Chapter 15

European Economic Governance and Rising Sovereignism

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Abstract Europeans have experienced a variety of challenges in recent years. The rise of sovereignism is one of them. Against this backdrop, this chapter analyses the link between the economic crises and the development of right-wing populist parties. It assesses that while the European economic governance, through a set of mechanisms and institutions, acquired a renovated economic and financial equilibrium, it failed to deal with other salient imbalances concerning wage and fiscal policies across European Union (EU) member countries allowing sovereign parties to gain more legitimacy.

Introduction

Europeans have experienced a variety of economic challenges in recent years. The multifaceted economic crisis that started in the aftermath of the 2008 Credit Crunch had important economic but also political consequences all over the Eurozone and in the European Union (EU) in general. Not only a crisis of competitiveness and productivity was followed by a banking crisis and, in member countries with high public debt, a sovereign debt crisis, but such downturns highlighted a problem of institutional imbalances at the very heart of the EU, caused by the incompleteness of the economic and monetary union (Christakis 2017, 1–43). To face such an unprecedented economic downfall and overcome the limitation of the institutional setting, the EU achieved more integration by reshaping and reinforcing its system of economic governance. The aim was that of building a better economic and monetary architecture than the one emerged during the 1990s. Yet, as this paper argues, more integration was probably not enough to appease social dissent, feeding the ranks of right-wing populist parties, here defined as the “sovereignists”.

The development of the European Stability Mechanism (ESM) to financially assist Eurozone Member States in trouble or the Banking Union, the Fiscal Compact and the European Semester were all measures meant to increase control over

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national budgetary, financial and economic policies in order to overcome structural imbalances. Yet, while the European economic governance, through such mechanisms and institutions, acquired a renovated economic and financial equilibrium, it failed to deal with other salient imbalances concerning wage and fiscal policies across EU member countries. In other words, as the paper will highlight, while the EU was busy in guaranteeing the future of the euro and the European economic system, it failed in securing citizens about their economic welfare, economic perspectives and future wellbeing. Moreover, since the economic crises did not hit all countries equally or uniformly, with some European countries experiencing good economic performances over the years and other that did not, austerity policies together with the absence of harmonised economic rules created even more disparities across member states. At the same time, “more integration” lacked democratic accountability as it resulted in more power exerted top-down by the Commission and the European Council, often bypassing national and European Parliaments.

This chapter argues that economic shortage and lack of democratic accountability are keys in explaining the relative success of right-wing populist parties. Many of which are now part of the Identity and Democracy Group (ID) within the European Parliament, as it will be discussed in more details below. Indeed, while populism is not a novelty in the EU, the increasing support towards the sovereignist parties experienced in the years after the crises has been unprecedented, and it has recently resulted in the creation of the above-mentioned new Eurosceptic group within the European Parliament (75 seats). Certainly, the ID group does not have a majority in the EU Parliament and, so far, its impact on the EU policymaking has been marginalised by the majority, formed by traditional political forces. Yet, the re-emergence of populist extreme right-wing sentiments in Europe cannot be undervalued.

Several experts have linked the upsurge of such forces to various factors such as globalisation, a mix of anger against political elites, fake news, migration and rapid social changes as well as a diffused perception that Brussels is an inefficient bubble, intrusive and out of touch with ordinary citizens. Yet, leaving aside cultural and security reasons, with three European citizens out of five worried about their economic future and two out of four believing their voice does not count in the EU, this paper argues that the European governance and the way economic resources have been distributed among citizens and countries might well play a role when it comes to voters’ support to those parties (European Commission 2018).

The chapter is structured as follows. The first part will analyse the characteristics of the sovereignist parties in the EU and what differentiate them from traditional nationalist or right-wing movements. The section will introduce an analysis of whether, why and how the European Economic governance might have fuelled their electoral support. Against this backdrop, the second part will instead provide an overview of the economic governance reforms applied by the EU in the aftermath of the crisis. Specifically, it will try to highlight how greater integration has also resulted in more discontent across those citizens who felt the EU was already not answering to their needs. Finally, the paper will explain the link between the success of ID parties and the reforms of European economic governance, arguing that

despite differences in economic performances, such reforms acted as a catalyst for the support those parties still enjoy.

