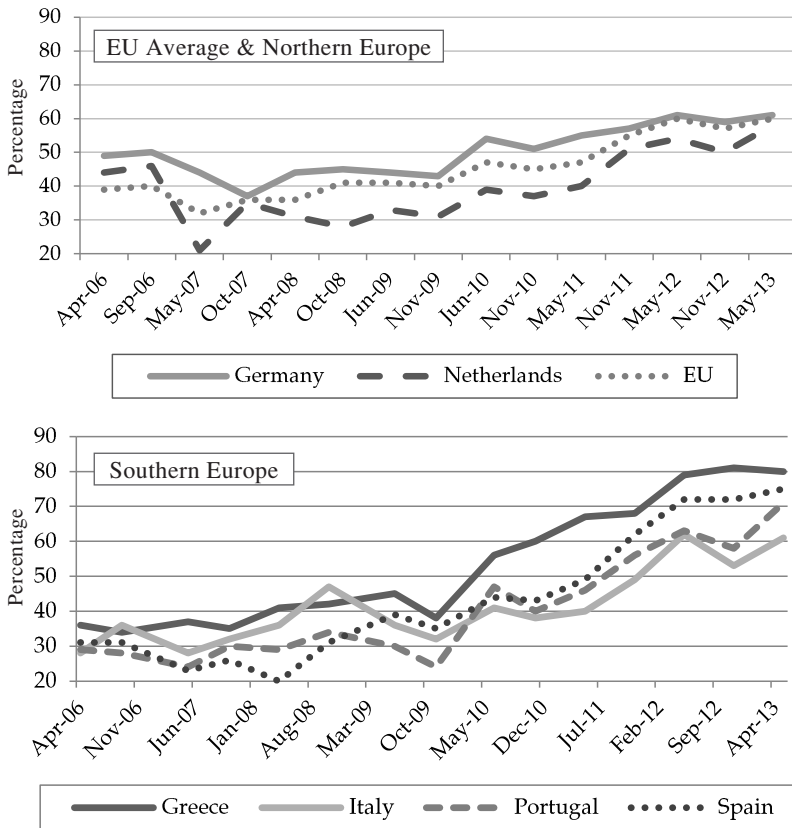
approve his austerity budget for 2012, which it duly did in November 2011. Mario Monti, another unelected technocrat and former European Commissioner, took over from Berlusconi. Monti's government lasted little more than a year, after pushing through a series of expenditure cuts combined with tax and labor-market reforms. Italy's February 2013 elections delivered a devastating verdict on Monti's technocrats, who won just around 10 percent of the vote. Comedian Beppe Grillo's anti-euro and antiestablishment Five Star Movement (M5S) captured close to 25 percent of the vote. The center-right, which was led by Berlusconi and openly critical of Europe's approach to the crisis, almost beat the center-left, led by Pier Luigi Bersani. That election also produced an inconclusive result, with a clear majority for the center-left in the lower house, thanks to the electoral system, but no majority in the Senate. In late April 2013, center-left politician Enrico Letta managed to cobble together a brittle new centrist coalition that included many technocrats. But it remained uncertain whether Letta's new government could govern effectively and avoid early elections.

Although since 2011 Spain and Portugal have had relatively stable center-right governments that are likely to stay in office until their four-year terms are up in 2015, opinion polls show that the vote share of the two main centrist parties in both countries has fallen from approximately 75 percent to somewhere between 50 and 60 percent. This has opened up the political spectrum for smaller splinter parties on both the left and the right. Reform fatigue has started to set in, and Spain has had to cope with a much more strident secessionist movement in Catalonia than before the euro crisis. Like Greece, both Spain and Portugal have also lost much of their economic sovereignty, as both have had to submit to severe conditionality in return for a financial-sector bailout (in the case of Spain) and a full-fledged bailout (in the case of Portugal). In all four Mediterranean countries, austerity measures have fueled popular discontent, resulting in street violence and an increase in crime.

Southern Europe's electorates are turning to populist movements and extremists in part because of the perception that national elites have become the puppets of unelected EU technocrats. It is clear that, regardless of the outcome of national elections, as long as the deficit countries keep the euro, their deflationary course cannot be changed. Moreover, the growing awareness of the EU's negative influence on national economies and welfare, along with the perceived violation of national sovereignty, has rekindled anti-euro and anti-European sentiments across the region. The EU's democratic deficit seems to be deepening as the crisis wears on. Interestingly enough, euroskepticism has been on the rise not just in the Mediterranean but also in the rest of the EU, including Germany and the Netherlands, two countries that ostensibly have "gained" from the crisis and have been doing relatively well economically.

