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Integration at What Price? The Erosion of National Democracy in the Euro Periphery

The euro crisis brought back a widening gap in prosperity between the eurozone's core and periphery members, but also revealed a divergence in the strength of its national democracies. This article examines the amplified tension between progressively uprooted national markets governed by a supranational technocracy and nationally organized democratic politics in the eurozone's periphery. Building on Dani Rodrik's globalization 'trilemma', this article explains the weakening of national democratic institutions in Greece, Ireland, Portugal, Spain and Italy since 2008. While the periphery states were forced to choose monetary integration at the expense of both democracy and sovereignty, this trade-off was mostly absent in the core. The eurozone's policy solutions to the crisis did not allow for any democratic input, were implemented through opaque and often-undemocratic throughput processes, and resulted in deteriorating output. The article concludes that the EU crisis response made euro membership in the periphery less compatible with national democratic principles.

Keywords: crisis, democracy, economic policy, euro, European Union, Southern Europe

WESTERN DEMOCRACIES HAVE BEEN STRUGGLING IN THE PAST DECADE. If the period from the mid-1970s to the mid-2000s was marked by growing Western optimism as the world concurrently shifted from autocratic to democratic regimes and from planned to market economies (Diamond 2008; Fukuyama 1992; González 2008; Huntington 1993), the political and economic volatility of the past 10 years has once again called the stability of the relationship between capitalism and democracy into question (Berman 2009). The global financial crisis burst the bubble of the policies associated

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with the so-called 'Great Moderation' and replaced years of positive growth and low inflation with fears of rising debt, permanent austerity and secular stagnation (Streeck 2014; Summers 2016). These 'new hard times' have challenged the strength and legitimacy of the institutions of the established Western liberal democracies, particularly in the eurozone periphery, where the recovery from both global financial crisis and euro crisis has varied from lacklustre to downright depressing (Blyth 2015; Kahler and Lake 2013; Matthijs 2014).

The economic effects of the euro crisis have been felt across the eurozone, with the currency bloc sliding back into recession in 2012 and 2013. But the damage has been very uneven between North and South. While the Economic and Monetary Union (EMU) member states of Europe's Northern core – including Germany, Luxembourg, Austria, Belgium and the Netherlands – saw their economies recover quite rapidly after 2010 with unemployment falling steadily, the countries of the so-called 'Southern' periphery – including Greece, Ireland, Portugal, Spain and Italy – shouldered the main brunt of the crisis, with Greece in a special category all of its own. Decreasing levels of income, record levels of unemployment (especially for the young), falling wages, staggering levels of sovereign debt, as well as tax hikes and cuts in welfare spending – often directly imposed by the institutions of what used to be called 'the Troika' (the European Commission, the International Monetary Fund (IMF) and the European Central Bank (ECB)) – have become the order of the day in the euro periphery (Matthijs and Blyth 2015; Sandbu 2015). Only Ireland managed to stage a robust recovery after 2013 – even though its headline growth figures were deceptive (Regan 2016) – while the others continued to linger in conditions of economic stagnation or outright deflation.

From a political point of view, the euro member states in the periphery that have suffered the most from the crisis have also experienced a substantial worsening in the strength of their democratic institutions.[1] Scholars have so far focused on the democratic backsliding of some governments in Central and Eastern Europe, especially the growing authoritarian tendencies of Viktor Orbán's Fidesz (Civic Alliance) in Hungary and Jarosław Kaczyński's Prawo i Sprawiedliwość (PiS – Law and Justice) in Poland, including the EU's reluctance to confront them (Kelemen 2017). What has received less attention is the weakening of national democracy in the five peripheral euro members that have been hit hardest by the euro crisis.

As we will see in the next section, various measures of democratic strength have shown a discernible decline in the euro periphery since 2006. While Greece, Spain and Portugal, and to a lesser extent Italy and Ireland, have been sliding back on the international democracy rankings, this has not been the case for the countries of the euro's Northern countries, which have largely maintained the strength of their national democratic institutions. There is also evidence that the Northern member states now have more faith in their national institutions than they have in the EU, while overall trust in *both* national democracy *and* the EU have hit all-time lows in the eurozone's Southern member states.

The focus of this article is on the euro periphery countries. The central question this article seeks to answer is: What explains the significant erosion in national democratic strength in the eurozone's 'Southern' periphery since 2008, while there has not been a similar weakening of national democracy in the 'Northern' core?

The main argument of this article is that the EU's crisis response largely reflected the preferences of the Northern 'creditor' countries at the expense of the Southern 'debtor' member states. The EU put the main burden of adjustment of the crisis on the periphery due to a collapse of solidarity between North and South (Jones 2012; Matthijs 2014, 2016b). The EU's crisis response involved a process of far-reaching displacement of the eurozone's peripheral economies' markets from their nationally organized social and political democratic traditions. The creditor–debtor dynamic of Northern bailout money in return for Southern austerity and structural reform would soon become toxic. The EU crisis formula left the periphery countries' voters with no real national democratic choice in economic policy, was rife with opaque and technocratic decision-making processes, and delivered poor economic results (Scharpf 2014; Schmidt 2012, 2015). This was not the case in the core countries, which managed to maintain a significant level of economic policy discretion, saw the EU decision-making processes as largely in line with their national preferences and reflecting their material interests. The economies of the Northern core fared substantially better as a result.

The argument begins with Karl Polanyi's observation that the political legitimacy of democratic capitalism needs to be earned every day by upholding its historically crafted and culturally embedded compromise between markets and social protection (Blyth 2002;

Polanyi 1944; Ruggie 1982). If the logic of free markets at the EU level undermines political legitimacy at the national level, member states' democratic systems become vulnerable to national populist movements that will thrive on growing anti-EU sentiment. This tension was captured by Dani Rodrik's globalization 'trilemma', where countries can choose two out of three options: national sovereignty, democratic politics or economic integration (Rodrik 2011). However, as I will demonstrate later, this trilemma does not hold true to the same extent for all euro members. While the periphery states were forced to choose 'integration' at the expense of both national 'democracy' and 'sovereignty', this trade-off was mostly absent in the core. I theorize that within the eurozone, the Northern countries – especially Germany – have managed to get all three options at the same time, while the Southern countries – especially Greece – had to give up *not one but two* of Rodrik's three options – that is, democratic politics *and* national sovereignty.