Populism: The Mother of All European Sovereignist Parties

Populism is not a novelty in the European political panorama. It is an unpleasant reflection of history. All the European “isms” one can think of—from German Nazism, to Italian Fascism, up to Spanish Franchism or Soviet Communism of Eastern European countries—detained elements of populism, even though they were based on different ideological backgrounds. Although in Europe, populism has been recently associated more with radical right-wing than left-wing ideas, in other parts of world, such as in Latin America, populism is often a product of the political left. When it comes to populism, political philosophy is not fundamental. Populist parties build their identity upon a thin host ideology, which can either be on the left or on the right of the political spectrum. There are no sets of economic, health or security policies, which can be defined as populist per se, while it is easy to identify a communist economic plan or a fascist security programme.

As underlined by philosopher Isaiah Berlin, populism is indeed characterised by a Cinderella complex (Krastev 2008, 43). Like the famous Cinderella’s shoe, a definition of populism will fit perfectly just one party or movement, but not all of them. For this reason, one should think of European populism as a box and focuses on its perimeters instead of attempting to find out what is inside of it. The common standing that characterises all populist movements and parties across EU member countries is that the people are the central point of reference of any political discourse or action. Secondly, building on a diffused resentment felt by groups of the society who feel excluded from the advantages of globalisation, populism comes with a Manichean vision of society (Van Kessel 2015). Against this backdrop, the good people are to be protected by the corrupted elites, in the shape of Brussels bureaucrats, traditional politicians, the European establishment, etc.

Populist parties push forward a simplification of reality, which is particularly useful in political campaigns as it allows communicating directly to the voters and providing them with what appears as an easy solution to existential problems (Müller 2017; Mudde and Kaltwasser 2017). This simplification can also be defined as a moralisation. Indeed, by simplifying the political landscape, populist parties surge themselves as the representative of purity, against the evil and corrupt establishment. To date, considering the outcome of the 2019 EP elections, it is evident that anti-establishment and radical right-wing movements have shaped the recent upsurge of populist sentiments in the EU. Going beyond the national and regional differences that still characterise the EU, in the aftermath of the 2019 EP elections, around 16 out of 28 member countries have at least one party, whose characteristics correspond to the above-mentioned ones and the ID group is represented by parties coming from 9 different countries.

Country	Party	N. seats in national parliament	N. seats in the EP	Political group
Austria	Freedom Party (FPÖ)	31	3 of 18	ID
Belgium	Flemish Interests (VI. Belang)	18	3 of 21	ID
Bulgaria	Bulgarian National Movement (IMRO)		2 of 17	ECR
Czechia	Freedom and Direct Democracy (SDP)	22	2 of 21	ID
Denmark	Danish People Party (DS)	16	1 of 13	ECR
Estonia	Conservative People's Party of Estonia (EKRE)	19	1 of 6	ID
Finland	Finns Party (PS)	39	2 of 13	ID
France	National Rally	7	23 of 74	ID
Germany	Alternative for Germany	94	11 of 96	ID
Greece	Golden Dawn (XA)	0	2 of 21	
Hungary	Fidesz	133	13 of 21	EPP
Italy	Lega Nord	182	28 of 73	ID
Poland	Law and Justice (PiS)	235	26 of 51	ECR
UK	Brexit Party	0	29 of 73	
Spain	Vox	52	3 of 54	ECR
Sweden	Sweden Democrats (SD)	62	3 of 20	ECR

