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Financial hegemony and the unachieved European state

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Abstract

This article addresses a classic problem in the social sciences: what allows for or, on the contrary, prevents, the emergence of democratic institutions, i.e., of modern democratic statehood. This problem is tackled in relation to the internal socio-political logic of the European integration process. Drawing on the political economy of the French Regulation School and Poulantzas's approach to the modern democratic state, the authors argue that the absence of state-like, democratic institutions at the EU level is the outcome of a cumulative process of exclusion of labour and a monopolization of the agenda by transnational and financial capital, preventing the institutional crystallization of conflicting European class relations.

Keywords

Capitalism, democracy, European integration, finance, regulation school, Poulantzas

Introduction

This article will address a classic problem in the social sciences which is located at the crossroads of democratic theory and critical political economy: what allows for or, on the contrary, prevents, the emergence of democratic institutions, i.e., of modern democratic statehood, in a particular economic and political context. This problem will be tackled in relation to the current European institutional architecture. Our main concern will be the institutional order that has emerged within the EU since the beginning of the 2007–2008 global economic crisis, and which has been characterized as a form of 'authoritarian statism' (Sandbeck and Schneider, 2014), 'authoritarian neoliberalism' (Bruff, 2014) or of 'bureaucratic Caesarism' (Durand and Keucheyan, 2015). Our aim is to explore the internal socio-political logic of the integration process that explains this absence of state-like, democratic institutions at the EU level.

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To achieve this goal, we will rely on the political economy of the French Regulation School (Aglietta, 1979) and Nicos Poulantzas's approach to the modern democratic state. According to the former, the process of capital accumulation is regulated at various scales by a hierarchical set of institutions that crystallize the balance of power between classes and fractions of capital. During the past decades, regulation has become increasingly spatially fragmented as a result of the co-construction of corporate globalization and transnational networks of public governance, among which European institutions have played a prominent role at the continental level. The regulationist perspective is very helpful in identifying the core socio-economic dimensions of the EU integration process and, in particular, the ascendency of finance and the marginalization of labour (Boyer, 2000, 2013). However, because the regulationist perspective lacks a strong theorization of the political, we will turn to Poulantzas's penetrating sociology of the modern state in order to explain this dynamic and its consequences for EU polity. Poulantzas considers the state as a 'material condensation of a relationship of forces among classes and class fractions' (Poulantzas, 2000: 129). His understanding of the modern state is summarized in the following statement: 'The state is not a monolithic bloc, but a strategic field' (Poulantzas, 2000: 138). The modern state, in other words, attempts to allow for and manage conflict, not avoid it. We will argue that the reason there is no European state (and there probably cannot be in the current institutional framework) is precisely because the EU is not a strategic field, because it is too 'monolithic'. It is not a sufficiently open political space to be able to allow different social forces to enter into conflict and establish compromises, as historically the modern nation-state has done.

Our hypothesis is that this is the outcome of a cumulative process of exclusion of labour and a monopolization of the agenda by transnational and financial capital. We argue that the retreat of the labour movement at national level strongly influenced the forms the relaunch of European integration took in the 1980s, allowing social issues to be systematically side-lined while competition, monetary and financial issues took prominence. These initial conditions have fostered a 'monolithic' hegemony of transnational and financial capital at the EU level, preventing the institutional crystallization of conflicting European class relations and the substantiation of democratic processes at this level.

After presenting the regulationist account of the changing hierarchy of structural forms in the course of EU integration, we will turn to Poulantzas's powerful insights concerning the restructuring of state institutions. We will then provide a detailed account of what we call financial hegemony and outline the uneven distribution of 'selectivity' across European statehood. In our conclusion we will summarize our argument and reconsider the problem of the non-achievement of a modern democratic state apparatus at the EU level.

The changing hierarchy of structural forms in the course of EU integration

Boyer (2000, 2013) has provided a comprehensive interpretation of the dynamic of EU integration. In his regulationist perspective, the relaunch of the European project in the 1980s was an attempt to overcome mounting problems in the accumulation process. The completion of the single market and the creation of the Euro resulted in a complete reversal of the hierarchy of structural forms with a shift from the post-war domination of the wage–labour nexus to a subsequent enhancement of competition and finally the hegemony of finance.

During the Fordist era, in most European countries – but not in Germany – 'monetary policy used to be the 'servant' of the capital–labour accord and oligopolistic competition. (...) In a sense, national monetary policy had the role of alleviating tensions in income distribution, and the exchange rate was a discretionary tool when inflation became too important' (Boyer, 2000: 36). Because of the national and global rise of labour and rapid industrial development, the regulation of capital accumulation was mainly subordinated to the economic and political management of the workforce. The principles of EU competition policy defined in the Treaty of Rome remained mostly unimplemented, preserving a growth-oriented monopolistic accumulation supported by financial repression and public money-management.

