Influence of EU (and IMF) on domestic consolidation and reform: Introduction

Journal Item

Special journal issue. Introduction article

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INTRODUCTION

In this special issue, nine countries in Southern, Western, and Eastern Europe – Greece, Ireland, and Portugal; Hungary and Latvia; Italy and Spain; and Estonia and the Netherlands – are studied by expert academics in the respective countries to ascertain the influence of the European Union (EU) (and the International Monetary Fund: IMF) on domestic fiscal consolidation and reforms.

Brussels' influence on domestic state affairs is currently a hot topic in public debate and politics, with more and more countries developing a sceptical view of the EU. Former Communist East European countries like Poland and Hungary, which adopted a pro-Western and pro-Europe stance immediately after their independence from Soviet Russia, are reverting to a populist, nationalist, and patriotic standpoint against despised EU interference. Britain has voted in a referendum to leave the EU. In France, Germany, the Netherlands, Finland, Denmark, and other Western European countries, nationalist populist anti-EU parties are gaining popular support. Southern European countries like Greece, Portugal, and Spain also protest against EU interference, as their bailouts resulted in harsh austerity measures, high unemployment, and tumbling living standards. Anti-austerity and anti-EU demonstrations and strikes are commonplace. Italy's Prime Minister Berlusconi was known to have been furious about EU interference in national sovereign affairs.

The issue of EU influence on domestic affairs is highly contested, fiercely debated, and strongly politicized and polarized – an inflammable subject, so to say. In this special issue, we investigate one particular facet of that salient issue, albeit a very significant and relevant one: domestic cutbacks and reforms at the time of the crisis. How did Brussels influence them? The bailouts in Greece, Portugal, Spain, and Hungary, involving severe cutbacks and reforms in return for financial aid, led to massive public protest, violent demonstrations, and widespread social unrest. In Greece, there has been a major shift in the political landscape, with a newly established anti-austerity left-wing party winning the elections, an anti-austerity referendum, and further political turmoil. In Hungary, the protests and unrest led to a landslide election victory for the populist nationalist party, which immediately exited the IMF loan programme and soon rejected Brussels. And there are many other impressive examples of the high degree of contestation caused by EU interference. Indignation, condemnation, defiance, and resistance are ubiquitous.

Our study, however, is an academic, in-depth, cross-country investigation in nine countries by means of country case studies carried out by national academic experts. We propose to divorce ourselves from the normative, ideological, and political prejudices surrounding the country cases. Our aim is to present an empirical analysis based on facts and figures, with international comparative analysis: the Eurozone-crisis bailouts in Greece, Ireland, and Portugal compared; the early bailouts in Hungary and especially the unknown case of Latvia. What about the two large crisis-ridden countries – Italy and Spain – which were not bailed out? What about countries, like Estonia and the Netherlands, which applied the cutbacks without overt and direct Brussels' influence? Such empirical academic analysis of EU influence may nuance the populist prejudices about Brussels' meddling and interfering.

From a theoretical and analytical viewpoint, the study is not irrelevant either(xx). The key concept in the Europeanization literature (Featherstone and Radaelli 2003) has been and remains the influence of the EU on domestic affairs. This focal concept is amply illustrated and elaborated in the articles.

This research project follows on the seventh work package of the EU-subsidized research project 'Coordinating for Cohesion in the Public Sector', which examined the politics of fiscal consolidation and reform in fourteen European countries in order to detect the patterns of response to the financial and economic crises and the ways in which fiscal consolidation was pursued (xx). The earlier research focused mainly on national governments' decision making and did not systematically consider the impact of 'Brussels'. Now, this current research project explicitly investigates the influence of the EU (and the IMF where applicable) on domestic decision making in the aforementioned nine countries in Southern, Western, and Eastern Europe, leading to the following central research question:

What was the influence of the EU (and the IMF) on domestic fiscal consolidation and reform? The financial-economic aspects of fiscal consolidation are of course paramount, but in this special issue we are primarily interested in the politics of fiscal consolidation – the domestic governments' political decision making about consolidation and reform: How did the EU (and the IMF) influence domestic fiscal consolidation and reform, both in countries that were bailed out and in countries that were not?

COUNTRY-CLUSTER ARTICLES

In this special issue, single country case studies are combined in four clusters of countries with more or less similar degrees of crisis and more or less similar degrees of influencing by the EU (and the IMF).

