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The Euro System as a Laboratory for Neoliberalism: The Case of Spain

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ABSTRACT. Since the 1970s, neoliberalism has evolved from ideology to political agenda, from political program to public policy, and from public policy to a system that replaces democratic control over economic policy with a system of elite economic management. This process of change has been possible due to the endorsement of a meta-political theory that destroys democracy and legitimizes technocratic despotism, financial deregulation, the debasement of labor into a new proletariat, and the purging of constitutional politics. In this article, we analyze this profound transformation of social and legal relations in the "euro system" and, specifically, in the regressive policies that have emerged from the "crisis" in Spain, a peripheral country of the European Union. The problems in contemporary Europe are a direct consequence of the neoliberal version of European economic unity. Their solution will depend on the capacity of the member states to create a social Europe that strengthens institutional democracy and develops universal systems of social protection. This, in turn, will depend on the ability of citizens to remodel state institutions in accordance with new social goals that place life at the center.

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Introduction

This work is based on the hypothesis of Pierre Bourdieu that neoliberalism is a "utopia" that was transformed into a political agenda with the support of an economic theory that saw itself as a scientific description of reality (Bourdieu 2003, 2008). Despite the fact that neoliberalism cannot be identified totally with neoclassical economics, it adopts the latter's methods, a large part of its basic assumptions, its arguments, and its hypotheses (Escalante Gonzalbo 2016). Beyond the neoliberal version of neoclassical economics discussed in this article—public choice, supply-side economics, and monetarism—there are other sorts of extensions derived from its conceptual core. Some authors catalogue them as "new frontiers of economics" (Colander, Holt, and Rosser 2004; Davis 2007). Among the adjuncts of neoclassical economics are the "new" institutional economics, the "new" political economics of development, the theory of games, and behavioral economics or neuroeconomics. Beyond their differences, and the fact that they make assumptions on *homo economicus* more flexible, their basic pillars are still the political philosophy and the methodological individualism of the neoclassical approach.[1]

This article is also founded on the idea that in the Western world there has been a profound change in social relations, which began in the late 1970s and accelerated in the 1990s. This change has called into question the foundations of the postwar Keynesian pact (welfare state), in which the wage relationship or labor market was tied to an extended social relationship (Rodríguez Cabrero 2013). In order to promote the conditions required by the new post-Fordist regime of accumulation and to compete with other states, participants, or economic areas, the state adopts other functions. As Harvey (2007) argues, the process of neoliberalization destroys previous institutional frameworks and promotes the development of commercial practices through liberalization, deregulation, and privatization. Through state action, such as the deregulation of financial assets, new markets are generated, including a low-wage labor force, an action that is intensified by the implementation of the neoliberal model (Merchand Rojas 2012). In order to recover the business surplus and to discipline the workforce, an ideological offensive has been launched to reduce the costs of social reproduction of the welfare state (O'Connor 1973; Gough 1982). Social rights, guaranteed by secure and lasting laws in the past, are subject to economic contingencies. Productivity based on economies of scale and the right to work for life have given way to flexibility in production and in the marketplace.

Neoliberalism has been imposed on most of the world through the policies of the international financial organizations—the International Monetary Fund and the World Bank—and the World Trade Organization (Chesnais and Plihon 2003). In Europe, the Maastricht Treaty has played that role (Monbiot 2016). The "euro system" is another laboratory of neoliberalism, and the European Union has become the political and economic space where the neoliberal "utopia" is supposed to take place (Stedman Jones 2014). According to Michel Husson (2012), the "euro system" is formed by a single currency and the rules that accompany its implementation. They include the budgetary pact, the functions entrusted to the European Central Bank (ECB), the meager European budget, and the rejection of harmonization. In recent decades, strict rules on economic policy have been incorporated in national constitutions. The implementation of "neoliberal constitutionalism" is imposing technocratic despotism (Boaventura de Sousa Santos 2004). Austerity measures and fiscal discipline involve constitutional purging: the abandonment or derogation of constitutional rules, rights, and principles (Dale and Robertson 2004). Neoliberalism is a system of rules deeply rooted in governmental policies and business practices. Neoliberalism not only dismantles existing institutions and rules, it also produces certain social relationships (Laval and Dardot 2013).

These results are not intrinsic to monetary union but are the expression of the design flaws of the European Union project (Wren-Lewis 2016; De Grauwe 2013). Paul De Grauwe (2012) criticized the designers of the European Economic and Monetary Union (EMU) for not warning of the risks when they claimed that European economies would function as an "optimal monetary zone." Ha-Joon Chang (2015) argues that imposing a single currency in Europe was a mistake because of large differences among member economies. Confronting the defenders of the Union who compare the United States and Europe, Chang argues that, despite significant disparities in income among states, there are no language barriers in the USA. Unlike Europe, the USA is a physical union with a fully integrated labor market.[2] A common currency presupposes strong commercial integration, a high level of productive specialization, high mobility of productive factors (capital and labor), and great flexibility in prices, wages, budgetary transfer mechanisms, and common preferences (Mundell 1961).

