

TROIKANOMICS

*Austerity, Autonomy and Existential
Crisis in the European Union*

Ray Kinsella and
Maurice Kinsella



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1

Foundations of the Argument

An Inflection Point in the European Union

Troikanomics (from ‘Troika’, a triumvirate charged with the task of mitigating against the European Banking and Debt Crisis; and ‘nomics’ from the Greek ‘nomos’, meaning ‘law of’). This concept represents the extent to which, in its structural and operational characteristics, the Troika was a ‘law-unto-itself’. It existed outside of established European Union (EU) mandates and was not accountable to the national governments over which it exercised control, nor to their citizens. It is indicative of a deeper undermining of national autonomy within the EU that is iteratively expressing itself in numerous individual existential crises.

The European Banking and Debt Crisis has been an existential milestone in the history of the EU and the Eurozone. Not only has it threatened to upend their obdurately protected status quo, but its consequences have brought their longer-term survival into question. The Troika, and its *modus operandi* ‘Troikanomics’, has scorched itself into the ongoing narrative of this crisis. It was a rogue form of austerity which, in subjugating member nations’ national autonomy, prefigured something deeper. It is one among the most visible of multiple forms of existential crises that have spread across different domains of the EU. The Troika was a trium-

virate established in 2010, from the capabilities of the European Central Bank (ECB), the European Commission (EC), and the International Monetary Fund (IMF). Its purpose was to provide a ‘firewall’ against contagion in highly indebted EU peripheral countries by developing, coordinating, and overseeing a programme of conditional funding to them. Troikanomics expressed itself in the unprecedentedly severe fiscal and structural adjustments that were allied with the provision of this funding—imposed through an economic programme of austerity that was deeply oppressive in its political oversight.¹ This process exacerbated the single greatest sociopolitical and economic dislocation in the EU’s recent history by transposing the primary burden of adjustment onto debtor countries, corroding their autonomous capacities and enfeebling their national sovereignty.²

In 2018 the European Council formally decided to replace the Troika with a new institutional mechanism, the European Monetary Fund—crafted around the European Stability Mechanism.³ This has been designed to provide mutual assistance to EU member nations which have been impacted by external (often asymmetric) ‘shocks’ and are in need of short-term financial assistance. It draws to a close the *formal* activity of the mechanisms underpinning this highly contentious initiative, but by no means concludes their deeper ramifications—including negative social fallout. What makes this decision all the more substantial is that it overlaps with the formal exit of Greece from its interminable Bailouts, albeit that it remains under ‘enhanced surveillance’ for the foreseeable future.⁴ The demise of the Troika has in fact been evident since 2014, and was one of the key recommendations of the European Parliament’s Report (2014) on its workings—in which they

¹ The European Parliament (2014) notes that the Troika ‘originated in the decision of 25 March 2010 by euro area Heads of State and Government to establish a joint programme and to provide conditional bilateral loans to Greece, thereby also building on recommendations from the Ecofin Council’.

² See, for example, Hall (2012) for a discussion on the onerous adjustment requirements imposed on these countries.

³ See Berschens (2017).

⁴ Greece’s experiences of the Debt Crisis, and its subsequent dealings with the Troika, are discussed in greater detail in Chap. 7.

identified multiple failings in the manner in which it had engaged with Greece, Ireland, Portugal, Cyprus, and Spain.⁵

The rapid proliferation of the crisis across the Eurozone increasingly threatened to manifest itself in *political* contagion (which has largely been pejoratively dismissed as ‘Populism’—belying its deeper existential legitimacy).⁶ This threat, coupled with inadequacies in the architecture of the Eurozone (e.g. a lack of institutional or regulatory fail-safes), meant that the EU’s response to the crisis was primarily ad hoc—with the Troika being a demonstrable example. At the heart of the matter, therefore, is the reality that, like the institutional structure of the Eurozone itself, the substance and mode of the Troika’s engagement with ‘debtor’ countries was not adequately thought through.

