EU INTEGRATION AS UNEVEN AND COMBINED DEVELOPMENT

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ABSTRACT

This paper documents the EU integration process using the uneven and combined development framework. Because capitalist social relations are territorially defined and politically built, unevenness between countries is not unconnected with that within countries and both involve antagonism between capital and labor. This is manifest in the 'state form' of the EU and its anti-democratic tendencies: public institutions at the community level play a major role in reinforcing unevenness in favour of leading countries, in both the productive and financial spheres.

Keywords: Europe; capitalism; state; uneven and combined development

INTRODUCTION

The EU is plagued with a two-pronged crisis. One, the 2007 financial crisis, triggered a massive recession in the region and, despite repeated optimistic claims, there is no obvious way out of the crisis. The so-called sovereign debt is a consequence, not a cause of the long recession plaguing the EU. As this paper documents, it was the accumulation of private debt (firms and households) in the years before 2007 that was unsustainable and the so-called economic fundamentals also made their contribution. As revealed in Fig. 1, EU non-financial corporations' rate of return on capital employed steadily decreased in the 2000s. Too many machines are underutilized and too much labor is available (see the level of massive unemployment in the EU), a situation which underlines the fact that in capitalism, it is not social need that drives the engine for accumulation but 'profits [that] call the tune' (Carchedi & Roberts, 2013, p. 86).

The EU is not the only region of the world to suffer a 'serious indigestion of capital' (Standard & Poor's Ratings Services, 2014, p. 13), but the severity of the economic crisis it is going through is exacerbated by the institutional contradictions plaguing it, the second aspect of the EU crisis. The current situation reveals the genuine contradictions of the Euro, some of them addressed in this paper. Still, the reflections need go beyond the disaster of the euro and think more broadly about the EU institutional design. Dominant states and their dominant capitals shaped the EU institutional set-up and did so in a quite unique historical context : the collapse of and/or revolutionary challenge to the state apparatus in most European countries after WWII, the need to unify European governments to protect the 'free world' against the westward penetration of Soviet forces, and US support for the reconstruction of capitalist countries through massive accumulation as a mean to buttress their domination. In short, analysing EU

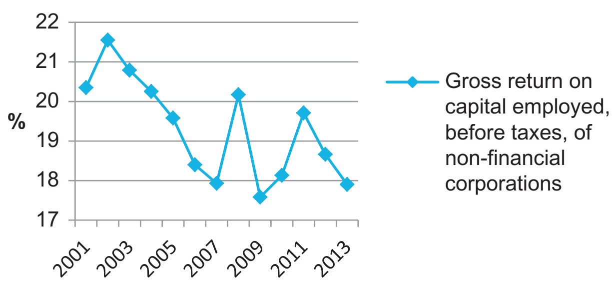

Fig. 1. Gross Return on Capital Employed, before Taxes, of Non-Financial Corporations in the EU, 2001–2013 (%). *Note*: Gross return on capital: Gross operating surplus divided by main financial liabilities (debt securities, loans, shares). *Source*: Author, from Ameco (Annual macroeconomic database of the European Commission's Directorate General for Economic and Financial Affairs).

integration is a good vaccine against crude economic determinism. While the development of capitalism has outgrown the framework of the national state, but that does not mean that something like a 'global capitalism' exists. And nor is there a single European capitalism. Capitalism, as antagonistic social relations, is territorially bounded and politically built (Serfati, 2013). The EU integration did not overcome the strong differences between member states: they need to be analysed through the uneven and combined development (UCD) framework.

The rest of this paper proceeds as follows: the section 'UCD and Political Configuration' documents our understanding of UCD. The section 'EU Integration: Built-in Mechanisms for Uneven Development' underlines that EU integration included built-in mechanisms for uneven development that have been exacerbated by the 2008 crisis. It documents the way UCD proceeded in Europe between and among countries, and the role of EU banks and transnational corporations as its agents. The section 'The "State Form" of the EU' addresses the state form of the EU underlying the consolidation of a set of intergovernemental and Commission bodies as EU-level public authority. In order to analyse the latter, it suggests the mobilization of the concept of *public bureaucracy*. This paper concludes by reflecting on the anti-democratic tendencies embodied in the EU's public authority.

UCD AND POLITICAL CONFIGURATION

Trotsky summarizes the basic idea of UCD, a concept that has been exhumed in recent years in academic literature, as follows:

> Unevenness, the most general law of the historic process, reveals itself most sharply and complexly in the destiny of the backward countries. Under the whip of external necessity their backward culture is compelled to make leaps. From the universal law of unevenness thus derives another law which, for the lack of a better name, we may call the law of combined development – by which we mean a drawing together of the different stages of the journey, a combining of the separate steps, an amalgam of archaic with more contemporary forms. (Trotsky, 1930, chapter 1)

Three ideas are central for the purpose of this paper. One, UCD focuses on *world economy, not as a sum of national parts but as a mighty and independent reality* (Trotsky, 1931). Only when it is taken as the point of departure does '*the whip of external necessity* compelling nations' 'backward culture [… to] make leaps' (Id.) makes sense. It is not by chance that the

UCD framework was developed during the period of intensified imperialism that began at the late nineteenth century.

Two, a unique strength of the UCD framework is to connect political and economic developments. Put otherwise, there is an imperative to connect an abstract concept – eg. Marx's powerful and concise remark that 'The tendency to create the *world market* is directly given in the concept of capital itself' (emphasis in the text, Marx, 1857-1861) – with historical reality – for example, Marx's warning against attempts at transforming his 'historical sketch of the genesis of capitalism in Western Europe into an historico-philosophic theory of the *marche générale* [general path] imposed by fate upon every people, whatever the historic circumstances in which it finds itself' (1877). The role of imperialism in shaping the world market was central and both imperialism and UCD remain valid analytical intertwined concepts to analyse the dynamics of contemporary capitalism (on the case of France, Serfati, 2015b).

Three, underlying the current era of the world extension of capitalist domination, there exists a hierarchy of countries and a very asymmetrical configuration of inter-state relationships. Thus, the UCD framework requires a careful examination of economic and political interrelations as some scholars of UCD have argued (on the limitations of the separation between economics and politics, see Ashman, 2009, on the centrality of national consciousness and nationalism to the continued existence of the state system, see Davidson, 2009, p. 16). In other words, the 'materiality of nations' remains key to understanding contemporary geopolitical economy (Desai, 2013). Not only are states not containers passively recording economic transformations, subject merely to internal transformations reflecting power relations between classes and fractions of classes, they are also directly implicated in capitalist development as a process of UCD and the evolving pattern of international (inter-state) relations it gives rise to. A point relevant to studying the EU is that the outcome for individual countries of the 'drawing together of the different stages of the journey' (or combined development) should be considered in a dialectical way. The positive, developmental outcome of this journey is by no means guaranteed. As the role of state acting 'as a hothouse' is crucial (Marx, 1881), it could also deepen the subordination of countries to developed countries and foreign capital. It was already the case, over one century and half ago in Russia, with the introduction, in the 'twinkling of the eye […] of the most sophisticated capitalist financial apparatus' (Id.). Today, the role of dominant states (and international financial organizations) through 'neoliberal policies' in the domination of developed countries' finance capital calls all the more for caution on the very real limits of the 'privilege of backwardness'.

This paper argues that the UCD framework can powerfully illuminate the six decades dynamics of EU integration in a number of critical ways. Integration has essentially been an economically and politically driven process and one in which the perpetuation of unevenness has dominated over the possibilities for combined development. Of course, it has not been self-contained but has also reflected global trends as they affected the European continent. EU's less-developed member states (MS) have been forced 'under the whip of necessity' of a rather different sort than the one Trotsky referred to, not only to adopt both modern technologies and accept core countries' finance capital, but also to implement the EU political rules that work in favour of the most powerful capitalist member states. In short, economic and political drivers of EU integration have been closely intertwined, confirming that political institutions form a key component of contemporary capitalism. In the EU, the result has been a unique 'state form', not an overarching national state apparatus of all member states but one reflecting the power of the most powerful countries in it, enhancing their ability to perpetuate the unevenness of economic power in the EU which privileges them. Thus, the strengthening of the institutional architecture of the EU has been a key factor in understanding how UCD works in the EU and how unevenness is perpetuated between and within countries. As has become increasingly clear since the 2008 crisis, imbalances existing between member states have deepened, with Germany increasing the gap with other countries. A number of less-developed countries (in Southern and Eastern and Central Europe) are trapped in an unending recession with high rates of unemployment and increasing poverty.