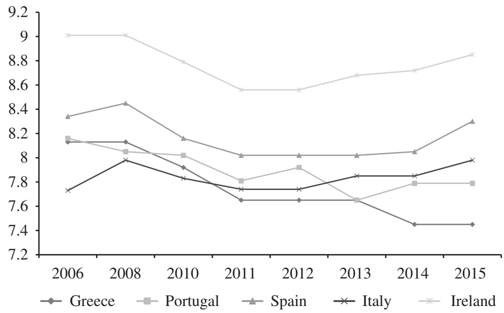
The article proceeds in seven sections. The first section presents some of the empirical evidence of the weakening of democratic institutions in the euro periphery. The second section offers a brief review of the recent academic literature on the impact of the euro crisis on national and EU democracy. Section three develops the theoretical framework adapting Dani Rodrik's trilemma to the peculiar situation of the eurozone. Sections four, five and six consecutively analyse the strength of national democracy in the euro periphery from an input, throughput and output legitimacy point of view. Section seven concludes.

THE EURO CRISIS AND DEMOCRATIC EROSION IN THE EUROZONE PERIPHERY

A gradual democratic weakening in the five eurozone periphery countries between 2006 and 2015, most noticeable in the four countries of the Mediterranean, is documented in Figure 1 below, which plots the evolution of the overall democracy score as compiled by the Economist Intelligence Unit (EIU) in its annually published 'Democracy Index'.

In 2008, all five countries were classified as 'full democracies' (that is, having a score higher than 8 out of 10). By 2011, three of the five countries – Greece, Portugal and Italy – were downgraded to 'flawed

Figure 1
Democracy Index (2006–2015)



Source: Economist Intelligence Unit (2007, 2009, 2011, 2012, 2013, 2014, 2015, 2016), www.eiu.com/public/thankyou_download.aspx?activity=download&campaignid=DemocracyIndex2015.

democracies', while Spain (with 8.02) squeaked through with the lowest score of all 'full' democracies. Ireland's score dropped from 9 to 8.56. By 2015, Ireland's score had improved together with economic recovery but stayed below its 2008 score; while both Spain and Italy's scores also picked up slightly but remained lower than in 2008. Between 2006 and 2015, Greece's overall ranking on the EIU's Democracy Index plummeted from twenty-second to fortieth worldwide (behind Lithuania and South Africa) and Portugal's from nineteenth to thirty-third (behind Chile and Cape Verde). By comparison, Finland, the Netherlands, Luxembourg, Germany and Austria retained their rankings in the world's top 15 between 2006 and 2015. The four Nordic non-euro member states – Sweden, Iceland, Norway and Denmark – all maintained their places in the top five. The United Kingdom's democracy ranking actually improved over that same period, from twenty-third to sixteenth place.

The annual EIU Democracy Index, on a 0 to 10 scale, is based on a set of survey questions spread over five categories: (1) electoral process and pluralism; (2) civil liberties; (3) functioning of government; (4) political participation; and (5) political culture. While all indices that try to measure complex issues like 'democratic strength' will have problems, compared to Freedom House, the EIU index is finer grained and puts slightly more emphasis on how 'substantive' democracy is (rather than procedural).[2]

Upon closer inspection of the EIU data, we can see that the weakening of democracy in Europe's periphery between 2006 and

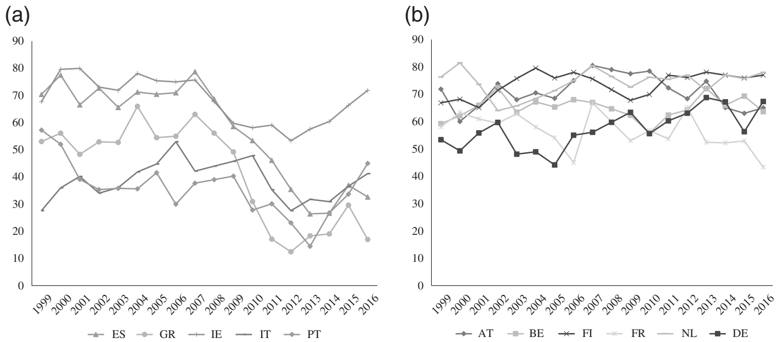
2015 has been driven principally by a steep deterioration in the ‘functioning of government’: from 7.5 to 5.36 in Greece, from 8.21 to 6.43 in Portugal (with a low of 5.71 in 2013), from 7.86 to 7.14 in Spain, from 8.93 to 7.5 in Ireland, while Italy stayed constant at an already low level of 6.43. The other indicator that worsened significantly for all four Mediterranean countries (not Ireland) over that period was ‘political culture’.[3] By contrast, the indicator for ‘political participation’ actually improved between 2006 and 2015 for all four Mediterranean countries. This may be somewhat misleading, however. Increased political participation and mobilization – including the formation of new populist movements – were more a reaction against any lack of real ‘input’ in policy choice and a response to worsening policy ‘output’ rather than an actual improvement in democratic input (Scharpf 1999).[4]

As mentioned, like most metrics of democratic performance, the EIU’s Democracy Index is hardly without its flaws. The scores are based almost solely on expert judgement, and large movements from one year to the next are always subject to interpretation. However, the results are largely confirmed by Eurobarometer, the European Union’s twice-yearly survey. Eurobarometer gauges public opinion in the EU on a variety of topics, including how EU citizens perceive the effectiveness and transparency of their political institutions, both at the national and European levels. Figure 2 shows the evolution between 1999 and 2016 of people’s satisfaction with democracy at home for the 12 original eurozone members (with the exception of Luxembourg), split into Southern periphery and Northern core countries.[5] The most striking figures are for Spain and Greece. While close to 79 per cent of Spaniards were satisfied with democracy at home in 2007, only 26 per cent of them still were by 2013. In 2007, 63 per cent of Greeks were largely satisfied with the working of their national democracy, compared with just 12 per cent in 2012. Even Ireland’s satisfaction rate fell from 76 per cent in 2007 to 53 per cent in 2012. While those percentages have all recovered somewhat since their lows of 2013, they remain well below their scores before 2008.

The evolution of satisfaction with national democracy in the Southern periphery (Figure 2a) is radically different from the Northern core (Figure 2b). With the exception of Germany in 2005 and France in 2006 and 2016, the North’s satisfaction with democracy at home remains well above 50 per cent during the whole

Figure 2

Satisfaction with National Democracy (1999–2015)
(a) 'South': % Satisfied with Democracy at Home
(b) 'North': % Satisfied with Democracy at Home



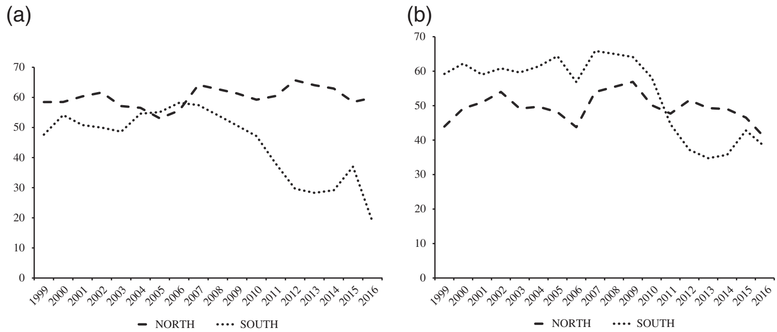
Source: European Commission (2016), Eurobarometer and author's calculations. See online at: http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm.

period. Indeed, with the exception of France (which could be classified as either 'North' or 'South' as it has elements of both country groupings), one observes either an increase in overall levels of satisfaction with national democracy in the core countries since before the crisis hit (Germany improved from 44 per cent in 2005 to 67 per cent in 2016; the Netherlands from 72 per cent in 2009 to 78 per cent in 2016), or a steady continuation of already high levels of satisfaction.