Neoliberal culture, which is being carried out in the framework of the Union, supports inegalitarian economic policies that devalue and impoverish labor and destabilize wages (Medialdea and Álvarez 2005; Standing 2011). This process can be exemplified in the case of a peripheral country such as Spain and, in particular, its regressive emergence from the "crisis."

This article is structured as follows. In the second section, we discuss the end of the Fordist regime of accumulation and the transition towards an accumulation regime characterized by the financial perspective. We also establish the principal elements of the dogma that have sustained the neoliberal political and economic program. The third section focuses on the particular case of the European Union to show how the neoliberal political agenda is institutionalized as the basis of the new social order. The fourth section analyzes the political and socioeconomic effects of neoliberalism in Spain, a peripheral country of the Union. Finally, in the fifth section, we present the main conclusions, which consist of economic policies to reverse neoliberal constitutionalization. We also outline the ways in which an emancipatory economic science should advance.

From the Keynesian Pact to the Hayekian Neoliberal Order

In the 1970s, the virtuous cycle of growth, associated with the Keynesian pact of the postwar period, was exhausted. The end of the glorious 30 years of capitalism (1945–1973) was due to an assortment of imbalances that caused the deterioration of economic-political conditions. The "crisis" called capitalism into doubt and reflected the contradictory character of capitalist accumulation. The growth of public spending and redistribution that favored wage-earners, which had sustained the system, put its future in question.

From 1945 to 1973, which Marazzi (2003) calls the "period of routine," the Keynesian national welfare state was the ideal model of the

Fordist regime of accumulation, in which national goals took precedence, and policy was aimed at full employment, the management of demand, and the creation of infrastructure for mass consumption and production (Jessop 2008). Growth was maintained in a “salaried society,” in which the state regarded wages with “benign indifference” as a source of demand (Aglietta 2001). The state concerned itself with the management of the labor market, supported by responsible unions in reaching wage settlements based on collective agreements and social transfers, which socialized risk and acted as a powerful countercyclical instrument (López-Castellano 2013).

Throughout this period of “politicized money,” finance was at the service of economic growth, regulatory and monetary policy were sources of stability, and the control of international capital flows was the norm (Aglietta 2001; Aglietta and Cartelier 1998). Capital facilitated the development of Keynesian economic policy, which stimulated the growth of the welfare state. In turn, this led to an unprecedented improvement in the social protection of people in areas such as health, education, and labor rights (García-Quero 2010). To guarantee “political space,” controls on capital allowed states to adapt their exchange rates to tackle trade imbalances (Rodrik 2011).

The Fordist-Keynesian regime of accumulation became an obstacle to capital expansion. The legitimacy of the state was gradually undermined as a general level of dissatisfaction increased. The dissatisfaction was justified by the enormous difficulties in extending the benefits of Fordism to the whole society (Lichtensztejn and Baer 1986). The saturation of domestic markets due to the intensification of international competition reoriented economic activity from the manufacture of goods to the manufacture of ideas, and to the management of information, not of personnel or of goods (Arrighi 2000; Marazzi 2003; Stiglitz 2003).

In the 1970s, there was a “new spatio-temporal adjustment,” to use David Harvey’s metaphor, by which he refers to the search for solutions to capitalist crises. There were few profitable investment opportunities in the normal processes of production and commerce. To solve the problem of surplus, capital put pressure on national governments to open borders and to adopt a double strategy: to implement a new financial architecture and to revert common property rights (pensions, state health systems) to private ownership, a process that Harvey (2004) has called "accumulation by dispossession."

Controls over capital movements that were adopted at Bretton Woods effectively came to an end in August 1971 when U.S. President Richard Nixon, canceled the direct international convertibility of the US dollar to gold. This resulted in unbridled international expansion of financial flows and the elimination of controls on capital movements. The abandonment of a system based on fixed exchange rates, together with the end of control over capital movements, led to the emergence of a deregulated financial system. This new, decentralized, market-led system gave free rein to the liberalization of capital markets (Amin 1998; Chesnais 2002). The collapse of the Bretton Woods agreements, the emergence of flexible exchange rates, and the deregulation of financial activity caused a phenomenon of monetary creation that went beyond the limits of the financial system and state borders, resulting in much more volatile and unstable financial conditions (Aglietta 2001, 2007; Arrighi 1998).