At the same time, things are not so simple as an opposition between rich and poor countries in the EU. Ruling classes of the member states agree with – and their governments through their vote in EU institutions adhere to – the EU's neoliberal agenda and benefit from it. The (relative) momentum of the current German economy has been in a significant part fuelled by the strong compression of the share of wages in value added during the early 2000s. German firms' competitiveness was propped up by a combination of harsh reforms of the labour market (the Harz laws passed between 2003 and 2005) passed by a social democratic government, the threat of off-shoring jobs to recently opened-up central and eastern European countries, and the decentralized nature of employer-union bargaining (Engbom, Detragiache, & Raei, 2015). For the German governments and ruling class, mounting the internal class offensive was thus coupled with beggar-thy-neighbor ‘policies’.[1]

EU INTEGRATION: BUILT-IN MECHANISMS FOR UNEVEN DEVELOPMENT

Over the last six decades, European integration has involved widening – increases in the number of MS – and deepening through the enactment of common regulations and procedures that penetrate ever more deeply into economy, society and even culture. However, contrary to what many mainstream economists expected following Balassa’s seminal work (1961) – that regional integration would facilitate the catching-up by the less developed economies, this process is better analysed as one of UCD (for an application to Eastern and Central European countries, see Hardy, 2014).

An Historical Construction of Unevenness through EU Membership

Over the last 60 years, the process of EU enlargement has brought together countries with ever greater differences in their levels of economic and social development. The number of EU member states has gone up from 6 in 1958 (when the European Economic Community was created) to 28 state members in 2014 and the enlargement process is not over yet. At the Thessaloniki Summit in 2003, the EU indicated that all countries of the Western Balkans (Montenegro, Serbia, the former Yugoslav Republic of Macedonia, Albania, Bosnia and Herzegovina and Kosovo) could expect to become members eventually, subject to fulfilment of some stringent conditions, in particular, the Copenhagen criteria and the conditions of the Stabilization and Association Process (SAP). Turkey is also a candidate country and a strategic partner for the European Union in view of its strategic location and potential as an energy hub (European Commission, 2014a, p. 9), but also from a geopolitical perspective.

And EU expansion is not limited to this. The European Neighborhood Policy (ENP), launched in 2004 and revised in 2011 following the ‘Arab spring’, may not involve membership but it aims at developing a special relationship between the EU and some partner countries and at contributing to an area of security, prosperity and good neighborliness. The EPN governs the EU's relations with 16 of its eastern and southern neighbors: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia to the south and Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine to the east. All those countries are similar neither economically nor politically and EU objectives could differ as far as the depth and breadth of association with them is concerned. In the case of Mediterranean countries and geographically closest Eastern countries (Belarus, Moldova and tentatively Ukraine), ENP aims at integrating them into EU structures and practices both with military subordination (through NATO) and financial-economic dependency, giving further confirmation to the actuality of imperialism as analytical framework.

Structural Imbalances in the EU Integration Process

The integration process has progressively widened inequalities within the EU. At the inception of the EEC (the Treaty of Rome was signed in March 1957 and entered into force on January 1, 1958), the six founding countries were largely similar, having been at the centre of capitalist expansion in previous centuries, and all of them (with the exception of Luxemburg) had been colonial powers, though Italy had been a minor one.[2]

In the rounds of enlargement that followed, while some very developed capitalist countries such as the United Kingdom and Denmark in 1975, Austria, Finland and Sweden in 1994 became members, so did countries lagging in development with limited levels of industrialization such as Ireland in 1972, Greece in 1979 and Portugal and Spain in 1985). And 2003 enlargement reflected a still larger gap between incumbent and new members, many of which could be qualified as 'backward economies'. In 2003, besides Cyprus and Malta, the EU-8 of Central and Eastern Europe, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia and Slovakia, joined the EU, and a few years later (in 2005), Bulgaria and Romania did too. It is an indication of the magnitude of the unevenness now incorporated into the EU that the number of new members states increased by two-thirds as a result of the post-2003 enlargement. In terms of population, the EU-6 had 168.4 million in 1958, the EU-15, 384.8 in 2004 and EU-28 reached over 508.2 million at January 1, 2015. Germany, France, the United Kingdom and Italy account for over half of the EU population.

Southern Countries: From the 1970s to 2010s and Return?

The mainstream expectation that EU integration would lead to convergence does not stand up before the facts. While GDP per head grew faster in the Southern European (SE) countries between integration and 2007 than in the core countries, a reverse trend set in thereafter and by 2012, their GDP per capita had fallen to 76.7% of the EU-15 average: the gap was now the same level as 40 years before (1974) after having been reduced in the 1990s and until 2008, with the SE's GDP/capita reaching 82.5% of EU GDP/capita in 2008 (Aiginger, 2013). The EU Commission confirms this: 'Southern euro-area Member States have seen a significant downward adjustment of their GDP per capita, which has more than cancelled out the convergence achieved since the adoption of the euro' (European Commission, 2014a, p. 279).

Two remarks are in order. One, the EU economic and political integration process is a mechanism for creating and maintaining unevenness. Where the weakest links of the EU (the 'backward nations') were concerned, it can be noted that, as the membership of the Southern countries in the EU and in the Eurozone increased their trade and financial flows with other EU members, it also increased their dependence on core countries' markets and capital. It did not, however, dramatically alter nor their dependence on low technology low-skill exports which relied on a poorly paid workforce, or their financial subordination to foreign capital. This was what finally led to the collapse of their economies. Secondly, while the unevenness between the southern and core countries pre-dated their Euro membership,[3] it was deepened by the latter. With hindsight, it is possible to observe that the strong constraints and conditionalities of Euro membership aggravated internal structural imbalances which EU membership had never resolved. That is why the brutal interruption of the moderate catch-up was not an unfortunate turnaround. Rather, it was the historial outcome of their dependency on core countries' markets and finance capital. This underlines the limits of the 'advantages of backwardness'. While the expression can be used complacently – for instance, by apologists of 'globalization' or EU integration – to refer to some sort of inevitable convergence, such advantages are all-too-often elusive and any gains made by exercising them, vulnerable. Certainly, this was the case with the countries which had very limited choice in the modality of their integration to the EU and world economies. In the case of the SE countries, and even more in those of the Eastern and Central European (ECE) ones (see below), integration was mediated through stringent rules devised by the EU's more powerful countries. In these non-core EU countries, the role of the state, which is central to challenging a given configuration of capitalism and to 'hothousing' development (Desai, 2013), has been 'straightjacketed' with the consent of their political and economic elites. They mostly remained stuck in their initial specialization, dependent upon foreign capital – including loans by core countries' banks – and their governments embraced the neoliberal policy implied by their adhesion to the single currency. Thus, those countries were effectively prevented from undertaking the sort of endogenous effort needed to diversify and strengthen their economies.

The vicious circle that SE countries were trapped in can be described as follows. EU membership and, even more importantly, the introduction of the euro considerably increased capital inflows from the core to them (on the role of core countries' banks, see below). Foreign (mainly European) lenders considered their loans to SE countries as safe because the single currency protected from any devaluation risks. Interest rates converged with the narrowing of spreads between SE and core countries. The effect of these massive capital inflows was to stimulate debt-driven consumption booms. Private savings rates dropped from a 22.4% of GDP in 1992–1998 to 16.7 in 1999–2008, while they remained constant in the two periods in core countries (Holinski, Kool, & Muysken, 2012, p. 6). The flow of money capital entering those countries also stimulated credit and real estate bubbles. (Allen et al., 2011).

Those massive capital inflows in SE countries and Ireland had a snowballing effect on their trade deficits, which increased exponentially, mirroring the soaring trade surpluses of northern countries (mainly Germany, the Netherlands, Austria and Nordic countries) (Fig. 2).

There is a number of reasons for those yawning trade deficits. Mainstream economists point to excessive wage increases, but there is little evidence for them. Instead, unit capital costs, defined as the ratio of the nominal profit rate to capital productivity increased in all the Eurozone countries between 1980 and 2007. (Felipe & Kumar, 2011). The higher inflation of the southern economies is thus not due to excessively high wages, but is correlated to their higher degree of inequality and the consequent ability of capital holders to pass the effects of rises in wages and other production costs on to customers (Husson, 2012, p. 4).