The first cluster of countries consists of those bailed out by the EU (and the IMF) at the time of the 2010–2011 Eurozone crisis: *Greece, Ireland, and Portugal* (written by xx). The initial (economic and fiscal) circumstances in 2010 in Greece and Portugal appeared to be similar, as also their political systems. The fiscal consolidation processes in both countries, however, have been following quite a different path and have yielded quite different outcomes. Political turmoil, massive public protests, and social unrest have been the order of the day in Greece. Although Portugal has endured similarly harsh austerity effects on people's living conditions, the protests and unrest have been much more restrained, and Portugal has not faced the political upheaval, frequent early elections, government instability, and party shifts that Greece did.

The initial circumstances in Ireland were different (banking sector collapse) and so was its political system. There, the crisis and the bailout seem to have resulted in substantial public sector and administrative reforms.

The second cluster of countries consists of those bailed out primarily by the IMF (assisted by the EU) in the early stage of the 2008 worldwide financial crisis: *Hungary and Latvia* (written by xx). Hardly covered by Western media, these are examples of early (2008) bailouts in less familiar Central Europe.

The Hungarian bailout encountered severe political turmoil, public protest, demonstrations, and social unrest, resulting in a landslide (two-thirds) 2010 election victory for the populist nationalist party. The new Orbán government opted out of the IMF programme and exited the EU's Excessive Deficit Procedure (EDP). The (contested) Hungarian fiscal measures were accompanied by fundamental (contested) public sector reforms (nationalism and patriotism). In 2014, the Orbán government was once again elected with a two-thirds majority.

Latvia was also bailed out by the IMF (and the EU) in 2008. Since the collapse of the Soviet Union, Latvia (like the other Baltic States, Lithuania and Estonia) had embarked on a neo-liberal open market economy course. The Baltic States had enjoyed an enormous economic boom since the 1990s, mostly based on foreign financial loans. The Latvian government had also been borrowing heavily on international financial markets. When the global financial crisis hit Latvia, its foreign currency-based debts and banks collapsed, forcing the government to ask the IMF for help. Unlike Hungary, the Latvian government did not experience a high level of social unrest, protests, and political instability. Although the government did fall, the prime minister responsible for the austerity and reforms was the longest serving prime minister since independence.

The third cluster consists of countries that were not bailed out, but nevertheless did receive substantial financial assistance from the EU: *Italy and Spain* (written by xx). Italy was not bailed out, and financial assistance took only the indirect form of the European Central Bank (ECB) buying up government-issued bonds; neither was Spain, but its banking sector was directly bailed out.

What was the influence of the ECB, the EU, and the Spanish national central bank (Banco de España) on the Spanish banking bailout and subsequent banking sector consolidation and restructuring? What were the influences on structural reforms in Spain?

In what covert and indirect ways did the EU influence the Italian government's fiscal policies? Notably, what was the influence of the ECB on the process, and what key linkages (Bank of Italy [Banca d'Italia] – ECB) played crucial roles in the dynamics of both fiscal consolidation and public sector reform? How did national political decision making take place?

The fourth cluster of countries did suffer a fiscal crisis but managed to consolidate their budgets without financial assistance from the EU: *Estonia and the Netherlands* (written by xx). The fact that both governments were themselves strongly committed to strict fiscal discipline may explain why these two countries carried out their fiscal consolidation measures without direct EU influence.

Estonia's strong desire to be admitted to the Eurozone impelled it to display absolute commitment to the EU's strict fiscal rules. Moreover, it wanted to avoid the bailout fate of defaulting Latvia; hence, the government's solid and austere economic and budgetary stand, not calling for early elections when the social democrats walked out of the coalition, and later winning the regular elections.

The Netherlands, with its long tradition of strict fiscal discipline, has actually (together with Germany) been the main promoter of the fiscal rules in the Maastricht Treaty, the Stability and Growth Pact, and so forth. In the terminology of Europeanization studies, the Netherlands has been *uploading* the policy of fiscal discipline, rather than *downloading* it. The Netherlands did not need the EU to convince it of the need for a deficit ceiling; indeed, it intended to give good example in Europe.

Estonia was the 'poster child' but did not play a role in uploading; rather, like all the other cases except the Netherlands, it was mostly a recipient (downloading fiscal discipline policy). The Netherlands (by flanking Germany) was a policy maker; all the others were policy takers.

These four articles are brought together in a final article (written by the special issue's editors xx) comprising an *international nine-country comparative analysis* of how and to what degree the EU (and the IMF) influenced domestic consolidation and reforms in the nine countries studied.

REFERENCES

Featherstone, K., and C. Radaelli, eds. 2003. *The Politics of Europeanization*. Oxford: Oxford University Press.