In the late 1960s and 1970s, internal regulation of national economies was weakened by the slowdown of productivity gains, more assertive labour militancy, mounting pressure from international trade and capital flows and monetary instability. At the beginning of the 1980s, the shock of the US monetarist revolution precipitated a retreat of labour with a further increase in levels of unemployment in the global north and an accelerated decline of the labour movement's ideological assertiveness. The weakening of labour altered the general balance of power between social forces, which condensed and materialized in the institutional structure of the EU. At the invitation of the Delors commission, the European Roundtable of Industrialists (ERT) inspired the new impetus given to the European integration process with the completion of the single market (Ross, 1995). The European competition body was thrust to the forefront of European polity while DG Trade headed the international trade talks, which resulted in the creation of the WTO.

This reshuffling of institutional regulations, and the new 'priority given to the forms of competition' (Petit, 1999), implied a trickle-down effect across the entire economic institutional architecture. Indeed, the delineation of a new scale and organization of markets was detrimental to labour because of the asymmetry between a nationally managed wage-labour nexus and the global strategies of the TNCs (Peoples and Sugden, 2000). In the 1990s, 'the wage–labour nexus [had] become dominated by the logic of competition and the objective of a ''lean state''' (Boyer, 2000: 40). In the meantime, financial liberalization opened up the landscape for emerging strategies of financial accumulation, but formal money-management was maintained at the national level and, for a brief period in continental Europe, previous financial arrangements largely prevailed.

The common currency was championed by transnational firms as a way to complete the single market by eliminating the currency risk, to foster financial integration and consequently increase funding opportunities for their international expansion (Van Apeldoorn, 2013: 192). For policymakers it was also a response to already existing structural problems, in particular an uneven monetary sovereignty characterized by the domination of the Deutsche Mark. It is noteworthy that Boyer anticipated that the single currency alone would not relieve the new competitive strains: 'The fixing once and for all of exchange rates among members removes the ''security valve'' that devaluation represented, and conversely appreciation of the national currency' (Boyer, 2000: 40). Thirteen years later he was able to confirm his prognosis and describe a new hierarchy of structural forms: 'When the members of the Eurozone decided to pool their monetary sovereignty and create a supranational and independent ECB (...) the monetary regime becomes hierarchically superior and definitely exterior to national specific arrangements' (Boyer, 2013: 548).

The Euro helped to complete the financial integration of the European economy and to deepen financial markets, which, throughout the continent, fostered the rise of financialized forms of corporate governance imported from Anglo-Saxon countries (Auvray and Granier,

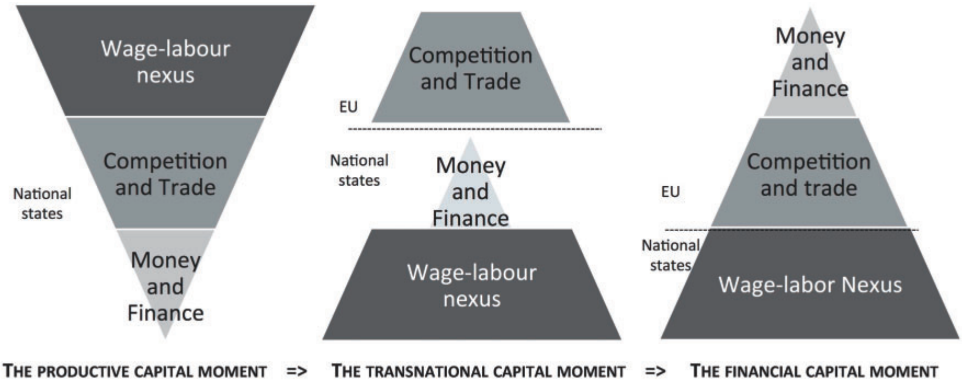

Figure 1. The changing hierarchy of structural forms in the course of EU integration.

2009; Van Apeldoorn and Horn, 2007). Moreover, faith in the solidity of the Euro and the growing misalignment of real exchange rates favoured massive financial flows from the North to the South, accompanying an uneven development of financialized superficial catching-up in the periphery, and neo-mercantilist accumulation of trade surpluses in the core (Mazier et al., 2013; Mazier and Petit, 2013; Becker and Jäger, 2012; Lapavitsas, 2012; Stockhammer, 2011, 2014). The financial crisis put the Euro at risk and with it the integration of financial markets. Consequently, financial stability became the first priority on the European policymakers' agenda, and European institutions were empowered with new competencies to deal with the issue. This new emphasis on financial stability emerges as the expression of the dominance of finance over the other structural forms which regulate capitalist relations in the continent.