More fundamentally, the integration of these weaker economies in the EU and the Eurozone fell short of radically altering the industrial structure of their economy and the 'stickiness' of their industrial specialization in labour-intensive activities (retail, construction, tourism, etc.) (Aiginger,

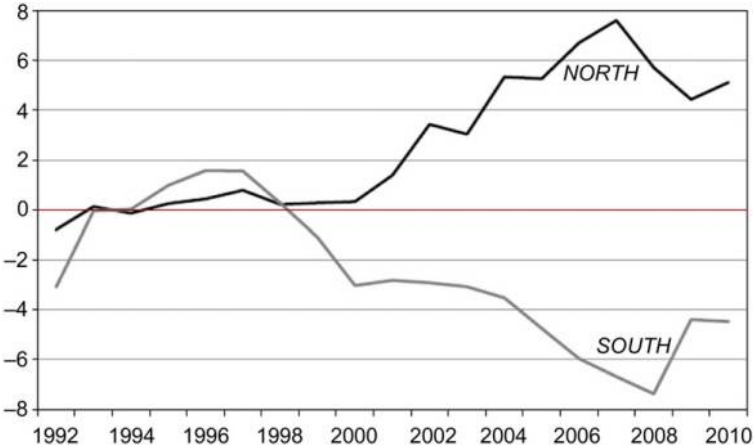

Fig. 2. Trade Balance in % of GDP. *Source*: Husson (2012). 'North': Germany, Austria, Belgium, Finland and Holland. 'South': Spain, Greece, Ireland, Italy and Portugal.

2013) because the very form of that integration – particularly the strict limits on fiscal deficits and national debt – deprived SE governments of the means to sponsor the sort of state-directed techno-industrial catch-up restructuring that the 'whip of external necessity' dictated and it is possible that the politics of integration deprived their ruling classes of any urge to undertake it. Just like at the world level, at the EU and Eurozone levels too, the dominant countries do not look upon this with favour and do what they can to maintain the structures of unevenness.

Trade deficits are only one part of the story. The current account balance was another, as were the financial flows, in particular, interest rate payments and transfers from the EU (e.g. through structural funds) which followed an escalating deficit (Fig. 3) (Hollinsky & alii, 2012).

Again, there is a quasi-perfect symmetry between southern countries' and Ireland's current account balance deficits and Northern countries' surpluses (here Germany, Austria, Finland and the Netherlands). Thus, divergences in current and capital accounts that we observe in the eurozone are based on relationships internal to the EU (Johnston & Reagan, 2014, p. 7) though one should also bear in mind that 'beggar-thy-neighbor' German policy required it to 'beggar its own workers first' (Lapavitsas et al., 2010, 2010, p. 28). This is where the ruinous cost of the creation of the euro becomes clear. Since all countries belonging to the area have the same

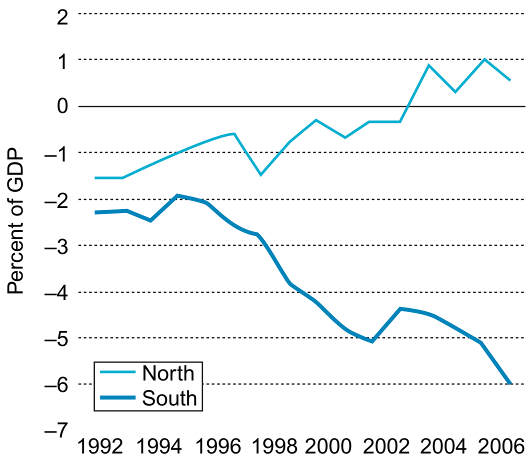

Fig. 3. Net Factor Income (1992–2007). *Source*: Hollinski and alii.

money, devaluation is impossible. At the same time, nothing is more necessary: throughout the 1990s and until recently, Germany enjoyed a lower inflation rate than other EU countries. This was not the consequence of higher productivity alone: very weak growth in wages also made its contribution. Since the creation of the Eurozone, the competitive advantage of German exporters has derived from the high exchange rates at which peripheral countries entered the eurozone and, more significantly, from the harsh squeeze on German workers (Id., p. 25). This is why, rather than convergence, it is intensified unevenness, resulting from further integration of trade and financial flows after single currency introduction, that has been the (intended) effect of integration.

Eastern and Central Europe Countries

It should be borne in mind that ECE countries are distinct from SE countries. After having been ruled by bureaucratic multi-year plans and dominated by the Soviet regime, they suffered the 'shock therapy' recommended by international financial organizations (Sachs, 1990) after the end of communism. Their social safety net was harshly attacked, and in some countries, practically destroyed. Privatizations of former state-owned firms paved the way for a capitalist ruling class of former members of their respective communist parties to emerge, combining productive accumulation with a kleptocratic appropriation not dissimilar to 'accumulation by dispossession' (Harvey, 2003). Secondly, for European capitalists these post-commmunist countries, with their very high skilled and disciplined workforce, low-paid even by the lowest European standards, became an attractive location for Foreign Direct Investment (FDI), both greenfield and through acquisitions of former state-owned firms, in the 1990s. The gap in wages was so high with the rest of the EU that in some cases, large transnational corporations shut down their plants in the SE countries (mainly in Spain and Portugal) as well as in core countries to shift production to the ECE countries.

Most analyses of the effect of EU integration on Eastern European countries rely on income statistics on incomes that begin in 1995. The choice of this year as a starting point is unfortunate, as it occludes the devastation of the 1989–1995 period. It is as though the working people of the ECE countries had themselves put their lives (living standards, wages, working conditions, etc.) into parenthesis. These statistics omit the effects of 'shock therapy'. When 1995, the lowest point (the worst year since 1989), becomes the starting point, it enables a rosier and misleading presentation of the post-1995 economic performance.

Overall, since 1995, there has been a real increase in average incomes (as measured by GDP per capita) in all new Eastern European member states and some limited catching-up with core EU countries, albeit with strong differences between ECE countries. Still, though GDP per capita is systematically endorsed in official European and many publications as an indicator of convergence, its limits as a metric for well-being are well known (Stiglitz, Sen, & Fitoussi, 2009). When one goes 'beyond GDP' to assess convergence in the ECE member states of the EU, one observes that unemployment in ECE countries is higher than in Northern and Western Europe (but lower than in Southern Europe) and that the rate of poverty and social exclusion has remained very high in some of the new member states. The situation is very worrying in Romania, Bulgaria and the Baltic countries, where poverty and social exclusion remain at very high levels (Andor, 2014).

Regional Polarization

A careful analysis of the EU shows that the process of EU integration, even before the 2004 enlargement, was highly uneven (Hudson, 2003; Martin, 2001). Despite the Commission's Cohesion Policy aimed at reducing economic, social and territorial disparities, and despite the allocation of 35% of the EU budget between 2007 and 2013 to this policy, the reality is bleaker than the Commission's promises and rhetoric might lead one to imagine. This is not to deny a few limited successes: Structural Funds were particularly effective for some Spanish, Portuguese and Greek regions during the 1980–1994 period (comparing GDP per capita figures for the period 1980–1994), but they were mainly remote and insular agricultural regions with low initial GDP per capita. (Hadjimichalis, 2011, p. 263). So not only had integration led to development divides of quite significant and enduring proportions (Dunford & Smith, 2000, p. 194), its regional policy had 'hollowed out' the production structures of many regions that, until recently, had been archetypal examples of systems of regionalized production (Hudson, 2003, p. 55).

Again, the introduction of the euro in 2002 served as a mechanism for aggravating these regional imbalances further. According to the Commission itself, convergence between regions in the EU-15 (measured by coefficient of variation) was strong up to the mid-1990s, but since 2000 inequalities have been growing again in a number of regions of a number of countries, including Bulgaria, Romania, Greece and the United Kingdom and the crisis led to increases in poverty and social exclusion making it more difficult to meet several of the objectives of the Europe 2020 strategy (European Commission, 2014b, p. 5). To be more precise, in 210 of the 277 EU regions, there was an increase in unemployment between 2007 and 2012. In 50 of these regions, the increase meant that the unemployment rate more than doubled (Id., p. 16) EU enlargement also accelerated polarization within countries, and between regions from different countries. As it proceeded, so did territorial unevenness. From the end of the 1990s onwards, as the EU's objective of promoting the development of large high-skilled and rich agglomerations began to be achieved in the Eastern European countries, 'urban islands of wealth (places like Bratislava, Budapest, Prague and Warsaw) with a GDP per capita well above EU average' were created (High Level Reflection Group, 2014, CEPI, p. 31).

More generally, EU industrial and technological capabilities are strongly concentrated in a few regions belonging to a small number of core European countries. There is no Eastern region in top 30 R&D investing regions in 2011 (Eurostat Science, technology and innovation in Europe, 2013). As noted by the Commission, 'Overall, the results indicate that there is no sign of any catching-up, in the sense of performance in the less innovative regions converging towards that in the more innovative ones' (European Commission, 2014c, p. 42).