Source: Author's elaboration of European Parliament's data

While academics do not agree whether this form of right-wing populism is only a communication strategy or a specific political style, what is certain is that right-wing populist parties in Europe, defined here as sovereignist, are all characterised by five fundamental elements (Pajnik and Sauer 2017; Wodak 2019). First, sovereignist parties are different from nationalist or fascist parties. Although they put the nation as the main actor able to solve citizens' problems and support "fortress" security policies and welfare chauvinism, their political campaigns lack a deep ideological backing (Halikiopoulou 2019, 1–15; Kriesi and Takis 2015). Moreover, differently from nationalist parties, they do not always oppose the nation against the rest of the world, but they often build on the vertical collusive relationship between "the people" and "the elite" (Rooduijn 2019, 362–372). Against this backdrop, sovereignist parties do not develop coherent policies, being able to change their own nationalist perspectives, when forms of cooperation are preferable. They are anti-pluralist groups with an anti-elitist and anti-intellectual attitude (Wodak 2015). Finally, they are normally led by a charismatic leader, who is portrayed as a national hero or a strict but fair father, whose success is fuelled by a collective sense of insecurity.

Against this backdrop, the next section will argue that there is a link between the EU economic governance and sovereignism. It will highlight that, despite the different GDPs and economic performances of EU member countries, the European economic policies adopted in the aftermath of the crises as well as the lack of democratic accountability of the European decision-making process became catalysts for social

discontent and rising insecurity, allowing ID sovereignist parties to achieve an unexpected electoral support.

European Economic Governance and Citizens' Welfare

According to the European Commission, the European economic governance has been developed as a tool to “monitor, prevent, and correct problematic economic trends that could weaken national economies or negatively affect other EU countries”. Yet, its institutional framework, which emerged in the following of the Maastricht Treaty, has been often defined as incomplete and imbalanced (Chang 2019). Before the reforms introduced in the aftermath of the crises, the European economic institutions did not provide Eurozone Member States with a lender of last resort, and there were no clear European mechanisms for preserving financial stability or dealing with potential adverse shocks. This resulted in the multiple crises experienced so far.

Rising from the 2008 Credit Crunch, the economic crisis developed in Europe followed three different paths. There has been a crisis of competitiveness and productivity, a banking crisis and, in countries with high public debt, a sovereign debt crisis. At the same time, while the European monetary policy provided Eurozone deficit Member States' economies with a huge expansionary push, the absence of a banking union resulted in Member States respectively protecting and promoting their banks, fuelling various bubble, especially in the property market. Moreover, the lack of common fiscal and wage policies allowed some countries, such as Germany, to boost their own competitiveness by pursuing a policy of disinflation. The latter contributed to increment macroeconomic imbalances within the Eurozone. This happened in a context where countries had already divergent economic performances (Börzel and Risse 2018). In 2007, according the European Commission published data, the volume of German real GDP growth was 3.3, while in the EU 28 it was 3.1, in Italy 1.5, in Finland 5.2, in Slovakia 10.8 and in France 2.4.

Despite the above-mentioned divergences, the need to overcome the economic crises and save the euro resulted in the EU system of economic governance being radically reshaped and reinforced, achieving an unprecedented integration. The European Stability Mechanism (ESM) was established in 2012 as a permanent intergovernmental organisation to provide financial assistance and fiscal liability to Eurozone Member States under attack on the bond markets. Although the ESM has allowed to overcome one of the imbalances of the European economic system and save the euro, national parliaments have no control on its board of Governors, as the latter was established through an intergovernmental Treaty. Similarly, the Fiscal Compact, signed by all EU Governments with the exception of the UK, imposed strict budgetary rules on Member States, binding them to the activation of specific mechanisms to correct any significant deviations (Christakis 2017, 1–43). Again, the Fiscal Compact lacks democratic accountability as it provides the Commission

with the power to unilaterally propose sanctions for Member States not respecting these commitments.

The creation of the Banking Union increased the instruments of the ECB to keep the “euro” alive, breaking the vicious cycle of speculation about both Member States and banking sectors’ solvency so as not to endanger the financial stability of the Eurozone as a whole. On the other hand, the European Semester attempted to boost compliance of national budgetary and economic reforms with European requirements reinforcing the monitoring of member state policies by the Commission.