This very stylized analysis underscores the crucial transformation of capitalist regulation that occurred alongside European integration (Figure 1): a progressive shift of structural forms of dominance from the wage–labour nexus to competition, and then to money and finance. The concomitant retreat of labour and re-launch of the EU integration project fuelled a cumulative process whereby each stage of integration increased the degree of over-determination of the wage–labour nexus; first, by competition, and then by money and finance. From the productive capital phase to the transnational capital phase and the financial capital phase, the dominant embodiment of the valorization process becomes further and further removed from the point of production and increasingly able to eschew and place pressure on the politically-determined regulations of the labour process.

Strikingly, the institutionalization of the wage–labour nexus did not move to the European level and the possibilities for establishing an outline of European social legislation to counterbalance the advances in the competition and finance fields never materialized. According to Boyer, the main flaw of the EMU project was the rationality attributed to public authorities and the misplaced hope that politicians would make the necessary decisions – that 'greater efficiency could generate the resources needed to satisfy all other citizen demands *vis-à-vis* taxation, public goods, welfare and job creation' (Boyer, 2013: 538). Indeed, the political process is not a neutral attempt to achieve rationally the best socio-economic compromises (Kannankulam and Georgi, 2014). State structures produce their own agency, framing the range of possible political outcomes. To try to understand the asymmetrical effects of the rescaling of statehood on capital and labour, we will now turn to Poulantzas's theory of structural selectivities.

Restructuring statehood

The structural selectivity of the state

Our entry point in Poulantzas's theory of the modern state is Claus Offe's idea of 'structural selectivity' (Offe, 1972; Poulantzas, 2000). It refers to the asymmetry in the relationship different social forces – dominant or subordinate – entertained with the state at a given point in time. Structural selectivity denotes the structurally embedded political 'biases' that constitute the strategic field of the state. These biases reflect the systemic necessity to reproduce capitalist relations and are mediated by the sedimentation of past class struggles. They can differ from country to country, according to the shape the class struggle has taken.

The structural selectivity of the state consists of 'a complex set of institutional mechanisms and political practices that serve to advance (or obstruct) particular fractional or class interests' (Jessop, 1999: 58). Selectivity is unevenly distributed across state structures because the modern state is not a unified 'subject' that manifests one coherent will across time. It is composed of different institutional apparatuses or 'power centres', whose unity or centralism exists but is always relative and problematic. These different power centres are tied or subordinated to contending sectors of the dominant classes. Some of them may also express the interests of subordinate groups. Since the modern state is in part the result of the latter's struggles, they have become a shaping force in the emergence of some of these selective mechanisms.

The changing balance of power across the state

There is a hierarchy of the various power centres, a function of the relative power of the contending social forces that are present. This hierarchy evolves over time, as the class struggle unfolds: it, the hierarchy, allows the advancement or obstruction of fractional or class interests. There are myriad ways of doing this. It is rarely a matter of violently or explicitly excluding social actors from the political process. On the contrary, it is often done through 'soft power', for example by defining what a 'legitimate' public policy problem or demand is, or by formulating these problems in terms only specific actors will be able to answer. Inaction or (more or less deliberate) lack of coordination on certain issues are other means by which this can be achieved.

Here, Poulantzas follows a Marxist tradition that goes back to Gramsci (Gramsci et al., 1971). The Gramsci's concept of 'hegemony' (Thomas, 2009) rests, as we know, on a component of 'force' and a component of 'consent'. The latter presupposes that hegemonic forces define what constitutes a legitimate policy problem, together with its appropriate, possible resolution. It defines what 'reality' is, and marginalizes what is presented as 'unrealistic'. In 'normal' times, the direct use of violence by the state apparatus is, in principle, unnecessary. But the force component is nonetheless always present as a possibility, and as a reminder that the capitalist order rests ultimately upon class violence. Administrative allocation processes that escape democratic control may also be considered as a form of 'force'. Both Gramsci and Poulantzas clearly recognized that if political authoritarianism (Bonapartism or Caesarism) was primarily military in the 19th century, it became more and more bureaucratic or administrative in the 20th century, leading to new forms of alliances between fractions of capital and power centres inside the state.