All five periphery countries, including Ireland, have levels of satisfaction with their national democracies in 2016 that remain well below the levels of 2007, while all four Mediterranean countries of Greece (17 per cent), Spain (33 per cent), Italy (41 per cent) and Portugal (44 per cent) fall below the threshold of 45 per cent. The North–South divide is summarized in Figure 3a: while average satisfaction with democracy was around 55 per cent in the North and 58 per cent in the South in 2006, six years later, by 2012, they had diverged to 66 per cent in the North and 29 per cent in the South. By 2016, average satisfaction with democracy in the North fluctuated around 60 per cent, compared with 19 per cent in the South. In 2016, the North–South gap in satisfaction with national democracy in the eurozone stood at a massive 41 percentage points.

Finally, Figure 3b underlines how the countries of the euro periphery have gradually lost their trust in EU institutions and EU

Figure 3
Satisfaction with Democracy at Home and in the EU: North vs. South
(a) Satisfied with Democracy at Home (%)
(b) Satisfied with Democracy in the EU (%)



Source: European Commission (2016), Eurobarometer and author's calculations. See online at: http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm.

democracy as well. While Southern countries like Greece, Portugal and Spain used to show much higher levels of satisfaction with EU democracy than Northern countries, that trend went into stark reverse after 2010. While two-thirds or 66 per cent of 'Southerners' were satisfied with EU democracy in 2007, that number had fallen to just 35 per cent in 2013, before increasing slightly to 38 per cent by 2016. Silvia Merler observed that an increasing number of people in the North associated the EU with 'democracy' and 'economic prosperity' after 2008, based on Eurobarometer data, while the equivalent number in the South has been in absolute free-fall (Merler 2015).

Furthermore, while most EU citizens (in both North and South) used to trust the EU more than their own national governments, since the financial crisis this is no longer the case. Northern countries' citizens on average now trust their own governments more than the EU. By contrast, trust in the EU in the South still remains higher than trust in their own governments. In addition, trust in both national government and the EU has fallen dramatically in the South. A clear North–South gap in democratic strength, both from the point of view of experts and measured by public perception, has emerged since the euro crisis. By the autumn of 2016, after the 'Brexit' referendum in which the UK decided to turn its back on Brussels and go it alone, the EU looked to be as far away from its lofty goal – 'an ever closer union of the peoples of Europe' – as it had ever been.[6]

THE EURO AND DEMOCRACY: BRIEF REVIEW OF THE LITERATURE

While the strength of national democracy in advanced industrial states has largely been taken for granted in the field of EU studies, much of the academic debate has focused on whether there was indeed a 'democratic deficit' in the EU itself. Andrew Moravcsik (2002) argued that most policies the EU dealt with consisted of issue areas of relatively low electoral salience – such as central banking, technical product standards and economic diplomacy. A clear division of labour existed between EU and national levels, where the national level was responsible for more overtly redistributive issues such as taxation, setting fiscal priorities and providing social welfare. Giandomenico Majone (1998, 2000) argued that most issue areas the EU was involved in were to do with regulation to correct market failures, and that increasing politicization of the EU level would only result in more blatant redistributive policies rather than Pareto-optimizing ones, and hence would decrease the legitimacy of the EU. Rather than more politics, Majone believed that the EU just needed better and more transparent decision-making processes. In a rebuttal to Moravcsik's and Majone's systematic downplaying of an EU democratic deficit, Andreas Føllesdal and Simon Hix (2006) problematized the lack of any real contestation over the EU's political leadership, as well as over its actual policies. They argued that the fact that many EU policies were of low salience did not justify their lack of more open policy contestation (Føllesdal and Hix 2006: 551).

Since the euro crisis, however, the division of labour between the EU and national levels has become more blurred. Many EU policies – especially the monetary and fiscal policies that govern the euro – are much more visibly redistributive and of much higher political salience than in the 1990s or early 2000s. Building on his earlier work, Fritz Scharpf observed the disabling of democratic accountability during the eurozone debt crisis, as EMU 'removed crucial instruments of macro-economic management from the control of democratically accountable governments' (Scharpf 2014: 108). He concluded that the EU policy response to the euro crisis lacked input legitimacy and was a dangerous gamble on output legitimacy in the medium term (Scharpf 2014: 140). Vivien Schmidt (2015) also saw the euro crisis as first and foremost a political crisis caused by a lack of choice on the input side (following mainly German preferences), excessive levels of cloudy EU decision making on the throughput side, and negative consequences on the output side because of the harmful effects on growth and social welfare (Schmidt 2015: 90–4).

Armin Schäfer and Wolfgang Streeck (2014) saw the lack of choice in economic policies as mainly driven by a structural overhang of excessive public and private debt, which left policymakers with very few palatable options, thereby turning off voters from the political process, and weakening electoral participation. For Streeck (2014), the euro crisis in a sense constituted a part of a broader ‘delayed crisis of democratic capitalism’ with the rise of the ‘consolidation state’, which fundamentally transformed the relationship between capitalism and democracy. As Streeck (2015: 26) saw it, technocratic experts rather than voters were now deciding on the ‘right’ market-conforming policies, with only anti-establishment parties serving as the voice of ‘discontented citizens . . . insisting on political protection from international markets’. For Peter Mair (2013), democracy in the West had systematically weakened since the mid-1980s because the mainstream political parties – both of the centre-left and the centre-right – had let their programmes of economic and social policy converge, making them all but indistinguishable to the voters. Claus Offe (2013: 606) similarly bemoaned the ‘poverty of party politics’ as well as the gap between policy and politics in the EU.