The Schumpeterian "competitive state" replaced the Keynesian "welfare state" to create the conditions necessary for the new regime of post-Fordist accumulation and to face competition with other states or economic areas (Jessop 2008). In the productive sphere, there were changes in the way work was organized, in the strategies of capital valorization, and in the technological system (Lipietz 2001). With the change in the regime of capitalist accumulation and corresponding modes of regulation, an accelerated transition began towards a new type of flexible capitalism that appeals to competitiveness and promotes the commodification of social existence.

Chesnais (2002) suggests the expression "the finance-dominated accumulation regime" to designate the new configuration of capitalism and to emphasize that financial markets impose forms and rhythms on accumulation and on patterns of income distribution. Financialization arose as a response to the incapacity of the productive sphere to absorb the growing surplus of investment capital and reflects a systemic transformation of the capitalist economy, with profound implications for social life (Lapavitsas 2009; Vergopoulos 2012). The depoliticization of fiscal and monetary policy has entrusted the financing of deficits to debt issuance. In short, the expropriation of the monetary and economic sovereignty of states depoliticizes economic policy (Sapir 2004).

In the field of economic ideas, Hayekian-inspired neoliberalism finds in public choice theory great support for its arguments to discredit the activity of the state. James Buchanan applies neoclassical economic analysis to justify the imposition of limits on the state. His proposal consists of a constitutional agreement to limit state action and to remove decisions on spending, taxes, and debt from the political game (Martínez i Castells 2009). Fiscal conservatism reinforces the neoliberal argument (Varoufakis 2012). It is endorsed by Olson's (1993) powerful metaphor of the stationary bandit: the state acts as a bandit, and taxes are a form of robbery.

Another basic element of the neoclassical dogma adopted by neoliberalism is the "trickle down" hypothesis, which functions as the moral alibi of supply-side economics. The argument is simple: tax relief for the wealthy ends up favoring growth, and the beneficial effects descend to the lowest levels of society (Roncaglia 2015).

Friedman's criticism of the Phillips curve and the replacement of the Keynesian frame of reference with the monetarist frame of reference is another of the pillars of neoliberal rhetoric. States implemented expansionary monetary policies that were ineffective and led to inflation. This argument legitimizes the claim that states are not effective macroeconomic managers and endorses the need for "independent" central banks to control the money supply (Lordon 2016). With the independence of the central bank, monetary power and governmental power are separated, breaking the link that unites the state with money. Thus is fulfilled Hayek's (1944) ideal of implementing a monetary authority independent of political pressure and free to decide policies consistent with the fulfillment of objectives outlined in statutes (Hayek 1944).

Neoliberalism and the European Union: From Political Agenda to Normative System

In the European case, the transformation process was strengthened by an abrupt change in the orientation of state policies that was led by the conservative governments of Margaret Thatcher in England (1979 to 1990) and of Ronald Reagan in the USA (1981 to 1989). With their governments came the consolidation of a new economic orientation that was based on neoclassical economic theory. They accelerated the lifting of regulations on capital movements, encouraged private initiative, and introduced market mechanisms into the public sphere (García-Quero 2010).

The European Union is a paradigmatic example of the consolidation of the liberal political and economic program in a normative system of supranational scope. It can be stated that, with the Maastricht Treaty, the introduction of the most neoliberal version of the EU begins. This new version focuses its political actions on the common market, instead of channeling efforts into the creation of a social and civic Europe (Cassen 2003).

With the ratification of the Maastricht Treaty (signed 1992; implemented 1993) and the introduction of the euro, neoliberal propositions were raised to a constitutional level. They undermined the economic constitutional controls of the Eurozone states and restricted their political possibilities. Neoliberalism moved beyond the reach of parliamentary debate and became the basis of a new social order. The economic-constitutional agreement of Maastricht established *ex lege* both redistributive policy and state interventions in the economy to encourage free trade and the liberalization of factor markets (Sanz Arcega 2015). The only way to guarantee the neoliberal commitment to austerity and balanced budgets was to expose national economies to the pressure of financial markets, which was achieved through the independence of the ECB and the prohibition of financing public deficits through monetary policy, obliging the member states to turn to bond markets to obtain resources. The dependence of public authorities on "finance" is reflected in the increase of debt servicing in the hierarchy of public spending, to the detriment of socially useful spending (Lordon 2016). In the period 1995–2017, the increase of public debt in the Eurozone was 5.8 billion euros, while the interest paid by governments was 6.1 billion, or 1.06 times the deficit (Torres López 2016).

The Maastricht Treaty clearly establishes that, in order to achieve economic convergence, member states must comply with a series of monetary conditions. The inflation rate can exceed the rate of the lowest three countries by only 1.5 points; the budget deficit must not exceed 3 percent of the gross domestic product (GDP); the gross public debt of member states should not exceed 60 percent of the GDP; the narrow fluctuation margin of the exchange rates within the European monetary system should be respected for at least two years without devaluation; and long-term interest rates should not exceed by more than 2 percent the average of the three states with the best results in terms of price stability (Guillén Romo 2011). These conditions were accompanied by a generalized fiscal culture that assumes, in harmony with the proposals of supply-side economics, that the best way to stimulate the economy is to lower taxes instead of increasing public spending and creating employment through such spending.