The need for emergency financial assistance to support the rebalancing and stabilisation of highly indebted countries became increasingly evident as the crisis unfolded. So too did the aligned need to apply some form of conditionality to financing arrangements—a well-established characteristic of IMF Programmes. Consequently, the real issue was not *the principle* of conditional funding per se, but rather the manner in which it was implemented. Namely, the scale and scope of this conditionality subverted domestic political governance and catalysed nihilistic economic repression—all the while challenging the democratic legitimacy of both individual member nations and the EU itself. This process, including the imposition of macroeconomic adjustment and ‘reforms’, impelled these countries into a decisive inflection point in their histories by deeply subverting their national autonomy. These events contravened the community-rooted principles of solidarity and subsidiarity that the EU continued to proffer as being indispensable aspirations.

The mind-set and motivations that the EU exemplified in its attempts to resolve the crisis reflected a profound failure to recognise national autonomy’s status as both intrinsic and relational: a capacity possessed by member nations *prior* to their accession to the EU (expressed in the principle of subsidiarity) and fostered through healthy transnational rela-

⁵ All of these countries, except for Greece, subsequently exited the Bailout arrangements with the Troika: Ireland in December 2013, Spain in January 2014, Portugal in May 2014, and Cyprus in March 2016.

⁶ For further discussion, see Kinsella (2012).

tionships within the EU (expressed in the principle of solidarity). This is *in particular* the case within a community such as the EU, where members are bound together in reciprocal relationships through a number of multilateral mechanisms, such as the Economic and Monetary Union (EMU). What the EU *was meant to be* became increasingly opaque—cast into darkness by the shadow of what it *had become*. Troikanomics continues to demonstrate the costs, at multiple levels and in multiple arenas, of this discrepancy and the consequences of the EU's default into a hegemonistic and technocratic orthodoxy.

There have been extensive discussions on what structural and functional form that the Troika's replacement should take, over and above its foundations in the European Stability Mechanism. More important than the mechanisms through which it operates is the *mind-set* that it possesses in attempting to carve out a new paradigm for the EU's intra-community relationships. With the EU now facing into a period of transformational changes (by design, e.g. the 2019 European Elections, and by circumstance, e.g. policy responses to the ongoing Migration Crisis), these kinds of issues, and their deeper existential corollaries, require reflecting upon. The lessons we can glean from the burden of Troikanomics, and the wider existential crisis within which it was embedded, can help to inform us in deciding on the content and character of the path that the EU chooses to adopt as it faces into a new political and administrative regime—a new European Commission—beyond the 2019 European Parliamentary elections. In this regard, the path ahead should use this existential crisis as an opportunity for honest and reflective critique so as to reaffirm its foundational vision and values, and the role it hopes to play within wider geopolitical narratives.

Navigating the Narrative of the Crisis

Reflecting on the ever-proliferating books, reports, and academic studies on the European Banking and Debt Crisis, it is easy to become both fatigued and frustrated. Fatigued at the sheer volume of expert perspectives that have produced compelling analyses on this existential epoch and the legacy it has left both on countries and on individual lives.

Frustrated at the difficulties that they have faced in bridging the divide between theoretical inquiry and practical outputs in the political economy. There is no mandate to apply their insights *in praxis*—either because the EU is unwilling to cast its net for critique, or because it is structurally and functionally ill-equipped to make good on the insights that critiques on this crisis have to offer.

Institutional and descriptive narratives and, of course, political perspectives (read: agendas) all constitute an indispensable corpus of literature for existing and future policy learning, as well as for historical inquiry. However, even here, there is no workable consensus on the dimensions of reform—except that their final form will ultimately revert to the will of the Franco-German centre. To take one example, in 2017, two radically different blueprints for change were published: one which envisages no less than five different possible footpaths (including a return to a basic trading zone), while another makes inroads towards a more fully federalised EU.⁷ These considerations are shaped by shifting electoral pressures regarding what is an acceptable trajectory to propel the EU forward. The lack of clarity or coherence in mapping a path forward is one example of the deeper existential crisis that the EU is currently confronted with. A core problem is that the capacity of the EU establishment to learn from this and aligned crises, and adopt an authentic route towards recovery and reform, is mediated through the ‘Conventional Wisdom’ rather than through a truly *responsive* critique.