The structural selectivity of the state can be reorganized in a voluntary manner; in this sense it is relational and implies strategic interactions which aim to alter the balance of power between social forces. Such a reorganization is a function of the power relation between the latter, whereby some struggle to maintain the existing arrangements while others strive to change them: '(...) reorganizing the state – its mode of representation, its internal articulation, its mode of intervention, its social bases, the currently dominant state project or mode of political legitimation, or where relevant, the state's broader hegemonic project for the wider society – will change its strategic selectivity'. (Jessop, 1999: 55).

Rescaling statehood to change policies

The reorganization of selectivities has a spatial dimension. Here, Poulantzas draws from fellow French Marxist Henri Lefebvre's work on the 'production of space' under capitalism (Lefebvre, 1992). Modern politics always takes place in what Poulantzas calls 'spatio-temporal matrices' (Poulantzas, 2000). These matrices have a 'materiality' of their own, in the sense that they are an assemblage of structural selectivities. A change in the relation of force between fractions of capital can take the form of a shift in spatiality, of a transition from one spatial–temporal matrix to another. As Immanuel Wallerstein wrote, 'it is possible for particular social groups to alter advantage by altering state boundaries' (Wallerstein, 1979: 292). Hence, deterritorialization and reterritorialization, i.e., *rescaling* processes, are crucial to understanding the functioning of the modern state.

To implement their new hegemonic project, the dominant classes could foster a restructuring of statehood to alter the class–power balance. Building new layers of state power beyond the nation state could thus be a way of overcoming the institutional obstacles embedded in nation states inherited from previous configurations of class relations and accumulation regimes – by changing the hierarchy of selectivities. Because selectivity depends 'above all on the degree of integration of the prevailing policy field' (Heinrich, 2013: 12), a rescaling of state operations involves a new spatialized and hierarchized distribution of state capacities, and an uneven ability of social and political forces to access these capacities (Figure 2).

Poulantzas's idea of structural selectivity is closely tied to his more general historical sociology of the state. According to Poulantzas, the state is 'relatively autonomous' from the interests of the dominant classes, i.e., it possesses a capacity for action of its own. This 'relative autonomy' is tied to one main factor – the heterogeneity and lack of unity among the dominant classes. Division of labour and specialization are the very essence of capitalism: they affect all sectors of society, including the dominant classes. The dominant classes are therefore divided into what Poulantzas calls 'fractions of capital': mercantile capital, industrial capital, finance capital, the petty bourgeoisie, the military, the political personnel, mainstream intellectuals, the dominant media, and so on.

The interests of these fractions of capital do not necessarily coincide. For instance, disputes between financial and industrial capital are common in the history of capitalism. To guarantee their overall political domination, and to organize what Poulantzas calls a 'power

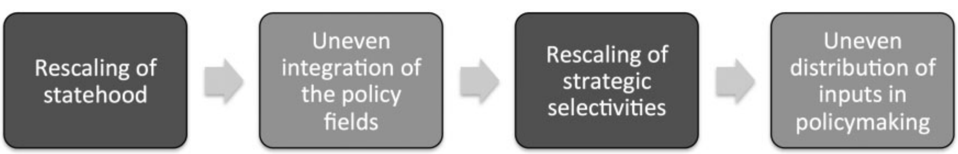

Figure 2. Rescaling statehood to change policies.

bloc', the dominant classes need to rely on a mechanism or set of mechanisms that will coordinate their actions and interests. Within such a bloc a 'hegemonic' fraction incorporates the other fractions into its own project and, if necessary, forces them to adapt to the requirements of its own developments.

The 'relative autonomy' of the state, therefore, not only reflects the plurality of the modes of reproduction of society but also the uneven incorporation of the heterogeneous claims of the dominant classes under the leadership of the hegemonic fractions.

Financial hegemony at the EU level

In order to understand the European political and economic space today, one needs to identify the 'hegemonic' fractions of capital; or, to phrase the problem in the Regulation school's terms, the social forces which support the hierarchy of structural forms we described above. For Poulantzas, as for Gramsci, hegemony requires at least a certain degree of consent from the dominated social groups. The question of hegemony arises within the power bloc as well as in relation to society as a whole. Here, we will concentrate on the issue of hegemony within the power bloc.