Banks as a Driver for UCD in Europe

European banks have been a driving force of European integration, exacerbating unevenness and inequalities between and within countries and pushing Europe, in particular SE and ECE countries, into crisis.

The Hypertrophic Rise of Finance Capital Institutions

Finance capital can refer to the ability of money capital to generate more money through the ownership of financial assets and loans and assets yeilding rents. It can also refer to the sector of the economy as defined in national accounts, where the institutions through which this *functional* capacity of money to 'breed money' works. While the European Central Bank (ECB) lists monetary financial institutions (banks), investment funds (pension, mutual, etc.), and corporations set-up as financial vehicles as part of the financial sector, it is important to bear in mind that non-financial corporations, particularly transnational corporations (TNCs), are also a contemporary modality of financial capital – that is they engage in the purely financial valorization of their capital quite extensively, while not belonging to the financial sector (Serfati, 2011a).

The growth of the financial sector, including as a share of GDP, has been quite impressive in recent decades. The share of value-added in it as a proportion of GDP in OECD countries is higher than any other sector, including industry, accounting for an impressive of 28.6% of OECD aggregate GDP in 2010, this share being highest in Luxemburg at 48.4%, the United Kingdom at 34.2%, France at 34.1% and the United States at 33.7% (OECD Factbook, 2014).

The strong rise in the financial sector and its damaging role, in particular, the role played by the banks in the 2008 crisis, triggered a discussion on its 'usefulness', its real contribution to the creation of value added (VA) in capitalist countries. Much of the growth of financial sector's 'VA' reflected the effects of higher risk-taking generating excess returns to bank shareholders and staff. Later, as these risks materialized, returns to banking reversed: 'In this sense, high pre-crisis returns to finance may have been more mirage than miracle' (Haldane, Brennan, & Madouros, 2010, p. 87). Despite this parasitic role, large European banks were strongly supported by their governments. The ill-named 2010 and 2011 'Greek bail-outs' with public money without a restructuring of public debt, for instance, were an advantageous solution for foreign banks, especially French and German: it offered them time to reduce, at a relatively low cost, their exposure at least to Greek public and banking sectors (Truth Committee on Public Debt, 2015). This meant that the Greek government was a mere conduit for a bank bailout. It did not receive funds in any significant way (Blyth, 2015).

Remarkably, much of the abundant literature criticising the bloated banking system comes from mainstream researchers and decision makers who work for public financial institutions and are puzzled and worried by the overstretched financial sector. On the heterodox side, while literature on financialization that criticizes the constraining power of financial activities and institutions on production and consumption is abundant, it tends not to use Marx's writings (in particular but not only, *Capital* Volume 3) on finance capital, in particular the concept of fictitious capital, so useful to understanding the ballooning of the contemporary financial sector (Marx, 1894; volume 3, chapter 25). When we do draw on Marx's insights, it becomes clear that the hypertrophic growth of finance capital in recent decades had three interrelated drivers. Firstly, it reflected the inherent tendency of capitalism to strive 'to make money with money' (M … M′ in Marx's notation), as the production of goods is always a means and never an end in capitalist economy. This tendency is all the more compelling when expected rates of return on industrial capital are insufficient and the competitive environment highly uncertain. Secondly, these tendencies were greatly aided by the highly contradictory nature of the so-called Bretton–Woods system which increasingly revealed that the US dollar could not perform the task of an universal form of money. deBrunhoff challenges the idea that the dollar was a form of 'universal money' (deBrunhoff, 2005, see also Itoh, 2006). It was impossible, thanks to the operation of the Triffin Dilemma, for any national currency, even that of the world's most powerful country, to play the role of world money in late twentieth century conditions, and the US dollar's world role was problematic from the start. This was made clear by the Europeans and De Gaulle throughout the 1960s. After the dollar's link to gold was broken, 'financializations [which] were overwhelmingly US-driven and dollar-centred processes' became the chief means for sustaining the dollar's inherently unstable world role (Desai, 2013, p. 270). Thirdly, therefore, the decades since 1971 have been ones of deregulation of financial markets and institutions, strengthening of finance capital's institutions. They were marked by financial innovations, particularly 'disintermediation', 'securitization' and the widespread use of derivatives introduced and validated in the 2000s by the 'financial community', a social bloc of institutions (monetary and non-monetary institutions, financial analysts, auditing companies, lawyers, etc. with a specific role held by Central banks) united by common material interests. These innovations further stimulated the creation of fictitious capital.

European Banks at the Centre Stage

For all the – somewhat ill-named – 'disintermediation', banks remained the backbone of the financial system and the creation of fictitious capital in Europe at least while the US financial sector was more market oriented, dealing in various securitized products without bank intermediation. From 1980 through 2007, the European banking sector not only grew strongly, accounting for 56% of the growth in global capital flows (Lund et al., 2013), it also became highly concentrated: as shown in Fig. 4, the reduction in the number of banks went together with a considerable rise of its financial strength, as measured by the assets-to-GDP ratio. The total assets of the EU banking sector amounted to 274% of GDP in 2013, or 334% of GDP including foreign-owned subsidiaries resident in the EU. In several EU countries, this ratio surpasses 400%. By contrast, Japanese banks' assets add up to 192% of GDP; US banks' assets add up to 83% of GDP (European Systemic Risk Board, 2014, p. 4).

At the end of 2013, Germany and France had the largest banking sectors in the euro area, with total asset values of €6.7 trillion and €6.3 trillion respectively. The banking sectors in Spain and Italy were a considerable distance away, with total assets amounting to €3.5 trillion and €2.6 trillion respectively (ECB, 2014, p. 8). In 2013, Germany, the United Kingdom and France accounted for over 55% of total EU bank deposits (European Banking Sector, 2014).

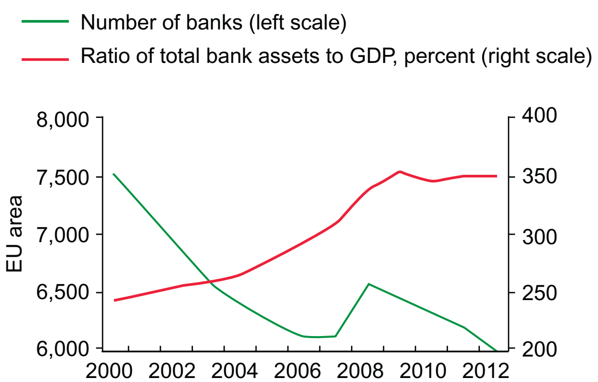

Fig. 4. Changes in the Number of Banks and the Size of the Banking Sector EU Area. *Source*: International Monetary Fund, *Global Financial Stability Report: Moving From Liquidity – To Growth-Driven Markets*, April 2014.

Core countries' banks have been the main beneficiaries of EU financial integration that took place from the end of the 1980s onwards. The convergence in financial legislation and regulation leading to the (seeming) levelling of the playing field reinforced the most powerful banks' competitive edge. What gave so much strength to the core EU banks and made them the drivers both of integration and unevenness in the EU is an outcome of both global and EU-level transformations. EU banks massively lent to foreign markets, mainly the United States (and also from Switzerland), where 70% of the Asset-Backed Commercial Paper (ABCP) was issued in US dollars but most were held in Special Purpose Vehicles (SPVs) sponsored by European banks. Thus, EU banks not only contributed to the pre-2007 financial bubble, but they extended it to Europe through their carry trade operations.[4] They also borrowed short from the US market, where the Fed had kept interest rates low, to lend to SE and ECE countries. They also could borrow from low interest jurisdictions in Europe and invest in high-yielding sovereign bonds of Greece, Ireland, Portugal, Spain, and Italy. This carry trade brought substantial profits to German banks in the order of hundreds of billions of euros (Bastasin, 2012, p. 10, cited in Hale & Obstfeld, 2014, p. 5). It was so lucrative that carry trade operations by EU banks even went on after 2008 (Acharya & Steffen, 2013).

To these opportunities offered to EU banks at the global level, the introduction of the euro made its own distinctive contribution and that exacerbated the processes of integration and the unevenness on the continent. As EU banks extended their activities at the world level, including substantial amounts of credit to US borrowers through the purchase of mortgage-backed securities and structured products generated by securitization (Shin, 2012), the rise in intra-EU flows was also quite impressive. Total funds provided to the Central, Eastern and Southern countries grew from around US$200 billion in 2002 to some US$1 trillion in 2008 or 25% of regional GDP (IMF, 2014a, 2014b, p. 8). This rise relied on the debt market in international lending. It had not been important in the 1990s but was boosted by the creation of the EMU (Hale & Obstfeld, 2014, p. 12). The creation of the single currency created a fertile ground for financial exuberance and profitable bank strategies.