Within EU studies as well as in comparative politics, there has been an emerging research agenda dealing with the effects of the euro crisis specifically on EU and national democracy. Richard Bellamy and Albert Weale (2015) argue that the euro crisis underlined that the political authority of the EU rested on a questionable normative value of depoliticized money. They put all their faith in ‘republican intergovernmentalism’, consisting of a two-level democratic contract, where member states treat each other as equal and are at the same time representative of and accountable to their own citizens. Frank Schimmelfennig (2015) found fault with EU intergovernmental decision-making, characterized as it was by divergent preferences regarding the distribution of adjustment costs across the eurozone, with the final outcome largely reflecting German preferences.

Even Majone (2015) had a change of heart about the EU’s democratic deficit and believed that the euro crisis revealed that EU integration did not just bring economic benefits but also serious normative costs. The crisis showed the EU no longer as a pure ‘regulatory state’. It was now at risk of an actual democratic ‘default’ instead of a mere ‘deficit’. Joseph Weiler (2012) observed that the 'political messianism' of ever-closer union or the legitimizing power of the EU's grand purpose was insufficient to make up for a lack of input and output legitimacy. Neither 'more' nor 'less' Europe was an obvious answer for the EU's problems given that many voters did not actually want more integration while the EU simply did not have the institutional or constitutional resources to retreat (Weiler 2012).

Others have looked more directly at the relationship between economic crisis and the support for national democracy in European countries. Klaus Armingeon and Kai Guthmann (2014) compared 26 EU countries in 2007–11 and reanalysed 78 national surveys. They found that support for national democracy declined dramatically during the crisis, caused by both international organizations and markets interfering with the national democratic process, but also by a deteriorating economic situation as perceived by citizens. Guillermo Cordero and Pablo Simón (2016) studied the impact of the eurozone debt crisis on core support for democracy as a regime. They found that perceptions of the state of the economy have an impact on both satisfaction with and support for democracy as a regime, and that citizens' support for democracy was greater in countries that received a bailout. Diego Muro and Guillem Vidal (2016) also found a significant increase in Southern Europeans' dissatisfaction with their national political institutions, with both economic and political factors underlying it.

Finally, Ben Crum (2013) invoked Dani Rodrik's trilemma as a useful tool to illustrate Europe's gradual move towards what he called 'executive federalism'. In Crum's opinion this was justified for preventing a euro collapse while also recognizing the value of national self-government. Therefore, the EU crisis response came with a democratic price tag (Crum 2013).

In the next section, I will build on many of those insights to show why national democracy weakened in the euro periphery countries, in contrast with the euro core, where national democracy did not deteriorate. I will argue that while Rodrik's trilemma is a useful starting point, it has radically different implications within the eurozone context for core and periphery countries respectively.

EURO FETTERS: RODRIK'S UNEQUAL TRILEMMA

As Karl Polanyi reminded us in the mid-twentieth century, there is nothing natural about making markets. Markets are constituted by major acts of state power such that relationships that were once embedded in local, social and political relationships become tradable commodities among anonymous participants (Polanyi 1944: 146–9). Exchanges need to become ‘dis-embedded’ from their social context to become market transactions. As such, Europe’s single market and single currency were major exercises in dis-embedding markets from their nationally ‘embedded’ policies, protections and traditions.

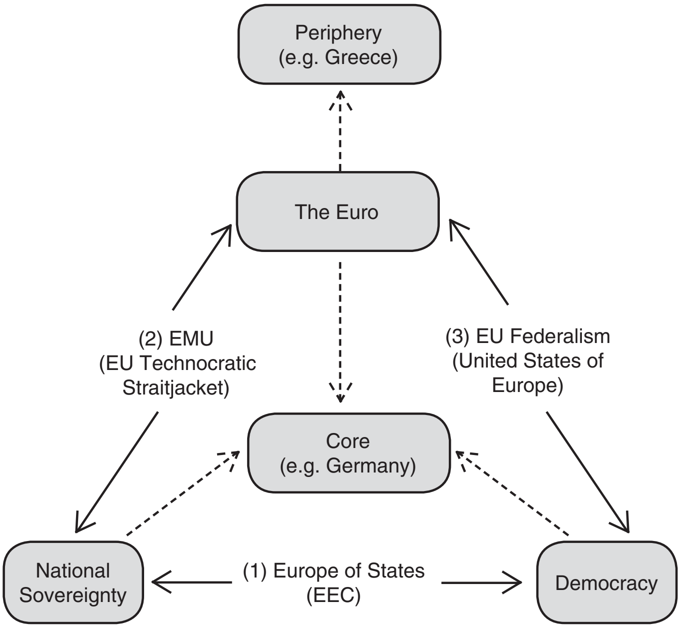
With the euro’s adoption, EMU members put in place a forever-fixed exchange rate to usurp their national currencies, controlled by an independent central bank with a sole mandate to maintain price stability, but initially without a single financial supervisor, common debt instrument or fiscal transfer mechanisms (Matthijs and Blyth 2015). Unlike previously successful currency unions, the eurozone also lacked a hegemon willing to sustain monetary cooperation when things got tough, and did not put in place enough institutional linkages to make the loss of monetary autonomy tolerable for its member states (Blyth and Matthijs 2012; Cohen 1993; Matthijs 2016a; Matthijs and Blyth 2011).

By doing so, European leaders removed one policy tool, devaluation, from their arsenal of choice and made the other, Keynesian demand stimulus, a lot harder to use by signing onto a Stability and Growth Pact (SGP) with strict fiscal rules. With default excluded for political reasons, this basically left austerity as the only realistic policy route to follow out of a crisis (Blyth 2015). Going forward, any adjustment strategy during hard times would disproportionally hurt the weaker groups, though Northern core countries would maintain much higher levels of discretion than the Southern periphery members (Matthijs 2016b).

Furthermore, the insistence of the three institutions that made up the Troika on both fiscal austerity and structural reforms in return for financial bailouts in Greece, Ireland, Portugal and Spain – with sovereign bond markets applying constant pressure on Italy to do the same – would also force these countries to further ‘liberalize’ their labour markets and services sector. In effect, structural reforms to deal with the eurozone sovereign debt crisis would significantly uproot member states’ markets from their carefully crafted historical and national political compromises.

In *The Globalization Paradox*, Dani Rodrik (2011) described the tension between national democracy and global markets in his ‘political trilemma of the world economy’ (Rodrik 2011: 201). Rodrik argued that countries could choose between any two of three options: ‘hyper-globalization’, democratic politics and the primacy of the nation state. The Bretton Woods compromise of ‘embedded liberalism’ had

Figure 4
Rodrik's Trilemma Applied to the Eurozone: Core vs. Periphery



Source: Author's adaptation from Rodrik (2011).

constrained globalization in the post-war period. The 'golden straitjacket' that reigned during the period of the Washington Consensus in the 1980s and 1990s had restricted democratic politics. Hence, the only way to combine true democratic politics with hyper-globalization was therefore to 'globalize democracy' at the cost of national sovereignty (Rodrik 2011: 200).