It is well established that the European Round Table of Industrialists (ERT), which brings together the leaders of the largest European transnational corporations, has a far-reaching influence on EU institutions (Van Apeldoorn, 2002, 2013). An examination of the reports and press releases published on the ERT's website from 2010 to 2013 reveals an agenda that matches remarkably the objectives pursued by the Commission and the EU council in terms of 'fiscal consolidation', 'structural reforms', 'de-regulation' and completion of free-trade agreements. Financial institutions, on the other hand, are latecomers in the EU integration process. The European Financial Services Roundtable was only founded in 2001 and makes, in comparison with the ERT, a relatively modest contribution to the European corporate community (Carroll et al., 2010: 832). It would be misleading to conclude from these elements that there exists a predominance of industrial capital over financial capital at the EU level. Indeed, a too formal distinction between industrial and financial capital downplays, first, the significance of the transformations of non-financial firms and, second, the rise of the power of financial markets through the imperative of liquidity.

The boundary between financial and non-financial capital is no longer satisfactorily delimitated by the distinction between financial and non-financial firms: this is so because the latter has undergone financialization. Since the mid-1990s, ownership of continental European big businesses has been profoundly restructured with the disbanding of national networks of shareholding, the higher dilution of shares ownership and the growing weight of institutional investors (for example, pension funds, mutual funds, hedge funds, insurance companies), including US-based and UK-based funds (Aglietta and Rebérioux, 2004; Lantenois and Coriat, 2011; Morin, 2000; Auvray et al., 2014). This transformation of corporate ownership has been accompanied by the operationalization of shareholder-value ideology (Lordon, 2000) through an alignment of managers' incentives and beliefs with shareholder interests thanks, in particular, to higher payments and higher CEO turnover. Because their personal income is partly dependent on their company's stock price, managers have a direct interested not only in their firms' short-term financial profitability but also in monetary policies which support stock prices. With the shareholder-value revolution, the behaviour of firms has shifted from a logic of 'retain and reinvest' during the Fordist era, to a logic of 'downsize and distribute' (Lazonick and O'Sullivan, 2000), which is manifested as higher pressure on wages, lower levels of employment and an expansion of global sourcing. Another key dimension of this new behaviour of firms is their movement towards financial forms of accumulation. This phenomenon, documented at the macro level for the US (Krippner, 2011; Orhangazi, 2008), has also been identified with reference to France and Germany (Clévenot et al., 2010; Durand, 2014) and examined at the level of companies' financial account (Froud et al., 2005; Baud and Durand, 2012). As a result of these transformations, most of the big transnational non-financial firms could increasingly be considered as financial groups (Serfati, 2011). For them, the financial impetus of capital accumulation has taken prominence over the productive impetus, to the point that the interests of their managers are almost completely in line with the interests of financial institutions. It is striking from this perspective that the ERT has never lobbied in support of stronger financial regulation. On the contrary, large German blue-chip companies, including Bayer and Siemens, joined banks and other financial institutions in their opposition to the first proposal of a so-called Tobin tax made by the Commission, because it would have cost them hundreds of millions of Euros (Wilson, 2013). Following Van Apeldoorn, one can only emphasize the extent to which the perspectives of financial capital and transnational industrial capital have fused (Van Appeldoorn, 2013: 193). Symptomatic of this fusion of interests, an interlock analysis shows that 'it is industrialists with financial connections that form the core of the European corporate community' (Carroll et al., 2010: 832). Thus, if there is a political contradiction between financial and productive capital, the demarcation line is now restricted to the medium-sized enterprises that still develop their activities at some distance from financial markets.

A second argument in favour of financial hegemony is the collective empowerment of finance through market liquidity (Orléan, 1999). From 1980 to 2012 there was a significant and substantial development of the elementary and sophisticated forms of fictitious capital. Since the 1980s, the weight of private and public debts and market capitalization as a share of GDP has increased dramatically in the main rich economies and, since the early 1990s, one can observe a strong development of derivatives and shadow banking transactions (Durand 2014). This accumulation of financial claims over incomes implies a growing instability and a permanent, implicit blackmailing of public bodies to sustain market liquidity through public guarantees and monetary facilities. It gives a collective power to financial investors (Streeck, 2014) which materializes abruptly, without political mediations, in times of crisis.

The financial and sovereign debt crises have given momentum to this primacy of finance. In order to circumvent the heat of the financial crisis, extraordinary, powerful and diverse lender-of-last-resort policies have been deployed throughout the EU (Jeffers, 2010), the €1000 billion LTRO programme launched by the ECB in 2012 being one of the most spectacular actions. At the peak of the sovereign debt crisis, intense negotiations occurred at the highest level between the EU leaders and the Institute for International Finance (IIF) (Spiegel et al., 2011; Baker, 2011; CEO, 2012). In parallel, institution-building in the field of financial supervision has dramatically accelerated, resulting in further positive integration and tighter interactions between the EU and the financial community.