Firstly, the 'levelling of the playing field', particularly the introduction of the Single Banking License in 1989 through the Second Banking Directive which was a decisive step towards a unified European financial market (Allen et al., 2011, p. 2), reduced transaction costs and eliminated currency risks, giving European banks a competitive edge in relation to their counterparts internationally. Secondly, the European Union was the jurisdiction that embraced the permissive bank risk management practices of the Basel II proposals most enthusiastically. Indeed, the European banking system was both the most important and least regulated in the world (Shin, 2012). Finally, the European Central Bank (ECB) also contributed to the sweeping growth in banking credit to non-core member states. The ECB considered sovereign bonds issues by all countries as having the same quality even though it was clear that the credit worthiness and debt to GDP ratios of member states was very different, something which is said to have encouraged irresponsible lending by banks.

On the financial front too, therefore, the deepening of EU integration, in particular the stronger connections between the core countries on the one hand, and southern and ECE countries on the other, resulted in an increase in unevenness between EU MS. Core country banks increased their control on subordinated countries through M&As, practically going shopping amid the massive privatizations of the former state-owned banking systems in ECE countries. The take-overs were a very profitable venture, even after the 2008 crisis (Allen, 2012). Still, the main driver for the eastward expansion of Western European banks was the explosive growth of cross-border banking within the eurozone (Shin, 2012, p. 40). One reason was that debt was re-denominated in euros, increasing the cost in devalued domestic currency, a trend that accelerated in the 2000s with devastating effects from 2008 onwards. Secondly, the dependency of ECE banks on a few large core country banks and the integration of SE countries in the EMU, made the 'contagion' effect of the 2008 crisis all the more painful for those dependent countries. Now the banking system acted as the spearhead of even greater unevenness in Europe, exposing domestic economies to foreign shocks, in particular in countries where cross-border lending was a primary source of external funding (compared to FDI), as was the case for Baltic States (IMF, 2014a, 2014b) and for SE countries.

Ireland also suffered a severe house-price bubble, fuelled by massive foreign loans. The resulting banking crisis was resolved for the banks at taxpayers' expense. While this, along with the strong flexibility in the labour market and the presence of foreign TNCs attracted by the very low levels of taxation speeded up recovery in Ireland, the costs of the 'Celtic Tiger' economy was maldistributed: as of June 2015, 9.7% of the Irish workforce remained unemployed (Central Statistics Office, 2015), a figure that rises to 19% when discouraged workers are taken into account, compared to an unemployment rate of under 5% before 2008 and unemployment of 15–24 year olds is close to 45%, if involuntary part-time work and workers marginally attached to the labour market are taken into account (Caritas

Europe, 2014, p. 40). No wonder then that between 2008 and 2013, nominal unit labour costs (taking into account productivity gains) declined about 11−15%, depending on the method of measurement (McDonnell & O'Farrell, 2015). More than 30% of Irish people live in deprivation, according to the government's own statistical agency, not far below Greece's 37%. This was the fate of Ireland, the good 'pupil' of the Troika. And, as some warn, this resolution has other costs: Ireland learned little from the speculative boom and bust, did little to address its deficits in productive sectors, and ignored the profound social costs it imposed on itself (Taft, 2015).

The Political Economy of Banks Risk Exposure

Since the unsustainability of the growth of loans by core countries' banks to southern countries was known before 2008, a central question is why core EU banks lent so massively? The answers lie in the lucrativeness of such lending, the banks' ability to vary interest rates at their discretion and access to cheap funds from US financial markets, coupled with a higher leverage than non-EU banks. As observed by an economist at Deutsche Bank, the 1990s and 2000s (until 2007) evidenced a long period of rising bank profitability in Europe, with a post-tax return on equity (ROE) for the eight most important Western European markets doubling from 7.9% in 1994 to 16.8% in 2006 (Schildbach, 2008).

And there is a deeper reason. As the contagion effect and systemic risk of core banks' activity were increased by the interconnectedness of the European banking systems and by the fact that a high proportion of cross-border flows were intra-bank flows, banks' managers perceived that those risks would be covered by transposing to Europe the 'too big to fail' (TBTF) policy implemented in the United States for decades. Indeed, an outstanding feature of core European banks is their tight connection with their governments. As plainly stated in a report by a body which is member of the European System of Financial Supervision: 'Banks have a quintessentially symbiotic relationship with politics. Banks need the state, and the state needs banks' (European Systemic Risk Board, 2014, p. 38), the only question being whether 'ties between banks and politics in the EU [are closer] compared to the US' (Id., p. 39). Actually, the financial crisis reinforced the links between large banks and 'their' national governments. The 'renationalization' of EU banks' lending meant that banks increased the share of their governments; debt in their total portfolio. This process has been massive in Southern countries where domestic debt now accounts for as much as 90% of the total. These figures imply that the international diversification of banks' debt holdings in these countries is back to the level where it was before the introduction of the euro (Merler, 2014).

The well-documented 'home-bias' of banks (e.g. see Asonuma, Bakhache, & Hesse, 2015) is caused, inter alia, by the importance of (national) sovereign debt in banks' assets, national regulators being reluctant to push banks to engage in cross-border diversification because of turf issues or the desire to protect domestic economic interests (Brooking, 2012), higher probability of being rescued by governments, etc. In sum, for all the discourses about 'the retreat of states', the deregulation of the banking system was politically driven, with each government eager to support its home banks. All in all, conservative estimates are that €4.5 trillion – the equivalent of 37% of the EU's entire annual GDP – was committed (European Commission, n.d.)

Again, the UCD framework is useful in understanding structural unevenness. The different EU countries have supported their banks to interestingly varying degrees. Depositors are more likely to 'flee' the very countries where governments or central banks have the lowest credibility and they flee to those banking systems whose governments back them more fulsomely. Thus, the massive outflows from banks in Ireland, Italy, Greece, and Spain ended up in Germany and France (Noeth & Sangupta, 2012). A significant share of the bail-out of plagued countries also went into western Banks and was meant to: in the case of Greece, 77% of the bail-out money went to the financial sector, and a large share of this flowed back to western banks (Attac-Austria, 2013). A final aspect of unevenness is the widening yields on sovereign bonds since 2010 with lower interest payments on public sector debt of core countries. The Germans' benefits from the Greek crisis' are estimated at more than €100 billion in lower interest expenses on German sovereign bonds between 2010 and mid-2015 (Dany, Gropp, & von Schweinitz, 2015). In 2015, France will save 2.3 bn € on a total of 44.3 bn € because of a fall in sovereign bonds' interest rates in 2014. The Hollande-Merkel alliance in the management of the Greek crisis and the convergence of their domestic austerity policies paid off.

Global Value Chain (GVC): A Propeller for Unevenness in ECE Countries

GVCS Facilitate TNCs' Rent Capture

The UCD framework has to be adapted to the dramatic changes in the international division of labour of recent decades. The differentiation between national economies which remain territorially bounded and politically built, forms the terrain on which international production has been restructured under the control and to the advantage of large TNCs. This has changed some of the ways UCD unfolds today. GVC analysis, as an emerging analytical framework underlines some major shifts. A 'second unbundling' of the production is said to be at work, with the internationalization of stages of production (Baldwin, 2012). Fragmentation of the production process is made possible in particular thanks to progress in ICT and lowering of transport costs and what R. Freeman calls the 'global sourcing for workers', facilitated by the 'the Great Doubling' of the global workforce (2006). GVCs help large TNCs consolidate their domination. As the fragmentation of production is increasing, it requires more centralization, that is, functional integration of global value adding activities – a process which reinforces the grip of large TNCs on GVCs.

While value has to be created through the labour process before being captured, there are ways in which TNCs also capture value not created in labour processes they organize. Thus, GVCs cannot be seen only (or mainly) as an outcome of technological changes (lowering of transport costs, ITC, etc.) but as a powerful, politically created, tool aimed at reinforcing their grip on the value-creation process.