The main institutional innovation of the Maastricht Treaty was the creation of the European Central Bank (ECB) with the principal mission to define and implement the monetary policy of the European Union and to fight inflation. Article 104 of the Treaty prohibits states from financing themselves or through the ECB. Its application fulfills an economic purpose—obliging member states to turn to financial markets to finance themselves—and a political purpose—converting debt into an instrument to dismantle the welfare state. This institutional design has fostered financial speculation against the countries of southern Europe. The role of the ECB as protector of financial power and the main driver of neoliberalism in Europe is highlighted. The negative consequences are considerable. Debt finance generates a vicious circle of higher public deficits and debt, and the absence of separate currencies generates solvency problems (Soy 2014).

The 2012 Treaty of Stability, Coordination, and Governance (TSCG) in the Economic and Monetary Union reinforces and complements the other provisions, such as the obligation in Maastricht not to exceed a general budget deficit of 3 percent of GDP. According to Article 3.2, states are obliged to incorporate the provision into their internal systems through standards "that have binding force and are of a permanent nature, preferably of the constitutional class."

The 2012 Constitutive Treaty of the European Stability Mechanism (ESM) stipulates that the granting of economic aid will be subject to "strict conditionality," so that any breach or deviation from the measures provided in the adjustment plan will trigger the withdrawal of this aid and the cancellation of the undisbursed loan tranches. The new governance rules incorporate a system of financial supervision of the economic policies of member states whose core system is the European Semester (ES) within the 2020 European Strategy, adopted by the European Council on June 17, 2010.

From the point of view of economic policy, the euro eliminated two essential adjustment mechanisms that might be used in a crisis: the interest rate and the exchange rate. The absence of mechanisms such as currency devaluation and recourse to the central bank means the relinquishment of key instruments to guarantee the solvency of public accounts and obliges recourse to financing through private debt markets, with the corresponding requirement of adjustments and internal devaluation (wage and price reductions within the country). The abolition of monetary sovereignty, the relinquishment of the administration of currency to a bank independent of political power, and the substitution of a neoliberal management model for state economic policy are clear evidence that the process of European integration under the Maastricht Treaty led to the institutionalization of the neoliberal political project (Bliek and Parguez 2006; Escalante Gonzalbo 2016).

Under the Maastricht Treaty, neoliberal culture was also imposed on social policy, which resulted in the reduction of social spending and in the privatization of welfare services (Rodríguez Cabrero 2018). With the argument for the need to reduce deficits, governments are applying severe austerity policies, consisting of an increase of consumption taxes and a reduction of wages and of social aid, which are generating a vicious circle of negative growth and further austerity, resulting in a serious deterioration of the social contract and the dismantling of the welfare state (Blyth 2014). In addition, austerity policies limit the ability of states to generate income, obliging them to solicit "rescue" loans, which are dedicated to financing the indebted banks (Vergopoulos 2012). Debt becomes a machine for extracting revenue, an instrument of macroeconomic management, and a revenue redistribution mechanism, due to the financialization of economic processes (Lazzaratto 2012). Budgetary discipline, together with wage policy and structural reforms, forms part of a strategy aimed at overcoming social and institutional resistance, to promote a major redistribution of income and wealth.

In short, neoliberal constitutionalism is causing very negative effects throughout Europe: privatization of public services, impoverishment of the working class, criminalization of civil protest, deterioration of welfare, deregulation of labor relations, and, above all, a great increase in social inequality (Aguiló 2012; López-Castellano 2015). The European Commission data are convincing. During the period between 1990 and 2007 there was a progressive upward redistribution of income through the dual means of wage containment and reduced social public spending in all countries within the euro area. The labor income share in the European economy as a whole fell by 8.2 percentage points between 1982 and 2005, from 66.3 percent of the GDP to 58.1 percent.[3] Between 2000 and 2007, the evolution of the labor income share in the GDP fell by 1.6 percent; between 2010 and 2018 the drop was 0.8 percent (European Commission 2018; Rodríguez Cabrero 2013).

The negative effects on growth of an increase in inequality have been recognized in a report by "experts" from the International Monetary Fund (IMF). The report questions the "virtue" of austerity policies and the withdrawal of restrictions on the movement of capital. It recognizes that inequality slows economic growth (Ostry, Loungani, and Furceri 2016).