Since the onset of the euro crisis, there has been a significant rise in the

**FIGURE 2—PERCENTAGE OF PEOPLE WHO DO NOT TRUST THE EU**



Source: “Public Opinion in the European Union,” Standard Eurobarometer 65–79, 2006–2013, available at [http://ec.europa.eu/public\\_opinion/archives/eb\\_arch\\_en.htm](http://ec.europa.eu/public_opinion/archives/eb_arch_en.htm).

percentage of people who do not trust the EU (Figure 2), while trust in national governments and parliaments has been falling since 2007. In April and May 2007, 57 percent of respondents stated that they “tended to trust” the EU. By May 2013, that number was down to 31 percent. Yet again, the overall number conceals a notable gap between North and South, with lower ratings in Greece, Italy, Portugal and Spain.<sup>22</sup> The EU’s image has also taken a beating. When asked whether “the EU conjure[s] up for you a very positive, fairly positive, neutral, fairly negative or very negative image,” the total “negatives” have risen from just 14 percent in the autumn of 2007 to 29 percent in November 2012, and the total “positives” have fallen from a high of 52 percent in 2007 to just 30 percent in 2012.<sup>23</sup>

There is also a worrying trend across the EU with regard to the public’s opinion of the single currency. While 63 percent of all Europeans supported the euro in April and May 2007 with 31 percent against, only 53 percent still supported the euro in November 2012, with 40 percent against it. Here also, the EU-wide average conceals the diversity of opinions in

different parts of the continent. Nonetheless, when asked directly whether they want to leave the euro, a majority of respondents still says no.<sup>24</sup>

In a special April 2012 Eurobarometer report on the future of Europe (based on fieldwork conducted in November 2011), questions about trust in the political system revealed a marked discrepancy between the proportion of citizens who thought their voice counted in Europe versus in their own country. Only 26 percent of EU citizens agreed that their voice counted in the EU, compared to the 52 percent who felt that their voice counted in their own country. By contrast, 65 percent of EU citizens did not feel that their voice counted in the EU, while only 43 percent felt voiceless in their own country. When asked whether they agreed with the statement “my voice counts in the EU,” only 15 percent of Greeks, 16 percent of Italians, and 27 percent of Portuguese and Spaniards agreed, whereas 47 percent of Germans and 55 percent of Dutch respondents agreed. The same divergence appeared when respondents were asked if they agreed with the statement that their voice counted in their own country—only 15 percent of Greeks, 18 percent of Italians, 35 percent of Portuguese, and 45 percent of Spaniards agreed, while 70 percent of Germans, 74 percent of French, and 81 percent of Dutch and Finnish respondents agreed.<sup>25</sup>

According to Heather Grabbe, the head of EU affairs for the Open Society Institute, anti-EU sentiment since the 2010 onset of the crisis is much stronger than indicated by election results. Grabbe was quoted by the *Financial Times* as saying that “the euro crisis is a crisis of governance” and that EU citizens are upset because “their government doesn’t have control over their own economy.”<sup>26</sup> With the next EU parliamentary elections scheduled for May 2014, there is a real fear that anti-EU parties and candidates of the extreme left and extreme right will dominate the campaign and be elected in unprecedented numbers. This is a recipe for political paralysis in the European Parliament—the only directly elected body of the EU—and thus would further weaken the EU’s governing structure.

The Great Depression of the 1930s taught the world that democratic government was incompatible with the persistent deflationary bias of the gold standard. While the euro’s institutional design makes it function to some extent like the interwar gold standard during periods of stress, it so far has not led to a total breakdown of democracy, even though there are serious cracks in the system. Just like the gold standard, the euro has created a core of surplus countries and a periphery of deficit countries. The latter have had to sacrifice their internal domestic economic equilibria in order to restore their external equilibria. The deficit countries of Europe’s South have had little choice but to respond to their sovereign-debt crises with a series of painful and deflationary cuts in spending, prices, and wages. These austerity measures have deepened the recessions in the deficit countries, leading to soaring levels of unemployment similar to those of the Great Depression. As EU leaders continue to eschew any coordinating strategy to rebalance growth between

North and South, they gamble on the patience of southern Europe's electorates in bearing with the consequences. It is doubtful, however, that modern electorates are willing to accept seemingly endless policies of belt-tightening for the sake of vague notions of future policy credibility, financial-market confidence, and sovereign-debt standing.<sup>27</sup>

There is no historical precedent for fiscal adjustment on such a dramatic scale in a democratic context, let alone one imposed by a supranational institution devoid of popular legitimacy. The euro crisis has instigated a crisis of democratic government in southern Europe and shown that democratic legitimacy—for better or worse—still lies mainly with the nation-state. By adopting the euro, EMU member states gave up their ability to control major economic-policy decisions, which damaged their domestic political legitimacy during the euro crisis and in turn dogged their attempts to enact economic reforms. Evidence of the erosion of national democracy in the Eurozone periphery can be seen in the rise of antiestablishment parties and the inability of traditional center-left and center-right parties to form stable governments. The EU's seeming lack of concern about the inability of the countries of southern Europe to use the democratic process to choose a future policy course within the Eurozone has also underlined the democratic deficit at the heart of the European Union. The rising anti-EU and anti-euro sentiment that this has generated may have disastrous consequences for the future of a democratic EU.

## NOTES

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