The eurozone is an obvious case of deep economic integration, so we can apply Rodrik's globalization trilemma to the eurozone, as shown in Figure 4. EU members can choose between the euro, national sovereignty and democratic politics. The UK chose to keep its national sovereignty and democratic politics by opting out of the euro (1).[7] The current EMU member states have to accept the not-so-golden straitjacket of the ECB's 'one size fits none' monetary policy and the fiscal rules of the SGP, which severely constrain their national democratic politics (2). The dream of EU federalism (a 'United States of Europe') would come at the cost of national sovereignty (3). Only by giving up the euro would countries be able to maintain both democratic choice and the primacy of the nation state (1). Given that the eurozone is a tightly defined and legally bound version of economic integration, its constraints are even more binding than in Rodrik's more general case.

But not all eurozone member states are created equal. Some, like Germany, are much more powerful than others, and have managed to maintain certain levels of discretion over their domestic policies (Moschella 2017). But they have also disproportionately shaped the rules that govern the euro based on their own domestic preferences and framed with their own national economic interest in mind. This is a fact that became abundantly clear over the course of the euro crisis that began in late 2009.

While the core countries were able to dictate the governing rules given their status as 'creditor' countries, they also kept significant room to manoeuvre in their own economies when it came to making fiscal and labour market choices. In other words, a country like Germany could actually have all three options – the euro, national sovereignty and democracy – at the same time. The story was very different for the periphery countries, which had to give up both national sovereignty and their democratic politics in return for financial bailouts they were in no position to refuse. For a country like Greece, and others in the periphery, there would be no choice in economic policy, as fiscal austerity and structural reform were directly imposed on those countries by the Troika, with their national governments unable to design the programme, let alone define any of its content.

The EMU's crisis policies and much-strengthened 'technocratic straitjacket' embedded mainly Northern rules at the expense of Southern discretion in economic policy. As long as democratic legitimacy remained with Europe's nation states, and some sort of EU federalism continued to linger as a distant dream of Brussels-based EU officials, the euro crisis and the policies that were pursued in direct response to it, would come at a serious democratic price in the periphery countries, while not in the core.

The main problem with the EU's imposition of openly distributive policies was that they were not mediated through domestic interest groups, labour unions or political parties, which could have helped to legitimize them. At the EU level, those mechanisms remained largely absent. While only Italy had an actual experiment with 'unmediated democracy' during Monti's 'government of professors'

(Culpepper 2014), the EU crisis response largely took away the vital role national political parties or trade unions play as nationally rooted, and therefore democratically legitimating, intermediary bonds between electorate on the one hand and executive on the other (Schattschneider 1942).

The fact that both traditional centre-right and centre-left parties were forced by the Troika to implement similar unpopular policies would lead to much higher levels of electoral instability. In fact, periphery countries like Greece, Portugal and Spain had not seen such volatility since their transitions to democracy during the 1970s (Hopkin 2015). In the same way as the negative effects of structural adjustment programmes that pushed for further market liberalization in Latin America in the 1980s led to a 'dealignment' between existing political parties and their traditional voter bases (Roberts 2013), the EU's crisis policies would trigger mass social protests, and result in the shrinking of the traditional centre. This would enable more radical and anti-establishment outsiders of both far left and far right to rise to political prominence (Schmidt 2015).

This weakening of national democracy in the euro periphery would be on display from three distinct perspectives. First, from an *input* point of view, while new parties were founded or old parties emerged from obscurity, which channelled much of the growing popular discontent, it did not matter which parties the people actually voted for. Any government – whether a centrist grand coalition or a government that included some of the new 'protest' parties – that would be formed had no choice but to implement the full list of recommendations of the Troika, which had been agreed to during the previous government. The policy substance of any new government would therefore not be one *of the people* as it would not take into account or mediate any of their preferences.

Second, from a *throughput* point of view, the decision-making process and eventual implementation of fiscal austerity policies and structural reform measures would not be owned by the people actually in government, but by technocratic elites either directly installed in national capitals by Brussels (as happened briefly in Athens and Rome in 2011–12) or by EU officials at the ECB, which itself had seen its popular legitimacy decrease considerably with the onset of the global financial crisis (Jones 2009). In the absence of any real transparency or democratic legitimacy, these governance processes were therefore not *by the people*, but rather sprung from the minds of EU technocrats.

Third, from an *output* point of view, rather than cure, the EU medicine of spending cuts and reform almost killed the patient. By pushing the periphery back into deep recessions, increased debt-to-GDP ratios, pension cuts and record levels of unemployment, there would be *nothing for the people*. This terrible output would then negatively feed back into the input level of democracy, through the rise of protest parties and a collapse of the centre, while voter apathy increased. This vicious circle disrupted long-standing patterns of alternation of power between centre-left and centre-right, and made the euro periphery countries politically less stable and institutionally much harder to govern, which would then further diminish the democratic strength of their national institutions.

NOT 'OF' THE PEOPLE: WEAKENING DEMOCRATIC INPUT AND POLITICAL GOVERNABILITY

As Schäfer and Streeck (2014: 1) put it in the preface of their edited volume, *Politics in the Age of Austerity*: 'Democracy depends on choice. Citizens must be able to influence the course of government through elections. If a change in government cannot translate into different policies, democracy is incapacitated.' From a democratic input point of view, the five countries of the euro periphery have on the one hand seen all kinds of protest movements, new citizens' initiatives, as well as the rise of new political parties, but on the other hand very little of this has translated into different policy outcomes. From that point of view, democratic input and governability have suffered badly since the crisis, which has manifested itself in various ways.