The Effects of Neoliberalism on a Peripheral Country: Spain and the Regressive Emergence from the "Crisis"

The design of European governance based on budgetary austerity reproduces and amplifies the structural fractures in the union. The adjustments required by the so-called Troika (IMF, ECB, and European Commission) have most severely affected the most backward economies and the social and productive categories of public expenditure. In an economic area without compensation mechanisms, there is a divergence between countries with external surplus and those countries with a deficit due to differences in productivity levels among them, a trend that cannot be broken if there is no fiscal harmonization (Albarracín Sánchez and Luengo 2018). The insistence that all economic policy revolves around the reduction of the public deficit and debt punishes the countries with weaker and more precarious economic and social structures. This policy widens the breach between the “two Europes” within the Monetary Union (Sinn 2018). These asymmetries originate in divergent trade and current account balances. They give rise to countries, such as Germany, having significant surpluses, and others, such as Greece or Spain, having massive deficits. The surpluses of the former boost the financial industry, whereas the deficits of the indebted countries reinforce the adoption of deflationary policies, which has negative consequences for employment and its quality.

The heterogeneous productive structure of the Eurozone thus consolidates some center-periphery relationships, where the weak productive structure of the periphery generates constant and increasing deficits in its current account balance, which are financed from the financial systems of the central countries of the Eurozone, based on the accumulation of reserves from constant surpluses from the external relationships (Álvarez, Luengo, and Uxó 2013). When the euro was introduced, Germany and other countries of northern Europe found themselves in a privileged position and could increase their protected exports to a large extent because their currency could not be appreciated against other Eurozone currencies. Their banks were able to recycle the balance of payments surpluses, lending to the banks of the deficit countries, which in turn lent to the states and citizens, generating an apparent well-being because all the growth was due to credit. However, the political, academic, and media debates emphasize the imperative to clean up public accounts and avoid the problem of productive, commercial, and social imbalances.

Thus the case of Greece is so dramatic that some authors prefer to speak of the “Greek tragedy.” The program required of Greece by Troika has led to severe cuts in employment and public wages, in drastic cuts in pensions, and in regressive tax increases. Greece has experienced a decline in the level of wealth unprecedented in Europe and an increase in poverty and unemployment to levels never before seen, according to Eurostat (2014). The report by Toussaint (2015) shows uncontrolled growth of Greek public debt, which went from 113 percent of GDP in 2009 to 185 percent at the end of 2014. Toussaint (2015) concludes that such growth was not due to excessive public spending, but to the payment of extremely high rates of interest to creditors, to excessive and unjustified military expenditure, to the fall of tax revenues due to capital flight, to the recapitalization of private banks by the state, and to imbalances created by the defects of the Monetary Union itself.

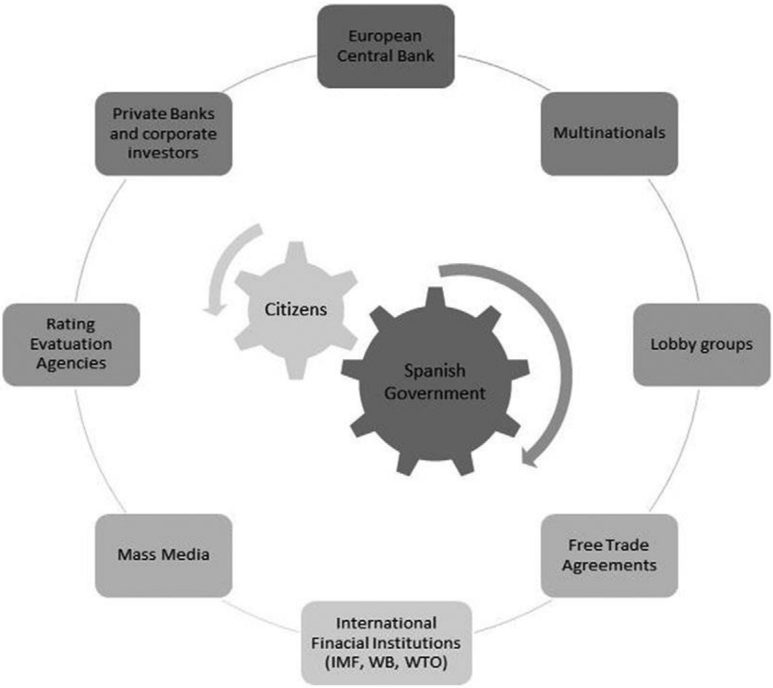
The Case of Spain

The case of Spain is very instructive. When the recession began in 2007, the country had a budget surplus of 2 percent of the GDP and the public debt was less than 40 percent of the GDP (36.3 percent to be exact). However, after a decade of austere policies marked by intense cuts in the welfare state, the level of debt has reached the billion euros level for the first time in the history of the central administration accounts.[4] These results derive from two negative decisions for the public treasury on the part of the executive: the bank rescue, whereby the Banco de España wrote off 60 billion euros, and the fiscal amnesty, which allowed 28 billion euros to be laundered.