The separation of commercial and investment banking activity is one of the policies currently being prepared by the Commission. In 2014, the Markets in Financial Instruments Directive (MiFID) was updated in order to tackle market fragmentation and regulate over-the-counter derivatives markets, curb high frequency trading and place position limits on commodity trading (Stafford and Barker, 2014). Moreover, details of a transaction tax, but with a very restricted scope and levy, are being negotiated. Far from revealing the marginal position of the financial industry at the EU level,[1] the elaboration of this light-touch regulation is, on the contrary, a decisive moment in the maturation of financial hegemony. Limited regulation contributes to the rationalization and homogenization of financial operations in Europe and consolidates the ongoing embeddedness of the EU regulatory framework within the north-Atlantic driven governance of global finance (Mügge, 2014). In the same vein, the creation in 2011 of the non-profit association Finance Watch, following an initiative of Members of the European Parliament, with the explicit aim to serve as a counterweight to the financial lobby, could serve to reinforce the hegemony of finance at the EU level by bringing to the fore potential elements of consent in delimiting the dominant position of finance.

In short, in the 21st century, free capital flows, the shareholder value revolution, the unification of capital markets thanks to the EMU, and the liberalization of financial services all allowed finance to operate as the hegemonic fraction, incorporating big industrial capital in a subordinate form in the power bloc at the EU level. The crisis and its aftermath have given further impetus to financial hegemony. If the focus on financial stability and political debates over the functioning of financial markets results in tighter regulation in some areas, its main effect resides in reassessing the prevalence of sound money and finance over the other structural forms. The consent element of the hegemony of finance operates within the power bloc at the EU level, with some negotiations between EU institutions, member states, various specialized fractions of financial capital and even some limited input from citizens' lobbies such as Finance Watch. However, in national societies it is the coercive side of financial hegemony that plays the dominant role. Thanks to the uneven distribution of structural selectivities of the state (see above), the constraint of financial accumulation imposes upon the European multi-scalar statehood a substantial – although differentiated – restructuring of the wage–labour nexus, fiscal policy and public services.

The uneven distribution of selectivities across European statehood

European statehood in its current evolving shape is the combined and contradictory product of strategic planning and confrontation of private business interests, unevenly sovereign national states and emerging EU bureaucracies within the US-led project of global capitalism (see for example Panitch et al., 2015; and Cafruny, 2015, both in this issue). In contrast, labour and social movements are almost negligible in this process. Officially, all actors' inputs are welcomed through institutionalized civil society and social dialogue. However, the competencies afforded to EU institutions, and their limits and specifications all point to the political issues relevant at this level of state power. They entail an implicit selection of the legitimate actors at the European level of policymaking.

Trade, competition and money: the core competencies of the EU

According to the Lisbon Treaty, the exclusive competencies of the EU are the commercial, competition, monetary and common fisheries policies. This empowerment of EU institutions has been progressive, resulting from successive European treaties and the elaboration of European jurisprudence by the European Court of Justice. This process has also included strategic coordination between Commission Directorate-Generals (DGs) and private actors to initiate policies initially resisted by member states. A famous case is the decisive step toward banking liberalization fostered by a long-lasting action of the Competition DG, with the help of private banks, against public guarantees for German saving and Landesbanken (Seikel, 2013).

European competition and trade policies have their roots in the implementation of the Treaty of Rome in the early 1960s. The Trade DG's administrative power to enforce competition rules was built progressively, for a long time without strict formal guidance (Temple Lang, 2013), and then with a significant acceleration following the completion of the single market. The role of the ECOFIN council of Economic, Finance and Budget Ministers in discussing and monitoring fiscal policy has been enhanced with the single currency and the creation of the Eurogroup. Typically, among this group of ministers and other officials representing the economic and financial authorities of the member states, convergence is built around shared beliefs in mainstream economics and a common objective to relegate foreign ministries and the prime minister's offices to the sidelines (Adler-Nissen, 2014: 82–88). Political issues tend to be treated as technical matters through a system of classification, recommendation, and sanction schemes co-produced by the Economic and Financial Affairs DG (DG-ECFIN). Like the ECB, the DG-ECFIN is a recent institution linked to the launch of the EMU. With the dramatic sequence of the financial crisis and the subsequent sovereign debt crisis, their competencies have been reinforced and European polity has moved from soft coordination to strict economic guidance.