First, the fact that both traditional social democratic (or centre-left) and conservative (or centre-right) parties offered very little choice in economic policies has led many voters to abandon those parties in favour of anti-establishment and protest parties (Mair 2013). In Greece, the Pan-Hellenic Socialist Movement (PASOK) and New Democracy (ND) saw their electoral fortunes fall from 43.9 and 33.5 per cent of the vote during the elections of October 2009 to 4.7 and 27.8 per cent respectively in the elections of January 2015.[8] PASOK and ND, the two centrist parties that had dominated Greek politics since its transition to democracy, fell from a combined 77.4 per cent of the vote to just 32.5 per cent, or from 251 seats (out of 300) in the Greek parliament to 89. During the same period, Syriza – the hard-left anti-EU bailout party led by Alexis Tsipras – went from 4.6 to 36.3 per cent and from 13 to 149 seats in parliament. In Spain, the traditional rivals of the Spanish Socialist Workers' Party (PSOE) and the People's Party (PP) experienced a similar fall from grace between the general elections of 2008 and December 2015.[9] Their respective shares of the vote fell from 43.9 per cent for PSOE and 39.9 per cent for PP in 2008 to 22 and 28.7 per cent respectively in 2015, or from 169 and 154 seats in the Cortes to 90 and 123. Their joint vote share hence went from 83.8 per cent (and 323 out of 350 seats) to barely 50.7 per cent (and 213 seats). Here, two brand-new parties – left-wing Podemos and centrist Ciudadanos – came out of nowhere to achieve 20.7 and 13.9 per cent of the overall vote, or 69 and 40 seats respectively.[10]

A similar anti-establishment trend could be observed in Ireland, Italy and, to a lesser extent, Portugal. In Ireland, traditional governing parties Fianna Fáil and Fine Gael received 41.6 and 27.3 per cent in 2007 – which added up to a joint vote share of 68.9 per cent and 128 out of 166 seats in the Dáil – to just 24.3 and 25.5 per cent respectively in 2016, or a total of 49.8 per cent and just 96 seats (out of 158).[11] The main beneficiaries in Ireland were anti-austerity Sinn Féin together with many independent politicians. In Italy, the centre-right and centre-left factions in the chamber of deputies still polled at 46.8 and 33.5 per cent in 2008 (and a combined 80.3 per cent or 590 out of 630 seats), compared with just 29.1 and 29.5 per cent in 2013 (or a joint share of 58.6 per cent or 470 seats).[12] In Italy, the new Movimento Cinque Stelle (Five Star Movement – M5S), founded by comedian, blogger and activist Beppe Grillo, which openly questioned Italy's euro membership, managed to capture 25.5 per cent of the vote and 109 seats in the chamber during the 2013 elections. In Portugal, the collapse of the centre was less outspoken. The centre-left in Lisbon chose to form a coalition with the anti-euro hard left, the greens and the former communists, to exclude the centre-right.[13]

Second, given the frustration with the state of the economy and the similarities of economic programmes between centre-left and centre-right, many voters simply decided to stay at home, as seen in the systematic fall in voter turnout in national elections since 2008.[14] In Greece, there were five national elections (plus a referendum) held between 2008 and 2016. Turnout fell from

70.9 per cent in 2009 to 56.6 per cent in September 2015. In Spain, voter participation decreased from just below 74 per cent of the electorate in 2008 to 69.9 per cent in 2016. In Ireland, turnout first increased from 67 per cent in 2007 to 70 per cent in 2011, but then fell to a low of 65.2 per cent in 2016. In Italy, while still over 80 per cent of voters showed up during the 2008 elections that returned Silvio Berlusconi to power, only 75.2 per cent made it to the ballot box in 2013, which saw the rise of Grillo's M5S. Finally, in Portugal, electoral turnout went from 60.5 per cent in 2009 to just 55.8 per cent in 2015. It is safe to assume that, in all five cases, falling turnout reflected voter disillusionment with politics and democracy rather than voter satisfaction.

Third, the emergence of new parties or the rejuvenation of old protest parties have led to a fragmentation of the political landscape, making it increasingly difficult to form stable coalition governments. In Greece, the two traditional centrist parties lost so much support over the course of the euro crisis years between 2009 and 2015 that they could no longer even form a government of national unity. Anti-austerity party Syriza came to power in January 2015 by forming a coalition with the small nationalist and right-wing party Independent Greeks (ANEL). The only thing those two parties had in common was their joint opposition to the terms of the bailout and the policies of the Troika. In Spain, no party was able to form a government between December 2015 and October 2016, when finally PSOE gave way to a PP-led minority cabinet, even though Mariano Rajoy's PP lost a significant number of votes and seats since taking over from Zapatero's PSOE in 2011.

After the failed experiment with Mario Monti's technocratic cabinet between November 2011 and March 2013 (Culpepper 2014), Italy was governed by a fragile grand coalition designed to keep the M5S out of power. The coalition was led by centre-left politician Matteo Renzi, but not for long – he stepped down in December 2016 after his constitutional reforms were rejected by 60 per cent of Italians in a national referendum. Since 2016, Ireland has seen a lukewarm deal between traditional rivals Fine Gael and Fianna Fáil that may keep Fine Gael in power until at least 2018 in a minority cabinet with implicit backing by its opponent. Dublin therefore also had some sort of centrist government that did not represent the significant protest vote, let alone change very much in terms of policies compared with the previous government. In Portugal, a precarious left-wing coalition of centrist social democrats of the Socialist Party (PS), greens, Portuguese Communist Party (PCP) and hard left Bloco de Esquerda (Left Bloc – BE), saw the light of day in 2015, but remained at the constant mercy of both financial markets and EU technocratic scrutiny.

Fourthly, when the protest parties actually did make it into power – as in Greece and in Portugal – they were quickly put back into line with the EMU's technocratic straitjacket – underscoring that there was no real choice in economic policies. In Greece, Alexis Tsipras tried to put the Troika's terms of his country's third bailout to a referendum in June 2015, which he won with 61.3 per cent of the vote. Syriza's victory and open rejection of the EU's terms proved to be short-lived, however, as the new terms of the bailout in July 2015 proved even harsher than the previous terms. Tsipras was forced to make a humiliating U-turn, underlining that Greece had lost both its sovereignty and any sense of national democratic choice. All his government could do was faithfully implement further spending cuts and pension reforms or face bankruptcy.

In Portugal, the president of the republic, Aníbal Cavaco Silva, even tried to publicly derail the formation of a left-wing government in 2015. The Portuguese president stated on television that, since the country's transition to democracy in the mid-1970s, Portugal had never had to rely on anti-European political factions. He said it was his 'duty, within the scope of [his] constitutional remit, to do everything possible to avoid that the wrong signals are transmitted to the financial institutions, investors and markets, placing in question the country's external trust and credibility which, with great effort, [Portugal had] been gaining' over the previous years (Cavaco Silva 2015). There is no better example of the logic of supranational markets trumping domestic politics than a president trying to stop the formation of a new democratic government because he perceives it as going against the wishes of international creditors.

NOT 'BY' THE PEOPLE: LACK OF TRANSPARENCY AND OPAQUE THROUGHPUT PROCESSES

Bulgarian democracy thinker Ivan Krastev (2002: 45) once observed that democracy 'means not only that people can vote in free and fair elections, but that they can influence public policy as well. What people think matters at least as much as what governments do.'