To all this must be added the profound deterioration of the fiscal base of the Spanish state that occurred from 1990 to 2007, which confirms the trend towards a fiscally disarmed state (Rodríguez Cabrero 2013). The drastic reduction in the tax base caused by the policy of tax rebates and incentives and the redefinition of the financial crisis as a fiscal crisis led inexorably to a serious deficit in state finance. In this crisis, the state assumed the responsibility for the sovereign debt as a whole, applying drastic adjustments to public spending and particularly to social spending. This process has implied a gradual loss of taxation as a public policy tool. States have been limited in their ability to apply taxes on the greatest wealth holders, on multinationals, and on dividends and capital. States increasingly base their financing on indirect taxes and labor income share. As for their external financing, the state can only finance itself through private debt and not through an autonomous central bank.

Indeed, the deterioration of public finances has been one of the most visible and persistent consequences of the recent economic crisis in most developed countries (Eurostat 2014; Hernández de Cos and López Rodríguez 2014). In the last 10 years, the tax burden on families has skyrocketed (from 73.8 percent in 2007 to 83.29 percent

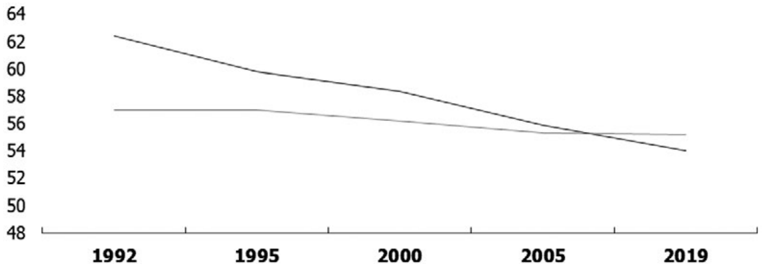
Figure 1
The capture of democracy
Source: Authors' own design, based on García-Quero (2014).



in 2016), while the fiscal effort of companies has fallen (from 22.34 percent to 11.64 percent). Treasury statistics show the unsettling result that the income tax and VAT amount to 135 billion, whilst the corporate tax does not reach 22 billion. Finally, the tax burden in Spain declined from 34.5 percent of the GDP in 2015 to 34.1 percent in 2016.

Spain introduced the "budgetary golden rule" into the Constitution, through the 2011 reform of Article 135 of the Magna Carta (BOE 2011). The two major parties—the Spanish Socialist Workers Party and the Popular Party—reached an agreement for a constitutional-legal reform in economic matters that would guarantee to financial markets that the state would control the public deficit and prioritize debt payments (Pisarello 2011). This constitutional

Figure 2
Adjusted wage share (total economy) as percentage of GDP at current prices in Spain (black line) and the European Union (gray line)
Source: Authors' own design, based on AMECO 2018. http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm



change highlights, besides the serious social and economic problems caused by the austerity policies, a profound political problem, namely, the lightweight nature of the democratic processes in the resolution of European conflicts. Sánchez-Cuenca (2015) has called this problem "democratic impotence," whereby the institutional system of the Monetary Union impedes the proper functioning of the principle of democratic self-government, according to which collective decisions must be taken based on civic preferences. Moreover, in recent decades, supranational organizations have been consolidating for themselves more power in state decisions than their own citizens have. (See Figure 1.)[5] This idea is taken up in the Intermón Oxfam report (2014), which refers to a hijacking of democratic political processes by economic elites. Neoliberalism tends to undermine national sovereignty, democracy, political freedom, and individual liberty (Bruff 2014; Hickel 2016).

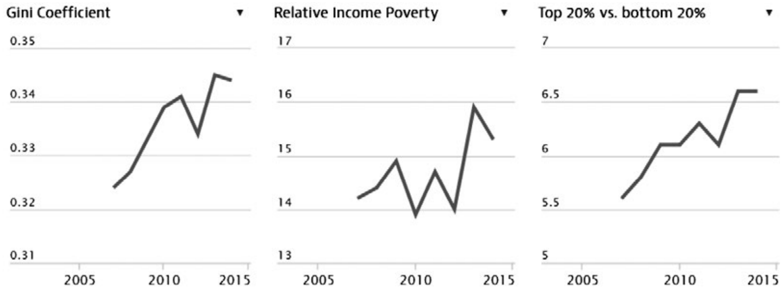
In Spain, there has also been a profound upward redistribution of income and a deterioration in the quality of social benefits. The social crisis of the second decade of the 21st century can be explained in terms of the deterioration of the wage and social relationship. Figure 2 shows the decrease in the wage share of GDP. As Rodríguez Cabrero (2018) emphasizes, the social policies applied since the signing of the Maastricht Treaty in 1992 form part of a historical course of reforms and social policies during which a new social logic has emerged, which has culminated in the deterioration of the welfare state. The logic that guides neoliberalism in social matters, and through which it seeks to regenerate a new legitimacy of social policies, is based on policies of austerity. These policies, which the neoliberal argument considers inevitable, have led to an unequal wage relationship, both in the labor markets and in social protection.