The dramatic repositioning of TNCs at the downstream end (branding, marketing, intellectual property rights, etc.) of GVCs, coupled with massive outsourcing of production activities, have led some to claim somewhat emphatically that they are making 'profits without production' (Krugman, 2013).[5] One could also argue, however, that boundaries between monopoly rents based on property rights and industrial profits from production are increasingly blurred for today's TNCs (Serfati, 2011a, 2011b). Just as financial assets permit their holders to skew the distribution of profits in their favour so intellectual property rights facilitated by the WTO's Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPS) based on the privatization of knowledge increase the power of TNCs along GVCs. Once a friendly institutional framework, based on massive privatizations, low labour cost, tax incentives, favourable regulation, etc. was set up following the break-up of the USSR, core EU TNCs massively invested in the ECE countries, reorienting some parts of their activities away from SE countries to ECE countries (Penev & Rojec, 2014). This was not necessarily favourable to the latter. In some ECE countries, the build-up of sizeable capital inflows into the non-tradable sector fuelled unsustainable consumption and (residential) investment booms (the Baltic states, Romania, Bulgaria and Slovenia). Likewise, in Hungary, large inflows of bank loans resulted in a private consumption boom and financed unsustainable public sector expenditures (Bogumil, 2014).

The Automotive Industry: Competition among Backward Nations
Manufacturing FDI, already less than half of all FDI, went primarily to the critical automotive sector. This sector had led core countries' growth for decades, and still leads R&D investment in Europe, employing (directly and indirectly) 10.3% of the EU's manufacturing workers and 5.8% of all workers in 2011 (AECA 2014 data). Some ECE countries (Czechoslovakia, Hungary and Poland) were already home to automotive manufacturing in the postwar period and in the 1990s core country manufacturers massively invested in ECE auto manufacturing both through acquisitions (VW acquired the Czech producer Skoda, Renault acquired the Rumanian producer Dacia) and greenfield investment. The relocation of core EU TNCs in ECE countries was mainly motivated by the very profitable combination of low labour costs and workers' strong mechanical, engineering and applied science skills, while non-EU TNCs (e.g. Hyundai and Toyota) sought entry points to the EU market. Automotive FDI had greatly added to industrial capacity in ECE countries and created jobs. Between 1980 and 2010, the number of assembly plants in Eastern Europe rose from 6 to 21 with two-thirds located in just four countries: the Czech Republic, Poland, Slovakia, and Russia. (Klier & McMillen, 2013).

This FDI led to both real economic development and an exacerbation of dependency upon core countries' TNCs and markets. An 'upgrading' took place (Pavlínek, 2012). Some plants shifted to manufacturing high-tech products representing high added value and some TNC even relocated research and development (R&D) activities, marking a new stage in upgrading: the Czech Republic was in the fore of this development (Smahó, 2012, p. 102). At the same time, local ECE country firms, despite expanding their production in some new ways, remained focused on assembling macro components (modules), and on the production of low cost generic components for export (Barta, 2012, p. 57). Indeed, some argue that the integration of ECE industries into the EU took a hub-and-spoke form with the EU-15 constituting the hub and the ECE countries, the spokes (Cieślik, 2014, p. 37). In Slovakia (which, had it remained united with the Czech Republic, would have ranked the second largest automotive producer in the EU) indigenous firms remained in a subordinated role (Domansky, cited in Fortwengel, 2011, p. 11) and spillover effects on domestic companies were very limited (Šipikal & Buček, 2013, p. 479, cited in Pavlínek, 2014) and such subordination was common. A study of R&D relocation emphasized its limits (Pavlínek, 2012).

Secondly, since the automotive market in ECE countries remained limited, despite expectations of the early 1990s, exports to core countries remain critical to the survival of the ECE's automotive sector (McKinsey Institute, 2013, p. 21). It is an evidence of the dynamics of capitalism that the same low average household income that limits the size of ECE markets is the chief incentive for core EU carmakers to locate their activities in ECE. A case study of Hungary and Romania found 'working conditions that are characterized by a polarized workforce, relatively low wages with a high variable share, flexible working time regimes and precarious employment relationships, as well as hostility towards trade unions' (Plank & Staritz, 2013, p. 19).

Thirdly, while core countries constitute the horizon of the ECE automotive industry, the same does not hold for the core countries' industry. Rather, UCD being a world-wide process, the core countries only serve as conduits through which the pressures of the world market are transferred to ECE countries, increasing their exposure to external shocks. As we saw with the financial crisis, ECE countries were bruised twice. At the macroeconomic level, the 'long recession' plaguing core countries coupled with austerity policies that were extended eastwards hurt ECE economies and populations severely. At the same time, the TNCs' regulatory arbitrage further weakened their situation through a race to the bottom for wages.

While the availability of a large low paid and skilled workforce was long the driver for industrial relocation as with relocation to Spain in the 1970s when labour costs per hour there were 50% of the level in Germany. By the early 1990s wage levels had risen and Iberian Peninsula was superseded by Central Eastern Europe in its function of low-wage periphery with wages there some 10% of those in Germany (Krzywdzinski, 2014, p. 3). Fierce competition between ECE countries for inward investment in the 2000s drove wages even lower and, though this continues, some core TNCs have also been relocating their activities to Turkey, a country associated with the EU but not a formal member. Finally, there is a newer trend of core EU TNCs relocating their activities to certain North African countries which, given the strong colonial record of major EU countries, offer even lower wages and a new horizon for capital accumulation. A joint consequence of the ECE countries' crisis and the competition organized by TNCs is that for ECE countries, the share of FDI as a percentage of GDP has dropped significantly over the past few years, even though the high value-added sectors have been considerably more resilient than those relying on low-cost manufacturing (Simkova, 2013).

To recap, from the 1990s onwards, the strong growth of the ECE automotive industry was primarily driven from abroad by core country TNCs.

While some upgrading took place, it did not amount to catch-up or the sort of convergence expected by mainstream economics. Instead, the ECE industry suffers dependency on western markets and TNC strategies. EU TNCs are a driving force for UCD, adopting global strategies that allow them to move their location as a function of costs, markets and regulatory framework which leaves ECE countries' automotive industry vulnerable.

It is worthwhile observing that the further integration of the EU has also exacerbated unevenness among the core countries. In the automobile sector, German industry increased its already strong domination: not only did its EU market share increase between 2000 and 2012, so did German producers' share of domestic production, while the other EU-15 countries, particularly France, Spain and the United Kingdom lost ground to the 'Germany-centred East–West automotive complex' (Jürgens & Krzywdzinski, 2009, p. 39).

THE 'STATE FORM' OF THE EU

The nature of the 'state form' in the EU is not unrelated to UCD. The development of material life – of which the 'economy' is the core but not exclusive component – takes place against a socio-political background which capitalist development transforms as it proceeds[6] and which includes the hierarchical system of nation-states. The EU is a unique political configuration which has emerged from the national and international dynamics of capitalism. For over six decades, European integration has continued unabated, despite acute tensions, public disagreements and even brinkmanship between member states. Indeed, the severe crises that periodically threatened the very architecture of the EU – the 1992 EMU crisis and the recent 2008 financial crisis – have often been accelerators of integration, revealing both the irreversibility and path-dependency of EU integration and commitment of ruling classes and national governments to the process.

The nature of public authority in the EU is unique with an institutional architecture incredibly complex and opaque and poses theoretical challenges.[7] Power is shared among a disparate set of bodies in the EU. Some are intergovernmental bodies: the European council (EC) which sets the EU's overall political direction and *the Council of the European Union*, known as the Council of the EU bringing together the MS ministers endowed with legislative functions. Others are community institutions, unelected supranational bureaucracies whose members are appointed by MS, including the Commission, the European Central Bank (ECB) and the

European Union's Court of Justice (EUCJ). Still others are elected bodies (the EU parliament). These institutions have distinct but also sometimes overlapping spheres of authority and their relations are defined in constitutional treaties subject to periodic revisions. The roles they play vary depending on the subject under consideration. Further complication is added by the voting system, depending on issues discussed.

Analyses of the EU's political configuration in the international relations mainstream literature have long been dominated by the traditional state-market dichotomy as in the neo-functionalism and liberal intergovernmentalism debate. They are both based on what Schumpeter called 'methodological individualism' (rational and self-interested actors, including states), even though they diverge on some points. These approaches have lately been supplemented by the burgeoning literature on multi-level governance (MLG), a discourse particularly appreciated by the Commission, keen not to appear as having too many powers, given its absence of popular legitimacy. The MLG literature aims at both overcoming the state-centred approach of the two earlier approaches and put emphasis on the increasing activity of sub- and supranational actors. Though views on what 'governance' means vary, the main thrust of the MLG approach is to demonstrate that the power of national states is declining in a 'centrifugal process in which decision making is spun away from member states in two directions', namely, to the subnational as well as the supranational levels (Marks, 1993, cited in Conzelmann, 2008). However, not only is there little warrant for the downgrading of the role of national states as the MLG approach does, focusing on *how* the structures of European governance are functioning, it does not ask *why* this multilevel system has emerged and *what kind* of European Union it seeks to promote (Van Apeldoorn, 2002, p. 5). Indeed, on closer examination, it turns out to be an ideology justifying the subordination of national social regulation to supranational free market regulation and, along with multidimensional governance, a refinement of MLG, it seeks to justify the novel form of bourgeois domination in the EU (Holman, 2004, p. 716). The final section of this paper puts forward an analytical framework for understanding political authority in the EU, its bureaucracy and the anti-democratic and authoritarian tendencies that are firmly rooted in the EU's institutional design.