The above mechanisms had certainly the merit to save the euro and stabilise EU and Eurozone economies. To be fair, the urgency caused by the unprecedented economic crises of the last years made it impossible to have the above reforms properly discussed and checked by democratically elected national institutions and digested by citizens. While the restructurings were aimed to allow EU member countries, and in particular, the Eurozone, to achieve more integration, overcome the economic deadlock and provide more financial stability, the lack of direct communication channels between the EU decision-making process and the wide electorate made the former appearing as a distant actor with an unprecedented authority over national policies (Börzel 2016, 8–3; Schimmelfennig 2014, 321–337).

Moreover, such reforms did not solve the crises of competitiveness and productivity affecting the EU. These were seen as issues to be solved at national level, preferably by applying austerity policies and “internal devaluation” (Van Gyes and Schulten 2015, Schulten and Müller 2015, 331–363).

Although the EU has no formal competences on wage policies and collective bargaining, the necessity for member countries to respect rigid parameters imposed by the Fiscal Compact and the European Semester resulted in a so perceived top-down approach, whereby the EU recommended the reforms needed, especially in countries with lower economic performances. In a nutshell, the effectiveness of the reformed European economic governance in saving the “euro” and the European integration project has been at the expenses of democratic trends in some EU countries, creating a fertile common ground for sovereignist parties to emerge. More economic integration allowed for substantial powers to be transferred from the national to the European level, making the decision-making process mostly based on an “executive federalism”. While the European governance fixed the debt and the banking crisis, the crisis of competitiveness did not receive an adequate answer. On the contrary, it stimulated new forms of competition among Member States, whereby surplus Member States could pressure the ones in deficit. To reduce national debts and remain in the rigid EU parameters, the majority of European governments enforced strict fiscal consolidation programmes with significant cut on education, health care, worker’s rights and family policies. According to Eurostat data, since 2010, the percentage of people at risk of poverty raised by 2% in EU countries in general. In Germany, it passed from 8.9% in 2010 to 10.6% in 2017. In France, from 7.8% it reached 8.4%, and in Italy, from 11.8% it touched 12.4%. One exception to this trend is Finland, where it went from 8.4% to 7%. Yet inequality growth in all

EU countries, specifically in Finland and in Germany, where by 2010 to 2016, the middle class was squeezed respectively by 6.9% and 5.7% (Eurostat 2020).

The absence of a European wage policy resulted in all EU countries reducing the extent of their national collective bargaining, contracting wages and workers' rights. Indeed, the growing competition at the EU level among Member States made irrelevant any centralised bargaining as companies could move in other countries or hire remotely workers from other member states. These trends were catalyst of popular support to populist and more specifically sovereignist parties. They amplified two key factors that according to Frieden (2018) were at the basis of their success. On the one hand, they undermined an effective democratic accountability of the EU economic policies. On the other, they amplified the perception that the EU was not tackling citizens' rising insecurity and inequality.

Sovereignism and the Economy

Sovereignist parties did not gain political power in all the EU countries, and the ID group is represented only in nine states. Yet, even in those, such as Germany and Finland, with relative good GDP performances, sovereignist parties were able to win. They did so by highlighting the need to take back control from undemocratic Brussels institutions as well as to fight against rising inequality within and across countries. Those are the two fundamental factors that the European economic governance has, even if indirectly, contributed to fuel.

As populist movements normally do, ID sovereignist parties do not have any answer to solve the above issues, but they mount on citizens' economic insecurity, pushing forward a "fear propaganda".