Importantly, many analyses on the crisis have, understandably, grappled with this issue from a purely economic stance. But there is much more to these events than economics, and efforts to fully engage with it through a ‘lone lens’ critique may turn out to be inadequate—in particular with respect to conveying the profound *existential* significance it has had for people and nations. Indeed, each distinct dimension of the EU’s architecture—whether they be economic, political, or social—throws cross hairs across the others and provides their own contributions to the character of the EU.⁸ For example, the EU has been weighed down in

⁷ These are, respectively, its ‘White Paper on the Future of Europe: Reflections and scenarios for the EU27 by 2025’ (European Commission 2017a) and its ‘Reflection Paper on the Deepening of the Economic and Monetary Union’ (European Commission 2017b).

⁸ For a further discussion on the range of crises currently assailing the EU, see Schwab (2012).

certain countries by deep *social* pathologies exemplified in compromised health status, homelessness, and unemployment—which have proliferated in tandem with the unfolding consequences of austerity-based policy responses to the economic crisis.⁹

Thus, analysis may benefit from being filtered and refracted through another lens—one that is less willing to casually accept institutional ‘givens’ and, instead, emphasises the importance of rigorous and reflective critique. To take some examples, vague aspirations relating to ‘unity’, ‘equality’, and ‘diversity’ make little sense in an environment where these concepts are susceptible to distortion, denial, and the debilitating effects of political agendas. The reality is that the EU is fractured and unequal—Greece is demonstrably less ‘equal’ than Germany at every level. The givens that underpin the sociopolitical and economic legitimacy of the EU are in need of excavation, and the normative principles underpinning its responsibilities towards its members (for example, in the principles of solidarity and subsidiarity) are in need of reanimation.

With this in mind, we seek in this book to engage with a set of the fundamental issues besetting the EU today in a manner that integrates a *philosophical* dimension—reflecting on issues such as austerity, autonomy, and its broader ‘existential crisis’. These issues are distilled through the concept of Troikanomics. The overriding aim is to imbue the more explicitly sociopolitical and economic arguments with greater conceptual and normative weight. One could hardly overstate the importance of this quest for Europe at this point in time. Europe’s Debt Crisis remains unresolved, even as the EU seeks to move beyond ‘the great recession’. The expectation that this would lead to the restoration of political stability across the EU has not materialised. Indeed, the Migration Crisis has exacerbated anti-EU sentiment contributing to tectonic political shifts in EU member nations, including Germany, France, and Italy. The EU’s Brexit-related travails reflect the prevailing political dissonance. At the

⁹To take just one metric, as of Q4 2017, Greece had an unemployment rate (age 15–74) of 21.2% and Spain a rate of 16.6%. All of these are above the EU average of 7.3%, in particular Germany at 3.5% (Eurostat 2018a). What is even more telling is that in Greece, long-term unemployment (12 months or more) accounts for 71.8% of unemployment—again far above the EU average of 44.5% (Eurostat 2018b). For further insights on the relationship between austerity and health status, see Karanikolos et al. (2013).

same time, Europe is moving towards a change of leadership in the Commission, the ECB, and the European Parliament: the core institutions that were, in effect, the transmission belt shaping Troikanomics and the Debt Crisis. It is not clear what, if any, lessons have been learnt, the extent to which they have been critiqued, or how far they will be reflected in post-2019 Europe. These are themes which we critique in this book.