MS and Community Institutions Relationships

While there is no shortage of semantic innovation to analyse the 'state form' of the EU and, though the configuration of public authority powers at the EU level is both original and complex, the EU is not merely 'a polycentric system, devoid of a strong centre of power' (Dehousse, 2012, p. 27). The EU's complexity and opacity are not fortuitous: they spring from the need to institutionalize bargaining and compromise between MS which remain the backbone of the EU's institutional architecture and facilitate the endogenous tendency of any bureaucracy towards self-expansion.

The intergovernmental, Community and elected institutions that hold authority in the EU are reducible neither to intergovernmental cooperation nor to a federal state. It is thus misleading to think of the EU by analogy with international organizations such as IMF, the World Bank, and the WTO: this prioritizes form – inter-governmental agreements – over substance – the political economy of a capitalist integrated but also highly unevenly developed and politically fragmented area. Analogies with US federalism also miss the mark (Henning & Kessler, 2012). Institutional arrangements are not technical recipes that can be easily transplanted from one social context to another.

Through the development of specific European-level authorities, the European Council and the 'Council', MS have increased their collective decision-making power rather than suffered any diminution of national power. Moreover, some member states are 'more equal than others': Britain, France and Germany have a leverage in negotiations, as does the Franco-German axis[8] though more recently it appears to have been replaced by Germany acting as the political backbone of the EU (Van der Pijl, Holman, & Raviv, 2011). The extension of member states' decision making at the European level should be interpreted as the institutional accompaniment of the internationalization of the activities of at least some of them, reflecting the growing internationalization of their capitals (Hirsch & Kannan, 2010, p. 25 and 27) or, in an expanded Poulantzasian parlance,[9] the need for some ruling classes, now internationalized, to promote a political form (which they refer to as the internationalization of the state) fitting their interests (Brand, Görg, & Wissen, 2011).

Put otherwise, the internationalization of dominant states' activities is aimed at strengthening their powers and those of their national ruling class and state apparatuses. While states have long acted internationally to promote and support their capitals – take late nineteenth century imperialist expansion, for instance, such actions must change with changes in capitalism. Today, changes in the international division of labour, the centrality of finance capital, and shifts in the world geopolitical set-up can be expected to shape how dominant states will act internationally. The territory on which states exercise monopoly of legitimate coercion is not a given, but it is a politically and socially built space and the UCD of capitalism operating at the world level includes territorial re-configuration of the world. The most powerful states are themselves actors and drivers of UCD and of these geopolitical re-configurations. UCD also applies within Europe. Dominant states and their dominant capitals shaped the EU institutional set-up and did so in a quite unique historical context – summarized in the introduction – which accounts for the intertwining of state and community institutions.

Contrary to the fruitless opposition between MS and supranational institutions in the mainstream literature, it is important to see that the two work together, at times through discord and competition and disagreement Intergovernmental and community institutions are not alternatives to each other, but form a set of interdependent and coherent bodies shaping the configuration of EU public authority and giving substance to the EU's state form. Both member states and the Commisson have worked in tandem to implement neoliberal policies, to ease capital accumulation and to facilitate domination of capital over labour. The management of the Eurozone crisis to favour large banks, socializing their debt at the cost of taxpayers (Hau, 2011) illustrates this. Similarly, the 'economic governance' introduced in 2011 ('Six-Pack' legislation, 'Two-Pack' regulation and the Fiscal Compact) to advance austerity is implemented through close collaboration between the European Council[10] and the Commission (Bauer & Becker, 2013).

Before turning to what the development of 'economic governance' signals from a democratic perspective, the next section addresses the rise of the EU bureaucracy.

Strengthening of a Public Bureaucracy

On the face of it, the EU bureaucracy does not invite the charge of self-expansion: after all EU budget and staff are relatively modest. In 2013, the Administration budget item was €8.355 billion (or €8,355 million), that is less than 6% of the 163 billion euros EU total budget (European Commission, 2013). The Commission's budget allocation is comparable to that of Paris, a city with only 2 million inhabitants, and the EU's total payroll is similar to that of the French capital.

However, the modest budget is deceptive and community institutions wield considerable powers. Key governmental or inter-governmental competencies, not only in significant economic areas (competition, trade policies, etc.) but also central banking functions, once considered the lynchpin of national sovereignty have been transferred to community institutions. Secondly, the internationalization of capital and the creation of an integrated trade financial and monetary EU area was driven by large financial and industrial groups which received support from the Commission and, in turn, helped it to gain more power. Core country governments and capitalist classes assign three roles to the Commission:

1. to create a regulatory environment in which European firms compete on an equal footing;
2. to protect their common interests whenever needed, in their competition with non-EU, mainly American and Japanese capital, a function which has proved particularly important in aeronautics and space industries as evidenced by the disputes involving Airbus and Boeing at the GATT/WTO
3. and to organize the social 'race to the bottom' and create opportunities for regulatory arbitrage between national social security systems (Bonefeld, 2002; Gill, 1998).

Given the importance of these functions which community institutions perform, it is hardly surprising that their powers, if not their budget, have strengthened and widened. From mid-1980s on, the Commission encouraged a number of agencies to support its position (Streeck & Schmitter, 1991). The Commission elected in 2014 is expected to get more powers following the new architecture for the College of Commissioners, which centralizes power with the President and his seven Vice-Presidents (Euractiv, 2014). This move could reinforce the powers of the EU's unelected bureaucracy and weaken democratic control by populations. Foreshadowing what 'economic governance' will mean, the August Greece bail-out memorandum puts democracy under tutelage, saying that 'The conditionality will be updated on a quarterly basis, taking into account the progress in reforms achieved over the previous quarter' (Traynor & Henley, 2015b). This would practically deprive Greece's democratically elected parliamentarians from any remaining powers.

The EU bureaucracy is also expanding its reach through regulation and legislation. In 1988, the High Commissionner Jacques Delors predicted that within 10 years 80% of economic legislation, and perhaps also fiscal and social legislation, would be of European origin (Miller, 2010). While assessing the proportion of national laws based on EU laws is quite challenging, varying widely throughout the EU and ranging from 6.3% to 84% (Id., p. 5), there is no doubt that the weight of EU regulation upon MS has increased over time. As of October 31, 2014, 1,246 directives[11] (together with 2,775 regulations) were in force to ensure the functioning of the Single Market. The Commission also acts as watchdog in case of noncompliance by member states: in 2014, the Commission launched 893 formal compliance procedures (European Commission, 2015a, p. 13). Further, the Commission is also able to play some member states against others and propose common denominator solutions. Even on defence, a competence strictly out of the Commission's control according to the Treaty of Rome, the Commission's powers have expanded in the last decade through the funding of defence and dual-use technology programs (in particular aeronautics and space, and electronics) and actions for a more competitive and efficient defence and security sector (Serfati, 2015a).

Finally, the growth of the Commission's political role is aided by the consensus among its top employees in favour of deeper European integration regardless of their national background or their organizational experience (Ellinas & Suleiman, 2011, p. 924). While this should not come as a surprise, it would be as wrong to infer from this that a transnational capitalist class has been created as it would be to infer it from the networks that connect TNCs' top managers (Serfati, 2013). An analysis of Commission staff by nationality reveals that major member states are over-represented. While Belgium, with Brussels as the hub of the EU, ranks first in the Commission's staff with 17.4%, followed by Italy (10.4%), when the focus is on the top 141 Commission Administrators (grade 15 and 16),[12] Germany ranks first with 12.8%, followed by the United Kingdom (9.2%), France and Belgium (8.5%) of the total.[13] More broadly, the development of an EU bureaucracy does not escape the control of the most influential member states and is best seen as an outgrowth of major countries' national state apparatus. The EU bureaucracy's strong orientation in favour of big corporations is evident and it often argues against 'bureaucratic red tape' as a way out of protecting consumer, environmental or labour interests (Better Regulation Watchdog, 2015) while erecting 'labyrinth of red tape' to prevent agreement on new standards to protect the public interest (Friends of the Earth Europe, 2015).