From fear and trembling to rejuvenated assertiveness

With the financial system on the verge of collapse in 2007–2008, national governments launched a set of decisive actions such as recapitalization and public guarantees for bank-borrowing which amounted to nearly 12% of GDP for the entire EU (EC, 2009b). In a situation of emergency, the European Commission's Directorate-General for Competition Policy was forced to make its enforcement practices in controlling state aid more flexible, but it fought to preserve liberal market principles while attempting to maintain a 'level playing field' between banks in different member states (EC, 2009a; Veron, 2011). What is particularly striking is that in spite of the huge amounts of money at stake these extraordinary policies have taken place without any substantial public or parliamentary debates, even *ex-post*. Discussions have focused mainly on technical issues, exclusively involving government officials, the Commission and the ECB (Weber and Schmitz, 2011). At the end of this sequence of events, it is clear that the distortion of competition was conceded for a short time only, and the authority of the Competition DG has not been undermined: quite the contrary, in fact.

The crisis has also dramatically raised the issue of preserving monetary and financial stability, i.e., maintaining the Euro as a single currency and disrupting the perverse loop between sovereign debt and the bank's concerns about solvency. The exposed vulnerability of the European financial and monetary architecture forced a restructuring process. Beyond the delays and improvisations, emergency loans and their concomitant conditionality have resulted in a decisive political experiment of macro-supervision by the ECB–EC–IMF Troika, under pressure from the main creditor countries.

In 2012, the launch of the European Stability Mechanism (ESM) and Mario Draghi's pledge to intervene once again – provided debtor countries signed a conditionality agreement – opened the way to a more permanent emergency procedure and gave the ECB a say on the content of adjustment programmes. Under the ECB, a European Systemic Risk Board has also been established in 2010, broadening *de facto* ECB competencies from the sole objective of price stability to financial stability. However, huge loopholes remain in EU governance structures. In particular, the formation of a banking union is still pending, and the German constitutional court is challenging the Outright Monetary Transaction programme (OMT), the result of Draghi's 'whatever it takes' promise. Nevertheless, substantial integration over financial issues has already been achieved, with the ECB as the main player together with the ECOFIN and DG-ECFIN. DG-ECFIN is in charge of implementing the memoranda in countries being assisted, but its mandate has been expanded with the successive reforms of the EU. In a crucial leap forward vis-à-vis the previous arrangement inherited from the Maastricht Treaty, supervision is no longer limited to an *ex-post* verification of member states' compliance with their deficit targets and debt ceilings but includes the multiple dimensions of competitiveness and is backed by more stringent means of enforcement.

Overall, the accelerated widening policy scope of European institutions over the past few years and their increasing power over member states reveals how financialization created financial hegemony. Compromises between member states and business and financial organizations have been made for the central purpose of reproducing financialization.

An acceleration of the negative integration of social policy

In sharp contrast to monetary, competition and financial supervision policies, there is no such thing as a common European social policy. It is revealing that, in spite of growing unemployment and poverty in the wake of the financial and sovereign debt crises, there has been no significant European policy initiative in this field.

One can point to three mechanisms which limit the very possibility of a European social policy under the current treaties. First, social policy is a subordinated policy. It has to negotiate 'the diverse forms of national practices, in particular in the field of contractual relations, and the need to maintain the competitiveness of the Union economy' (Lisbon Treaty, Article 151). Second, key dimensions of this policy are excluded, because the areas in which the Union shall support and complement the activities of the member states do not cover 'pay, the right of association, the right to strike or the right to impose lock-outs' (Article 153), and must not interfere with 'the right of Member States to define the fundamental principles of their social security systems'. Finally, the Fundamental Rights Charter is mostly non-binding, because it only applies to EU member states in relation to their implementation of EU law (Article 52 of the Charter). Worse, the minimal social Community *Acquis* is undermined by the Commission's determination to revise some older directives and the more liberal orientation the jurisprudence has taken within the European Court of Justice (Dufresne and Pernot, 2013).

The absence of a significant positive social policy does not mean European institutions are disengaged from social policy issues. In his writings about federalism, Hayek (1939) celebrates negative integration as a decisive way of preventing or limiting public intervention in the economy. The European integration experience confirms that it could be a highly dynamic process (Scharpf, 2010) because it proceeds from administrative or legal decisions, which do not require formal political approval (Seikel, 2013). In the recent period, the memoranda, the fiscal compact and, possibly, the 'reform contracts' proposed by Germany follow such a negative integration path; all include very stringent constraints on key dimensions of welfare (pension reforms, unemployment benefits, health benefits) and on labour market regulations (Jolivet et al., 2013). Social issues are not addressed for their own sake but, rather, operate as adjustment variables under the heading of financial stability, macro-supervision of fiscal policy and competitiveness.