Cárdenas del Rey and Herrero Alba (2018) demonstrate the existence of a causal relationship between the changes in the sociocultural sphere and the deterioration of wage distribution. They show the close relationship between union weakness and poor mobilization capacity, with the increase of atypical figures in the labor market and with decreased social protection provided by the state. In the Spanish growth model between 1996 and 2007, job creation mainly took the form of precarious and often temporary low-wage employment. While wages remained stagnant, profits increased very quickly, which led to a decrease in the labor income share of the income distribution (Buendía 2018a, 2018b).

Fiscal consolidation policies have combined labor market reform with an internal wage devaluation (or constriction of labor income share) and high unemployment rates, particularly long-term unemployment. The great capacity for adjusting employment reflects the enormous flexibility of a labor market based on the extensive use of temporary contracts. Before the crisis, around 18.5 million work contracts were signed each year, of which 88 percent were of a temporary nature; in 2015, the same number of contracts were made (18.5 million), of which 92 percent were temporary contracts (Muñoz de Bustillo 2016). Moreover, there have been adjustments to lower social spending. The convergence of the wage reduction and the cuts in social spending have caused the growth of poverty in the working population, an increase in poverty rates (relative and severe), and unprecedented increases in inequality. (See Figure 3.)

The two main priorities in terms of public expenditure must be active employment policies and measures aimed at reducing poverty, which has grown alarmingly in recent years (De la Rocha Vázquez and Echevarría Ycaza 2017). However, the official discourse associates recovery with fiscal consolidation policies and the structural reforms that have been applied. Other analysts point to the relaxation of deficit

Figure 3
Income inequality in Spain 2005–2014
Source: OECD Income Distribution Database (2018). http://www.oecd.org/social/income-distribution-database.htm



targets, to the change of the ECB monetary policy, to the corresponding reduction of the risk premium and the cost of financing the debt, and to the fall in oil prices (Rosnick and Weisbrot 2015; Tilford 2015).

Reflections and Proposals

This article has asserted that neoliberalism is a "utopia" that has become a political agenda. The process of building the "euro system" has turned into a stage on which to realize the neoliberal utopia. Moreover, the establishment in Europe of "neoliberal constitutionalism" is causing a process of constitutional purging. The institutional framework promotes a neoliberal constitution that erodes the competencies of states and removes the main decisions of economic policy from popular sovereignty. Technocratic bodies, such as the ECB or the European Commission, that dictate policies have normative power, but they are not democratically elected institutions. They assume the powers of the state and limit those powers, officially or materially, but technocratic rules do not form a constitution because there is no democratic legitimacy in their origin. The "depoliticization" of fiscal policy and the expropriation of monetary and economic sovereignty from states results in a process of "depoliticization" of economic policy.

As highlighted by Bénassy-Quéré and Boone (2010), the Eurozone crisis goes beyond a crisis of sovereign debt because it calls into question the whole architecture of economic policy. The current crisis and its “solutions” show three closely related aspects: 1) the difficulty of managing the tension between a national democracy and being a member of a supranational club such as the Eurozone, 2) the instability of a monetary union that has not accomplished a political union of banking with fiscal and economic powers, and 3) the close relationship between finance and capital (Chesnais 2016). The response of the “Europe of Bankers” to the rejection by the Greek population of the austerity policy has shown that economic policy is on the margin of political and civic debate (Habermas 2015). This was stated openly by the President of the European Commission, Jean Claude Juncker, when he warned: “There can be no democratic election against the European treaties.” Similarly, the German Finance Minister, Wolfgang Schäuble, pronounced: “You cannot let elections change anything.”

In turn, these expressions reflect another finding: “state neo-liberalism” is an intimate enemy of democracy (Todorov 2012). As highlighted by Standing (2017), the darkest side of the growth of speculative capital is the institutionalized manipulation of democracy. Democracy is controlled by the institutional restrictions on the euro and fiscal policy, by the pressures of the so-called market, and by the desire that citizens not participate in the management of the economy (Fernández-Albertos 2012). National governments are severely limited by a system of non-representative rules and institutions that force them to carry out policies without taking citizens’ opinions into account. In short, the European Project must be remodeled in order to create a social Europe capable of strengthening an institutional democracy that guarantees a public, universal, and high-quality education for all, which protects public healthcare, and develops systems of social protection (Aglietta and Brand 2015). As highlighted by Paul De Grauwe and Anna Asbury (2017), if Europe does not move towards a federal model with an effective government that is accountable to parliament, the only way out is to return to national currencies.