Constructing an Economic–Philosophical Critique

While initially they may appear to be disjunctive, economic and philosophical critiques can in fact be mutually reinforcing. Economic principles are laden with ethical norms concerning issues such as justice (e.g. allocation of resources), rights (e.g. the provision of social welfare), and duties (e.g. the payment of taxes). Alongside this, economic policies and practices have real and measurable consequences on people's welfare—depending on the form that they take and the function that they aim to perform within society. Philosophical critique can, in this instance, contribute to our understanding of the methodological, conceptual, and theoretical foundations of economic principles and practices—and our ability to discern their strengths and weaknesses.¹⁰ Such critique demands conceptual clarity—a return to ‘first principles’, enabling economic matters to be problematised in a new and novel way.

This form of inquiry is inherently interdisciplinary in its attempt to identify, examine, and resolve social pathologies, such as the Troika's austerity measures. For example, in the context of our present analysis, it can provide insights that inform policy makers on precisely why they should understand the concept of autonomy as integrally bound up in the sustainability of the European Project, and how they may ensure

¹⁰It should, of course, be highlighted that there are mainstream economists whose analysis is permeated by a strong ethical perspective. Joseph Stiglitz is a notable example who has written eloquently of the nihilistic underbelly of austerity—and with the authority of someone who has designed and participated in missions for the World Bank. He is, however, a rare exception that proves the rule.

that the EU is equipped to uphold these principles. In this regard, philosophical critique can help to bring about *actionable* responses to sociopolitical and economic concerns.¹¹

What we are speaking of here is a reflective evidence-based model for correcting imbalances—in this instance between ‘core’ and ‘peripheral’ economies—informed by a robust political economy which reanimates Social Europe and philosophical critique of ‘Europe’. This interdisciplinary approach enables existing empirical analysis—all of those petabytes of data—to be supported by interpretive insights that can inform our understanding of the flawed nature of the Troika’s principles, policies, and practices.¹² Philosophical argumentation places itself at this juncture in its attempts to elevate our appreciation for the ethical significance of the economy. Specifically, our approach uses the framework of existential philosophy (and, as a corollary, existential psychology) through which to reflect on the chronology of events, the nature and modes of interventions in the lives of countries and people, and the *not-yet-fully-realised* outcomes of these events.

How has the EU descended so far down its current path? One perspective relates to a neo-liberal ideology that permeated the EU and its institutions from the mid-late 1980s, paving the way for an emerging supranationalism and subjugating national autonomy as obsolete in an era of globalisation. J. K. Galbraith’s (1958) deconstruction and application on the concept of the ‘Conventional Wisdom’ offers a prophetic response to such questions. He criticises the various ‘Conventional Wisdoms’ that permeate social thought across the economy and society (such as within large firms), and how this leads to economic analysis that possesses no substantive social utility. This concept conveys how there are sets of beliefs that are ‘owned’ by particular groups/societies/cultures that are ‘beyond reproach’ (a convention that is an obstacle to the acceptance of new modes of thought). This can breed intellectual inertia—an unwillingness/inability to provide new perspectives, instead fueling an obdurate adherence to convention.

¹¹ For a further discussion on this point, see Christman (2009a, 2009b).

¹² Economists such as Amartya Sen attest to the mutually beneficial nature of aligning philosophical and economic critique.

There is a strong sense that the cultural shift at the heart of Troikanomics was symptomatic of a prevailing orthodoxy that froze out new, challenging modes of thinking—fearful of any opposition to its dominance and actively shunning reflective critique. The Conventional Wisdom is a strategic ally of political orthodoxies that are intent on perpetuating established power dynamics: zealously reiterating conventions, which become ‘normalised’ regardless of whether or not they hold merit. Galbraith (1973) has argued that the emancipation of belief is required in order to challenge hegemony of accepted beliefs which prevent a full appreciation for how the economy works.¹³ His objective was therefore to increase openness to alternative ideas about practical economics and the policy agendas required once people have an understanding of the economy’s true nature and purpose. The current model is long past the point of needing systematic deconstruction—an imperative that has been conspicuously absent from most official critiques. It is here that the experience of existential crisis can have a vital role to play—impelling, as it does, discourse beyond intellectual stasis.