In light of the lack of social achievements at the EU level, the long-lasting involvement of the European Trade Union Confederation on the institutional terrain and its enthusiasm for the European idea seem disappointing, to say the least (Horn, 2012). The inability of labour to have an effect on European institutions from within – reflecting the unfavourable sedimentation of power relations between classes at this level – has not been balanced by a rise of struggles from below at the European scale. In the past decades powerful social movements have certainly operated in Europe, and the *indignados* in Spain and the massive strikes in Greece are among the most recent examples; but they have done so at the nation-state level. In spite of many 'voluntaristic' attempts by activist networks and unions – the Vilvorde Euro strike (1997), the European March against Unemployment (1999), the recurrent European demonstrations organized by the ETUC, the European social forum (2003) – there has been no build-up of social struggle at the European level (Gobin, 2002; Wagner, 2004). To date the 'spatio-temporal matrix', to use Poulantzas's term, has not been the relevant one. This powerlessness of labour and social movements is the result not only of the material challenges to building supranational struggles and the resilience of different national regimes having conflicting and distinctive social living conditions, but also, dialectically, of the lack of politico-institutional perspectives arising from the European structural selectivities.

Conclusion

Our analysis leads us to interrogate the nature of the political state within the EU institutional architecture. The question is best phrased in the following terms: why does EU statehood remain unachieved and, more specifically, why has the crisis not led to the emergence of state-like dynamics in the EU?

According to Poulantzas, the state is a strategic field in which different fractions of capital compete for power and profits. However, these fractions of capital are not alone in the strategic field of the state. Since the eighteenth century, the subordinate classes have also manifested themselves in this space. The ruling classes did not choose the modern representative state, 'the national–popular class State' (Poulantzas, 2000: 49). The subordinate groups imposed it on them, i.e., the working class movement, the peasantry, the women's liberation movement, and other social movements 'from below'. Modern political systems only became 'representative' democracies, i.e., systems where the entire adult population has an equal right to vote and where political legitimacy lies in representative institutions, due to struggles 'from below'. 'Political rights were conquered by the poorer classes', as Adam Przeworski has shown (Przeworski, 2009: 313). And this irruption opened the way to the institutionalization of socio-economic compromises between the classes, a key reason for the long-lasting resilience of the modern democratic state as a political form.

Why has such a strategic field failed to emerge at the EU level? Why are EU institutions unable to incorporate subordinate classes and why are they increasingly adopting a direct confrontational stance vis-à-vis the subordinate classes? We link the failure to achieve the European state to the initial conditions of the relaunch of the European integration process and its cumulative effects on the exclusion of labour. When the European state project was relaunched in the 1980s, the initiative was on the side of capital. The ambitious restructuring of statehood at the continental scale was not shaped by labour concerns because at the time labour's ideological position was weakened and its structural bargaining power debilitated by unemployment. It resulted, as rightly stated in Boyer's regulationist analysis, in a complete reversal of the hierarchy of structural forms in comparison to the post-war period, giving prominence first to competition and then to finance over the wage–labour nexus.

Poulantzas' concept of structural selectivities has helped us to identify the cumulative exclusion of labour from the European arena in the course of this process. The core competencies of the EU – trade, competition and money – imply a specific perception of what is important and how to deal with it. Over the years, a common mindset and an institutional materialization of techno-political procedures reflected structural selectivities, making organized labour's attempt to play the European institutional game less and less effective. This became evident with the financial and sovereign debt crises, with the radicalization of neoliberal restructuring initiated by the EU institutions and the explicit marginalization of unions in the European polity.

This non-existence of labour in the European political game and the lack of powerful social movements able to foster an open class conflict at continental level are the main causes of the failure to achieve the European state. These elements explain why a reorientation of social and economic policies away from neoliberalism has not materialized and seems highly unlikely to emerge at this level. Because EU institutions are directly linked more and more to the neoliberal restructuring of welfare, public services and labour markets, the dimension of consent associated with the 'social Europe' perspective fades away, across the continent. The authoritarian side of the European state-project comes to the fore. In the absence of meaningful negotiations with organized labour and institutionalized compromises between classes, the European proto-state may be strong in promoting the immediate interests of a finance-led power bloc, but it is also politically more vulnerable to future socio-economic shocks.

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Notes

1. With more than 700 entities, more than €120 million annual expenditures and at least 1700 lobbyists at their disposal, it is indeed difficult to deny the power of the financial lobby at the EU level (CEO et al., 2014).

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