From the perspective of economic policy, it is imperative to “renationalize” fiscal policy, that is, to return fiscal power to national authorities (Eichengreen and Wyplosz 2016; Mauro 2011). Renationalization would allow the establishment of fair fiscal systems through progressive fiscal reforms. These would include taxes on the accumulation of wealth and a tax on financial transactions, in order to tackle tax evasion and avoidance, and to develop international standards related to tax havens. Such measures would facilitate the progressive reconstruction of the fiscal base of the state.

Austerity policies should also be replaced by fiscal stimulus policies that emphasize the importance of the welfare state, the problem of unemployment, and the distribution of income (Álvarez, Luengo, and Uxó 2013). Branco Milanovic (2005) urges "global redistribution through taxes," fundamentally through progressive taxation, given its character as a powerful instrument for the redistribution of income. The application of such a measure would involve increasing marginal rates and eliminating the deductions that mainly benefit higher incomes (OECD 2013, 2018; Atkinson 2015).

In the debate on the public deficit, the analysis of the wage relationship (labor market) and the extended social relationship (welfare state) must be considered together, and the strategic role of the public sector should be revalued in a new model of social development (Rodríguez Cabrero 2013; Esping-Andersen 1993). Governments should implement a series of measures to combat tax evasion and fraud, establish fairer and more progressive fiscal policies, promote democratic mechanisms of participation in the control and management of public spending, and allow the creation of a public bank supported by an ECB that does not solely benefit private banks.

Fiscal policy should be accomplished with measures related to debt, which would occupy a relevant place in the political debate. Among others, a mechanism should be created to recycle financial surpluses in productive investments, and a program should be implemented that is directed towards the most urgent social needs neglected by the crisis, as expressed by Varoufakis, Holland, and Galbraith (2013).

The current crisis is the result of the transformation suffered in the capitalist system during the last quarter of the 20th century, sustained by the expansion of the financial markets, and the theoretical legitimation of neoclassical economics. This transformation from a capitalism based on productive wealth into a capitalism based on speculative wealth, together with policies of deregulation and liberalization of capital flows, is closely related to an increase in inequality and poverty and to the loss of social rights.

From the perspective of economic thought, a political economy is necessary that takes into account the financial, economic, political, and ideological dimensions of public deficits and public debt. The transformation of the capitalist system and the growing dissatisfaction with neoclassical economics forces a retrieval of the most valuable of the traditions of Marxist political economy, the German Historical School of Gustav von Schmoller ([1884] 1910), and the "old" institutionalism (García-Quero and López Castellano 2016). The dominant economic theory, despite its formalism, is incapable of securing the main changes in economic and social structures. In order to understand the transformations taking place, it is necessary to have an institutional political economy theory that is critical of neoclassical economics and, at the same time, conceives the economy in a historical, social, and political context (Stilwell 2015).

The study of economics requires a redefinition of its purpose, an enlargement of its borders, and methodological expansion. Economy and society are dynamic and complex systems that change and are sustained in complex social interrelations of domination, conflict, and co-operation, in which natural resources, technology, culture, institutions, power, property, ethics, and collective action are continually defining the contexts in which individuals and social groups take decisions that affect the context and the individuals themselves. Understanding how these structures work and the relationships between them would help to guide collective behavior towards activities with a high degree of social return and with positive effects on people's welfare.

The interdependence of the world today shows the individual inability of any state to provide real solutions, making essential the collective action of as many countries as possible. It may sound utopian, but the way forward would require the adoption of a "new world economic order," based on different principles and institutions: more democratic, more participatory, and fairer. It is also important to incorporate, at a political and academic level, the critiques of more systemic theoretical approaches that focus their analyses on exposing the exploitations inherent in the capitalist system in terms of class, gender, ethnicity, and the environment. Resolving serious problems, such as inequality or the processes that make the conditions of life more precarious, will depend on the capacity of society to debate these issues, and on the sustainability of human life and of nature.

Notes

1. This article does not offer a critique of the "new" frontiers of economics. This new approach does not allow us to understand the problems of the contemporary capitalist system. For a critique of some of these "new" frontiers, see López-Castellano and García-Quero (2012) or Reinert, Ghosh, and Kattel (2016).

2. Referring to American capitalism and the possibility of comparing it with European capitalism, Hirschman (1986) produced a thought-provoking thesis on "feudal shackles" to indicate that the United States had no feudal past.

3. The labor income share measures the ratio of total labor compensation to GDP.

4. In 2017, the public deficit reached 3.1 percent of the GDP and debt 98.5 percent of the GDP (Banco España, https://www.bde.es/bde/es/areas/estadis/).

5. The "organizations" explained in Figure 1 are often referred to under the heading of "markets," using an empty and hollow expression difficult to visualize. However, each of these "markets" corresponds to real people who act in specific organizational contexts with personal interests.

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