To date, 51% of the European citizens are indeed afraid of the state of the society, and 67% believe that the world used to be a better place. Citizens fear about their future economic conditions and the loss of their cultural identity, or they have simply nostalgia of a mystified past. In not all countries citizens are concerned by the same issue or in the same way. Still the economic factors, the need for protection and anxiety about the state of society are deeply connected to a dissatisfaction with the quality of EU and Member States' democracies and the idea that European institutions are too complicated and fail to provide what is needed (De Vries and Hoffmann 2019). Indeed, 48% of the European citizens tend not to trust the EU, 38% believe the EU is not positively influencing their lives and 30% think we need less integration (European Commission 2018; European Parliament 2019; De Vries and Hoffmann 2019).

Sovereignist parties appeal to all social groups with specific economic concerns (Kriesi and Takis 2015). First, they receive support from the working class by building on a well-diffused negative condition of labour-market competition, mounting their exposure to immigrants' workforce who are allegedly keen to work longer hours and with lower salaries (Dancygier and Walter 2015, 133–56). This, together with the need to stop "welfare tourists", is the battle horse of the Austrian Freedom

Party (FPO) (Reuters 2017). Secondly, they received support by a declining middle class who is worried to lose its current social and economic status (Antonucci 2019; Hillje 2018; Michel 2017). For instance, supporters of the National Rally or Alternative for Germany (AfD) or even the Italian League fear unemployment, the worsening of working conditions and the weakening of social safety nets. AfD and FN voters believe that the future generation will be financially worse off than that of their parents (Hillje 2018).

Anxiety about other countries' economic performances is also an issue. Indeed, the absence of European common policies to overcome the crisis of competitiveness and productivity was detrimental, especially for Southern European countries, which experienced low growth. This allowed northern European sovereignist parties to create a new argument to discredit the EU and its economic governance around the capacity of Southern Europeans to repay their debt. Parties such as Alternative for Germany or the Finns Party constructed part of their European agenda on that, maintaining that their countries should protect their own citizens and fight against any form of bail out policy for rescuing the euro and underperforming EU member countries (The Finns Party 2019; Kim 2018). As far as rising inequality is concerned, those parties did not replace traditional left-wing agenda. They offer broader forms of protection in terms of tighter security with tax reduction, to compensate the loss of social status. They do not confront the EU and its economic governance to ask for more social guarantees or effective welfare policies. They indeed replace the idea of social equity with protectionism and the promise of lower taxes, combined with an ideological appeal to nationalism and a nostalgic desire to "make the country great again".

In conclusion, the economic crisis and the consequent EU institutional response, through the reforms of the European economic governance, did not directly cause the rise of sovereignist parties, but they acted as a catalyst of their success. They basically favoured the development of two key conditions: lack of democratic accountability and rising inequality, which fuelled citizens' insecurity at the basis of populist parties' fear propaganda.

Conclusion

Beyond the cultural backlash, which posits the origin of the radical right vote mainly to the diffusion of liberal values or the migration crisis, European economic governance is relevant when it comes to understand the success of the above-mentioned parties (Rydgren 2008, 737–765). Indeed, the inability or impossibility of national governments to face rising national inequality issues resulted in the politicisation of the European economic governance and its lack of democratic accountability, which became central to sovereignist parties' agenda (Börzel and Risse 2018, 23; Norris and Ingehart 2018). While economic and social inequalities grew larger, the migration crisis increased social pressure and concerns about additional strains on existing welfare systems (Meuleman et al. 2018). Unhappiness about the status quo was

coupled by anxiety about the future and efforts made by EU institutions to reach more economic integration, as a way out of the crisis appeared useless by many. Europe ceased to be perceived as a “win-win” project for all. While austerity policy became the new scapegoat for all, the high social costs and increased economic and financial disparities among Member States boosted myopic national egoism. In this respect, the EU economic governance did save the Euro and provided financial stability to Eurozone and non-Eurozone countries, yet it lacked adequate measures to tackle rising citizens’ economic insecurity, which were left in the hand of national governments. Yet, the need to respect strict budgetary rules resulted in traditional parties failing to deliver what was needed and provided sovereignist parties with the perfect political and economic background to emerge as alternative political forces.

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