Troikanomics is a perfect example: the establishment, fixated on defending their own agenda (the Eurozone above everything else), had the political power to enforce it. The Bailout countries had little or no countervailing power to resist the Conventional Wisdom being imposed on them. However, it is notable that the larger Bailout countries, including Spain, did have significantly more clout in their negotiations with the Troika than did smaller member countries—notably Greece and Ireland. The EU had become transfixed by the idea that if concessions were made in the name of, for example, ‘social justice’ to one country, they would necessarily be demanded by all countries, regardless of circumstance. This prevented reflection on and rethinking of issues such as accession and exit. This is a mind-set that obsesses over preventing sovereign countries exiting, while at the same time refusing to engage in the question as to *why* members might feel impelled to exit in the first place.

The Conventional Wisdom on austerity led the EU into an intellectual and ethical quagmire where, we believe, the only discernible road

¹³ For a detailed analysis on the economic contributions of Galbraith, see Dunn and Pressman (2005).

forward is (paradoxically) through a revisiting of the foundational values that catalysed the European Project in the first place. The nomenclature of the ECB and the EC simply do not engage with this process. To take an example, when the Troika require a 'resolution' of non-performing mortgage assets, it means encouraging banks and other institutions to repossess homes—with no engagement with the question of the social costs that this visits on families. This, of course, is not normatively defensible—private sector institutions get their legitimacy from the community, whose interests are sacrificed by prioritising 'the resolution of balance sheets' at the expense of sequestering homes. An economic orthodoxy that seeks to vindicate Troikanomics, not just as an abstract construct but as a policy template which is imposed on the welfare and governance of countries, should be willing to engage with the ethical repercussions that are inferred from its convictions.

Five years after Ireland 'exited' the Troika's austerity programme, and notwithstanding strong economic growth in recent years, there are issues that are yet to be resolved, such as the scarring imposed by debt repayments whose legitimacy is problematic and by related casualties in the social economy, notably in housing and homelessness. The same issue arises to an even more marked extent in Greece. Two generations will never be free of such debt—almost €250 billion—and may never own their own homes. Those who manage and profit—exceedingly—from all of this, including 'Vulture Funds', will have acquired and sold on these homes. The economic austerity visited upon Greece—the epicentre of Western philosophy—is a metaphor for the failure of mainstream analysis in understanding the complementarity of economic and philosophical models. Austerity has been driven by philosophically anaemic and ad hoc responses that have convulsed the EU and traumatised the lives of millions of its inhabitants. Philosophy broadly, and ethical enquiry specifically, has much to say on these issues. But its practitioners are seldom on the same plane, or stay in the same hotels, as those who are in a position to instigate change. Those who are vested with the power to implement change simply operate in a different world, one removed from deeper normative and social consequences of their policies.

Above the Parapet: The Necessity of Critique

Ongoing events within the EU and across the broader geopolitical landscape have cast a long and deeply troubling shadow over its status as an institution that is still connected to, and capable of making good on, its foundational commitments. Alongside the Banking and Debt Crisis, other such events have included Europe's biggest Migration Crisis since World War II, Brexit, military adventurism, a rise in 'Populism', and increasingly asymmetric relationships. While each of these constitutes a crisis in their own right, *collectively* they illustrate the deeper existential malaise that is exacerbating the EU's loss of identity and direction. Whether or not the EU is capable of providing answers to the questions that these events are posing depends largely on whether the 'reforms' it endeavours to implement offer decisive change, or perpetuate the fallacy that a little more of what has not worked will resolve all of the contradictions.

The EU is conflicted, with a trajectory of 'reform' revolving around the Franco-German duopoly. Troikanomics has been a catalyst in calling into question the mind-set underpinning the *modus operandi* of the EU elite. What is clear is that something far more reflective is required, such as a form of governance that respects and values—rather than grudgingly tolerates—the autonomy of its member nations. Something more substantial than a few more institutions and a few more vice presidents—a critique of ethics as well as economics that moves beyond the 'convergence criteria' mentality.