But the euro crisis started a gradual erosion of democracy in the periphery not just from an input point of view, but also from a 'throughput' point of view. Throughput is Vivien Schmidt's (2012, 2016) term to try to break open and demystify the black box of government, including its various processes and decision-making procedures, and to explain *how* public policy is actually made and decided upon. When pressed to slash public expenditure even further or face sanctions in 2013, for example, Belgian budget minister Paul Magnette summed up the tension in the eurozone between democratically elected governments and a technocratic EU commission, by rhetorically asking – 'Who is Olli Rehn?' – referring to the Finnish commissioner for economic and monetary affairs who recommended further budget cuts (quoted in Schmidt 2015: 102).

There are three key EU policy choices during the euro crisis that illustrate a substantial weakening in throughput processes for national governments in the periphery. First, the opaque nature of the Troika's decision-making process in dealing with the bailouts for the 'programme countries', Greece, Ireland and Portugal, and the conditions imposed on those countries, left practically no room for negotiation. There was no involvement of political parties or national interest groups, including labour unions, even though the latter had seen their legitimacy decline since 2008 (Culpepper and Regan 2014). The Troika's conditions for receiving financial aid were set out in painstaking detail, and all included measures and reforms that uprooted long-established compromises that had been embedded in the social fabric of each respective country. In the words of Fritz Scharpf (2014: 139): 'Regardless of the comparative quality of its economic expertise, the Commission lacks legitimate authority to impose highly intrusive policy choices on member states – choices that are fundamentally controversial and have massively unequal distributive impacts.'

As Martin Sandbu (2015: 130) has noted in the case of Greece, this 'tyranny of technocracy' did nothing more than 'infantilize the Greek body politic, which was already weak' to begin with. Regressive tax increases on consumption and cuts in public services generally tended to hurt the poorest and the reform measures in the labour market and sheltered services sectors were invariably in the same pro-market and liberalizing direction (Matthijs 2016b). While the bailout conditions may well have made sense from a long-term economic or financial point of view, they did not respect the long-established domestic intermediation processes on which democracies build legitimacy.

Second, the advent of the euro crisis forced the ECB well beyond its traditional comfort zone of guaranteeing price stability. The ECB would become much more overtly ‘politicized’ as it would become directly involved in decisions that were highly redistributive and political in nature. As a member of the Troika, the ECB ventured away from monetary policy into fiscal and domestic economic policy matters.[15] The gradual politicization of the ECB under president Jean-Claude Trichet was clear when it was revealed that he had sent classified letters to the heads of government of the two largest periphery member states in the summer of 2011. The letters, sent to both Italian prime minister Silvio Berlusconi and Spanish prime minister José Luis Zapatero by Trichet and their countries' respective central bank governors, Mario Draghi and Miguel Fernández Ordoñez, showed the ECB going far beyond its narrow legal mandate.[16]

In the letter to Berlusconi, Trichet and Draghi demanded the ‘full liberalization of local public services and of professional services’ as well as ‘large-scale privatizations’. They also asked Berlusconi to reform the collective wage bargaining system, make it easier to hire and fire employees, cut pensions, increase the retirement age and, if necessary, reduce the wages of public employees.[17] In their letter to Zapatero, Trichet and Fernández Ordoñez urged the Spanish prime minister to give businesses more power in wage bargaining by replacing industry-level with firm-level agreements, and abolish inflation-adjustment clauses. They also demanded direct action on the national budget, suggesting a new spending rule, as well as a whole laundry list of product market reforms, including increased competition in the energy and services sectors.[18] Though the letters were confidential, everybody directly involved at the time understood them as a strict ECB condition for intervening in the Italian and Spanish sovereign bond markets (Ban 2016: 198; Sandbu 2015: 131).

The ECB would also use the direct threat of withholding Emergency Liquidity Assistance (ELA) from periphery member states' banking systems if they did not accept some of its unilateral demands. In a letter to the Irish minister of finance, Brian Lenihan, in November 2010, Trichet laid down the conditions for further ELA, asking for a written commitment from the Irish government that it would bail out its own banks and not allow for any haircuts on private investors' assets.[19] Trichet told Lenihan to ask the euro group officially for a bailout, immediately start the process of fiscal consolidation, restructure the Irish financial sector by using existing cash reserves to bail out failing institutions and fully guarantee repayment of all ELA funds made available. The threat of turning off the ELA tap was also used in the case of Greece in late June 2015, when the government of Alexis Tsipras refused to accept the Troika's conditions for a third bailout. After Tsipras decided to call a referendum on the conditions of the bailout instead, the ECB cut off the Greek banking system from emergency liquidity, triggering the introduction of capital controls.

Third, and most damaging from a democratic throughput point of view, in the depths of the euro crisis in November 2011, two embattled but democratically elected leaders – George Papandreou in Greece and Silvio Berlusconi in Italy – were forced to resign and were replaced by two former EU technocrats. Lucas Papademos, a former vice-president of the ECB, took over the reins from Papandreou in Athens after the latter toyed with the idea of calling a referendum on the Troika's conditions for Greece's second bailout. Out of fear of renewed panic in Europe's financial markets, the EU put pressure on Papandreou to step down and forced the Greek political establishment to agree to a government of national unity led by Papademos, which included ministers from the mainstream centrist parties. Papademos stayed in power until new elections were held in May 2012. In Italy, former European Commissioner Mario Monti became the new prime minister with the support of both centre-right and centre-left parties, after Berlusconi had lost the trust of both German chancellor Angela Merkel and French president Nicolas Sarkozy. Professor Monti's government of technocrats was an experiment in 'unmediated democracy' that would last just 15 months, from December 2011 until March 2013 (Culpepper 2014).

NOTHING 'FOR' THE PEOPLE: ECONOMIC MALAISE AND FAILING OUTPUT LEGITIMACY

If the slide in both input and throughput legitimacy was obvious from the two previous sections, the fact that the EU crisis solutions were making output worse in the periphery, rather than better, completed the negative cycle (Blyth 2015; Sandbu 2015). Bad output fed back into more demands for change during the next elections and fuelled the rise of populist and anti-system parties, even though it would quickly be revealed to the voters that it would not matter much whom they voted for. As there was no real alternative in economic policy, this

Table 1
Ever Closer Union? Diverging Living Standards (per capita GDP as % of Germany)

	1994	*2007*	*2015*
Greece	66%	80%	56%
Ireland	74%	127%	116%
Spain	70%	89%	73%
Portugal	58%	69%	62%
Italy	94%	92%	76%

Source: World Bank, International Comparison Program Database (2016) (PPP, current international $) and author's calculations, http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?year_low_desc=false.

only led to a further erosion in democratic support for the Southern countries' political institutions. Table 1 shows how the eurozone process of convergence in living standards between South and North was reversed by the crisis. Greece fell from 80 per cent of Germany's standard of living in 2007 to just 56 per cent by 2015, Portugal from 69 to 62 per cent, Italy from 92 to 76 per cent, and Spain from 89 to 73 per cent. Even Ireland fell from 127 to 116 per cent over that period.