While the EU bureaucracy is obviously not the same as Louis Napoleon Bonaparte's, which Marx famously analysed, or as the Soviet bureaucracy which Trotsky did, the concept of public bureaucracy does serve to avoid the trap of economic determinism. Assuming state autonomy requires looking at the 'thickness' of state institutions.

Anti-Democratic Centralism: From 'Benign Despotism' to Authoritarian Trends

Even as the EU commission's competencies grow, it remains an unelected institution and the key reason for the EU's infamous 'democratic deficit'.

Even those promoting some form of political federation observe that the '*EU is* undemocratic' (Follesdal & Hix, 2006, p. 551, italics in the text).

Indeed, ever since its inception, the construction of the EU has proceeded without popular involvement and a number of its recent advances have been made against the popular will. The EU project was conceived as an elitist project by its designers, characterized by J. Delors, one of the politicians most committed to European integration, as '*a benign despotism*'.[14] In the last 10 years, several of its agreements have been rejected by national electorates, including the French and Dutch in 2005, and the Irish in 2008. These anti-democratic tendencies have only worsened in the context of the Eurozone crisis: in November 2011, the Greek prime minister, Papandreou, was prevented from holding a referendum on its bail-out agreement with tragic consequences for the Greek population[15] and, more recently, the 'Trioka' simply flouted the overwhelming vote against the 2015 bailout under prime minister Tsipras.

The centralization of powers in intergovernmental bodies and in the EU bureaucracy reinforces deep-rooted anti-democratic practices. Short of popular legitimacy, the Commission relies on the legitimacy of member states in their territories to expand its powers. However, just because national governments enjoy some democratic legitimacy does not mean that the EU as a whole is democratic. Instead, at the European level, member states have strengthened Community institutions and the enforcement of regulations and procedures implemented by them precisely to escape popular control as even the most tireless proponents of federalism in Europe have had to admit (Habermas, 2011).

The deepening of the economic crisis has only made matters worse: widening 'principled tensions' between 'high-intensity democracy — inclusive and with high levels of deliberation and participation — and capitalism'. This is why 'current European modernity operates with a tightly defined and rather closed concept of political membership in democracy' (Wagner, 2011, pp. 25—26). More critical writers even note the emergence of 'authoritarian statism' in the EU (Sandbeck & Schneider, 2013) which is rooted in the contradictions of the EU's UCD and not in Poulantzas' view of capitalist development in Europe subordinated to the penetration of American capital (2014, p. 8).[16]

As is clear from the current (July 2015) treatment meted out to Greece by the 'Troika', the combined pressure exerted by leading MS (Meichtry & Troianovski, 2015), the ECB and the IMF reached an authoritarian climax not seen since 2008. The Merkel-Hollande ultimatum was described by a senior EU official as an 'exercise in extensive mental waterboarding' (Traynor & Rankin, 2015a). The punishment was inflicted — with the complicity of Greek capitalists[17] – on the Greek people a few days after they overwhelmingly refused (with a 61% majority) the austerity measures decided by the EU Council. As Yannis Varoufakis pointed out in his comment of the 'Greek surrender', a key objective of the 12 July Euro Summit 'agreement' was to turn 'Greece into a democracy-free zone modelled on Brussels' (Varoufakis, 2015) . And it's not only a matter of democracy. Repressing Greeks' democratic rights is necessary to maintain the continuity of Greece's debt payments to European finance capital.[18]

Effectively neocolonial links between the most powerful and weakest EU nations are being reestablished with the endorsement of the Greek ruling class, of course. With an 'agreement' designed to hammer home the Troika's position that there is no political alternative to neoliberalism and that social cuts must be deepened, the widely acknowledged unsustainability of the austerity measures imposed on Greece portends similar authoritarian measures in other member states against popular opposition. This recalls the Europe of the first half of the twentieth century, with its historically fateful combination of deep economic crisis and repression of workers' and democratic rights. Ominously, the analogy with that period can be extended to the current repressive treatment of the thousands of refugees looking for a shelter from wars and dictatorship in Africa and Middle-East.

CONCLUSION

This paper has proposed an analysis of the EU integration in the UCD framework, focusing particularly on the interrelations between economic and political drivers and applying the 'materiality of nations' argument to the EU. It has thus proposed some hypotheses on the 'state form' emerging at the EU level. While this paper did not dwell on it, it should be noted that that the integration process strengthened and was meant to strengthen, the role of the EU on the international economic and geopolitical scene, which does not mean the weakening of close economic and military links with the United States (Serfati, 2015b). That the EU has been fairly successful in this goal is clear from the considerable financial clout and military muscle (with a major contribution by France) it wields in its own 'backyard' (North and Subsaharian Africa) but also increasingly since the end of the cold war, in missions farther afield in the Middle-East and Afghanistan. These observations put the EU dynamics of integration in a more global context, and invite to further research on its role in the economic and geopolitical world configuration.

NOTES

1. While inequalities between nations remain decisive, it would be erroneous to conclude that because 'the greatest disparities are due to the income gaps between nations, proletarian solidarity doesn't make much sense' and that therefore, 'we live a non-marxian world, since the location of people matters more than their social status' (Milanovic, 2012, p. 16).

2. Italy had only modest colonies (Northern of Eritrea, protectorate for Somaliland) until the Mussolini regime colonised Ethiopia (Abyssinia) as late as 1935, after a failed attempt in the 1890s.

3. The Euro was launched on January 1, 1999 (the exchange of national currencies for euros happened in 2002), Portugal and Spain joined it at that time, and Greece in 2001.

4. In a carry trade, an investor holds a high-yielding (target) currency asset financed with a low-yielding (funding) currency liability.

5. 'Profits without production' is Seymour Melman's book title (New York: Alfred Knopf, 1983). Melman was a groundbreaking scholar of the role of the US defense industry and its parasitic features (and profits in producing goods not contributing to the enlargement of accumulation). It's hard to believe Krugman was not aware of this book, though he does not mention it to his *New York Times*' readers.

6. In that way, UCD is contradicts with a 'base-superstructure' reading of Marx, as there are '*innumerable intersecting forces, an infinite series of parallelograms of forces which give rise to one result – the historical event*' (Engels, 1890) (1890).

7. Almost 50 years ago, E. Mandel laid down the hypothesis that the growing interpenetration of national capital represented 'the material infra-structure for the emergence of supra-national state-power organs in the Common Market' (1967, p. 31).

8. In 2002 and 2003, France and Germany ran deficits breaking the rules of the Stability and Growth Pact. They persuaded other member-states to suspend the prohibition of excessive deficits, despite the Commission taking a case to the European Court of Justice.

9. See their definition of international political institutions as *second-order condensation of societal relationships of forces*. The term 'second order' refers to the fact that the strategies of national states, as central actors in the international realm, are already the expression of condensed national power relations (2011, pp. 161–162).

10. It should be recalled that the European Council is composed of the heads of state and government, the Commission president and the High Representative.

11. Directives are binding upon member states though they leave the choice of form and methods to national governments.

12. The Commission website informs those applying for work as administrators that 'you can find yourself playing a key role in the EU's legislative and budgetary processes, from coordinating the broad economic policies of the Member States, taking part in negotiations with non-EU countries, helping run the common agricultural policy, or ensuring that Community law is uniformly interpreted and effectively applied', http://ec.europa.eu/civil_service/job/official/index_en.htm

13. Those data are based on European Commission (2015b).

14. Europe, Jacques Delors has declared, 'began as an elitist project (in which it was believed) that all that was required was to convince the decision-makers. That phase of benign despotism is now over, in Bogdanor (1993).

15. According to the *Financial Times* When Mr Sarkozy learnt that Mr Papandreou had decided to put their carefully crafted bailout deal up for a vote, he exploded. 'He was ballistic,' said an aide. (2014).

16. See also the concept of 'bureaucratic Caesarism' in Durand and Keucheyan (2012).

17. According to some, one third of the money lent to Greece since 2010 enabled capital flight by wealthy Greeks (Sinn, 2015).

18. On the illegitimacy, odiousness, illegality, and unsustainability of Greek debt, seek Committee on Public Debt (2015).

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'Imperialism, thanks to the universality, penetrability, and mobility and the break-neck speed of the formation of finance capital as the driving force of imperialism, lends vigour to both these tendencies', those leading to uneven as well as combined development (Trotsky, 1928).

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