Egalitarian intra-community relations are found within an environment that makes room within its Public Square for dissenting voices. The EU, however, does not easily accommodate to 'dissenting voices'. It does not countenance the integrity of propositions that are willing to ask difficult questions, operate counter to the status quo, and propose reflective solutions. While simply asking a question is not *automatically* advocating a particular course of action, it does raise core problems which a thousand official reports evade: casting into sharp relief the deeper philosophy espoused by the EU. The Eurozone will continue as a suboptimal set of arrangements for as long as it suits the purpose of Germany, France, and

the smaller ‘core’ countries. The externalities will continue to be imposed on the ‘the others’, including those countries that exist on the margins.

This is also why we advocate for a critique that takes account of economic’s normative dimension and also sets a place at the table for ethicists where these issues are debated. Prior to the emergence of the Banking and Debt Crisis, criticism of the Eurozone was regarded as largely unwarranted. It was deemed to be unsubstantiated naysaying that failed to appreciate the communal ethic at the heart of the EU. This ignored the reality that there were earlier misgivings on the part of some economists about the feasibility of a common currency in Europe—sound and grounded economic critique that questioned the nature of convergence criteria and its disassociation from the intricacy of the European Project; such perspectives have since come to be acknowledged as a form of reasoned responsiveness.¹⁴ Troikanomics brought them into the open—and they still remain unresolved, as is clearly reflected in the 2018 stand-off between the anti-Austerity Italian government and the EU Commission.

The dearth in rigorous, uncompromising critique has not only stymied the EU’s efforts to resolve its existential crisis, but prevents it from taking the necessary steps in mitigating against the crisis’ continued development. The nature of the EU, encompassing its identity and purpose, is an ongoing construction, navigated amidst the constraints and opportunities that ‘community’ offers. Precisely because it is a process, it requires continuing critical reflection, that is, a willingness to contextualise the present in light of past experiences and future aspirations.¹⁵ The irony is that questions are often only granted their legitimacy within the sociopolitical consciousness *once their concerns have come to pass*—at which point the mission becomes battling the flames rather than preventing the initial spark. This is, in part, the tragedy of the EU—notwithstanding its extraordinary achievements.

The events that continue to unfold within the EU have, however, given critique a *raison d’être*. It is on this platform that we reflect on some of the

¹⁴For example, prominent economists have argued that the Eurozone failed to meet ‘Optimum Currency Area’ requirements—see Krugman (2012), Pisani-Ferry (2013), and Gibson et al. (2014). Dow (2016) also discusses issues centering on design flaws within the EMU—including its *presumption* of convergence.

¹⁵See Lapavitsas’ *Preface* to Lapavitsas et al. (2012) for a similar perspective.

central problems at the heart of this book, such as ‘How has the autonomy of participant members of the EU been undermined?’ and ‘How may it be subsequently restored?’. It was the tensions arising from conceptual and institutional flaws in the design of the Eurozone that transmitted contagion from the US financial markets. It was this dynamic that magnified the ‘shock’ across EU economies and in particular those of the peripheral indebted countries. It was to save, at all costs, the Eurozone that Troikanomics was visited on these economies—deflecting all the while from the root causes of issues such as the Migration Crisis and the madness of militarisation.

The collateral damage to Project Europe, with all of its achievements, has been enormous. Current proposals for resolving the crisis in the Eurozone advocate what are essentially pan-EU policies, such as an EU Minister for Finance. These are institutional responses to something that goes much deeper. If you begin your reforms with inadequate critique, and within a flawed and contradictory Eurozone that remains in crisis (notably in Italy and the periphery), there is a very real risk that the ‘solutions’ are likely to perpetuate the ongoing questions about legitimacy and hegemony—and a continuation of existential crisis is the inevitable corollary.

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