By 2015, of the five eurozone periphery countries, only Ireland had recovered to 2007 levels of GDP, with its economy having grown 9 per cent over eight years after a long and deep recession.[20] Over the same period (2007–15), Greece's economy had shrunk by 26.2 per cent, Italy's by 8.3 per cent, Portugal's by 5.5 per cent and Spain's by 3.3 per cent. By 2015, all Northern core countries in the eurozone were well past their previous record and on a steady path to further growth, with rising incomes, lower inequality and falling levels of unemployment (Matthijs 2016b). In the periphery, medium equalized net income was down significantly in Ireland, Spain and especially Greece – where it fell from €12,599 in PPP terms in 2010 to €8,810 by 2015, while it remained stagnant in Italy and Portugal.[21] The level of unemployment in the five Southern countries reached all-time highs between 2013 and 2014, before falling, but remaining far above their 2007 levels.[22] Finally, government debt, the one indicator the EU crisis policies were supposed to bring under control, was dramatically higher in all five countries in 2015 compared with 2010, when the euro crisis started. The collapse in economic performance only contributed further to the downward spiral of weakening democratic strength in the euro periphery.

CONCLUSION: THE EURO'S DEMOCRATIC DISCONTENTS

The advent of the European debt crisis in 2010 not only brought back a widening gap in standards of living between 'Northern' core and 'Southern' periphery countries, but also revealed a stark division in the strength of national democracy. This article has sought to investigate the amplified tension between a supranational currency union governed by an unelected EU technocracy on the one hand and nationally embedded democratic politics in Europe's periphery on the other.

By reframing Rodrik's globalization 'trilemma' to show that not all countries in the eurozone are made equal, this article showed that the trade-off for staying in the euro in the Southern periphery was not just national sovereignty or democracy, but both. In empirical terms, I examined the gradual weakening of national democratic governments in Greece, Ireland, Portugal, Spain and Italy using an input, throughput and output legitimacy lens. The article underscored that the eurozone's crisis solutions did not allow for any real economic policy choice or democratic 'input', were implemented through opaque and undemocratic 'throughput' processes, and resulted in deteriorating 'output'.

I conclude that, by further dis-embedding crucial economic policy decisions from their national institutional context, the EU crisis response made euro membership in the periphery even less compatible with national democratic choice and only served to further deepen the EU's existing 'democratic deficit'. The resulting democratic malaise therefore calls into question the long-term viability of the euro in its current form.

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SUPPLEMENTARY MATERIAL

To view the supplementary material for this article, please go to: https://doi.org/10.1017/gov.2016.50.

NOTES

[1] Others have focused on the increase in democratic 'checks and balances' and decision-making procedures in the North of Europe during the euro crisis, especially in deciding on eurozone-wide crisis solutions, including bailouts. See Moschella (2017).

[2] Freedom House's 'Freedom in the World' reports only have three categories: 'free', 'partly free' and 'not free'. They score countries from 1 (most free) to 7 (least free) on both political rights and civil liberties. They then have an overall annual numerical score between 0 and 100. All countries of the euro periphery maintain their rating of 'free' over the period between 2006 and 2014, with scores of 1 for both civil liberties and political rights, with the exception of Greece, which gets a score of 2 for both civil liberties and political rights (up from 1.5 in 2006, when the political rights score was still at 1). All reports are available online at: https://freedomhouse.org/report/freedom-world/freedom-world-2016.

[3] See the online Appendix at https://doi.org/10.1017/gov.2016.50, Figure A1 for the details on 'functioning of government'.

[4] See online Appendix, Figure A2 for 'political participation'.

[5] The data comes from the STATA version of the archived Eurobarometer Public Opinion Polls, which is available at http://zacat.gesis.org/webview. The percentages reported in these files exclude the 'don't know' category, since these have only recently been added in 2010. The percentages are computed out of all the respondents excluding those who answered 'don't know', to make them compatible over time. The annual scores are an average of spring and autumn waves.

[6] Treaty of Rome (1957). Original text available online at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Axy0023.

[7] On 23 June 2016 the UK went one step further and voted in a national referendum to leave the European Union altogether.

[8] See online Appendix, Table A1.

[9] See online Appendix, Table A2.

[10] The repeat elections of June 2016 brought very little change. PSOE went from 22 per cent to 22.7 per cent (but lost 5 seats, from 90 to 85), while PP increased its vote share from 28.7 to 33 per cent (gaining 14 seats). Together, they still only had 55 per cent of the overall vote.

[11] See online Appendix, Table A3.

[12] See online Appendix, Table A4.

[13] See online Appendix, Table A5.

[14] See online Appendix, Tables A1–A5.

[15] In a ruling on Outright Monetary Transactions (OMTs) in January 2015, the European Court of Justice (ECJ) questioned the legality of the ECB's membership of the Troika. Pedro Cruz Villalón, one of the ECJ's advocates-general, suggested that the ECB 'must refrain from any direct involvement in the financial assistance programme that applies to the state concerned'. (https://next.ft.com/content/7cbb632e-9bd7-11e4-b6cc-00144feabdc0).

[16] The letter to Italian prime minister Silvio Berlusconi has been published by Italian daily *Corriere della Sera* at www.corriere.it/economia/11_settembre_29/trichet_draghi_inglese_304a5f1e-ea59-11e0-ae06-4da866778017.shtml. The letter to Spanish prime minister José Luis Rodríguez Zapatero is available at www.ecb.europa.eu/pub/pdf/other/2011-08-05-letter-from-trichet-and-fernandez-ordonez-to-zapateroen.pdf.

[17] Trichet letter to Berlusconi, www.corriere.it/economia/11_settembre_29/trichet_draghi_inglese_304a5f1e-ea59-11e0-ae06-4da866778017.shtml.

[18] Trichet letter to Zapatero, www.ecb.europa.eu/pub/pdf/other/2011-08-05-letter-from-trichet-and-fernandez-ordonez-to-zapateroen.pdf.

[19] The letter from Jean-Claude Trichet to Brian Lenihan can be read in full at www.ecb.europa.eu/press/shared/pdf/2010-11-19_Letter_ECB_President_to%20IE_FinMin.pdf?31295060a74c0ffe738a12cd9139f578.

[20] See online Appendix, Figure A3 for change in real GDP in the periphery countries.

[21] See online Appendix, Figure A4 for median equalized net income in PPP terms.

[22] See online Appendix, Figure A5 for unemployment figures in the periphery.

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