Machiavelli and the Political Response to the Eurozone Crisis

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"Never waste the opportunity offered by a good crisis."

Abstract

Machiavelli has been influential in political science because he systematically analysed the strategies pursued by leaders to consolidate their power. In this regard it was shift away from normative to empirical political theory. This paper uses a Machiavellian framework to analyse the political response to the Eurozone crisis. It argues that political leaders today must legitimate their policy decisions to the electorate. There are two ways to do this: input or output legitimacy. Input legitimacy means that governments respond to the preference of the electorate by designing policies that satisfy their interests. In the absence of this political leaders can legitimate their policies if the outcomes lead to effective performance such as strong economic growth or full employment. The crisis of the Eurozone is a causal outcome of an absence of both input *and* output legitimacy. The European response has been to promote technocratic economic policies insulated from politics. The lesson to be learnt from Machiavelli is that such a response is not viable. Incumbent governments will be punished by their electorates leading to unprecedented political volatility in the Eurozone.

Introduction

The European response to a financial *cum* sovereign debt crisis in a currency union without a centralised fiscal treasury or political government is an experiment in crisis management. It has exposed a tension between the national and the supranational in a multi-level polity. No level of this multi-level governance system has the policy instruments to solve the crisis. Monetary policy remains supranational (i.e. European) across seventeen national governments with diverse fiscal, welfare state and labour market regimes. These countries have conflicting interests on who should bear the burden of adjustment. For the sake of argument we can identify this as a tension between creditor and debtor countries, or between the north and south of Europe. The economic literature argues that if deficit countries engage in an internal devaluation, impose structural reforms and implement efficient technocratic economic policies, the crisis will be resolved. This might be true but ignores the fact that this is fundamentally a *political* crisis. Europe lacks the strategic capacity to coordinate a response that distributes the burden of adjustment evenly across debtor and creditor countries.

Machiavelli wrote the Prince as a response to the crisis of the Italian city-states during a period of intense intra-European conflict. Rather than propose apolitical technocratic solutions or stylise how leaders might respond in ‘Nash equilibrium’ terms, he described and analysed the *actual* strategies adopted by political leaders to win popular support. In contemporary social science terms we could argue that he was engaged in inductive empirical research leading to typologies of strategic action. But contrary to much of the problem solving assumptions of rational choice economics that has influenced political science, Machiavelli identifies the overarching objective of these strategies as mechanisms to consolidate power and generate stability in the polity. This is precisely how one should assess the strategic response of Angela Merkel to the Eurozone crisis. She is not a calculating problem solver lacking technical knowledge of the economy in the Krugman sense of the term, but a political operator focused on consolidating power at the national level through re-election and building her vision of the European polity as stability oriented monetary union. As will be argued in section (3) this can be traced to the economic power resources held by Germany relative to other member-states in the Eurozone. Southern European and Irish political leaders are not in such a position and must legitimate their policies to domestic electorates in alternative ways.

The context within which Machiavelli was writing mirrors the complex intergovernmental process of diplomacy that has emerged after the Eurozone crisis. But it differs in one fundamental respect: national governments are members of an international and legally enshrined polity called the European Union (EU). Governments are elected and must comply with the preferences of their citizens. This is the normal state of affairs for independent nation-states with control over monetary and foreign policy. But member-states of the EU are simultaneously members of a government of governments (Scharpf, 2009). National governments must not only comply and be held accountable to their citizens but to EU mandates. Political leaders, therefore, must generate legitimating arguments to their citizens for why they are complying with EMU policies, such as cuts in public sector wages to achieve the fiscal deficit requirements of the Growth and Stability Pact. Rather than engage in normative theorising on how the EU can and should build democratic institutions and processes of citizenship (see Habermas 2012) I draw upon Machiavelli to *empirically* analyse the strategies adopted by political leaders to legitimate their policies within this complex institutional matrix.

The structure of the paper is as follows; first I outline the legitimation crisis between the European Union and member-states in the aftermath of the Eurozone sovereign-debt crisis. Second I detail the different leadership strategies pursued at the national level in northern and southern Europe to deal with this. Third, I analyse the policy response at a supranational EU level. Fourth, I argue that the European Union is a multi-level polity that lacks all the republican credentials of democratic self-governance. The paper concludes with a discussion on why Machiavelli would argue that national-governments have no reason to comply with this emergent Hayekian technocratic regime.

Political Legitimacy in the European Polity

European governments cannot legitimate their policy response to the Eurozone crisis through fear or coercion. This is where pure Machiavellian principles, applicable to the historical context within which he was writing, no longer apply. But national governments in the EU can and must use credible threats to advance their interests. It is these credible threats that have dominated the intergovernmental bargaining response to the sovereign debt crisis at various Eurozone summits between heads-of-state since 2009. The most forceful of these is the threat by one member-state to exit the Eurozone and re-establish its own currency. No government has publicly declared its intention to do this. But the Greek Prime Minister; George Papandreou, did call for a national referendum on the terms and conditions of the bailout package negotiated with the ECB. He was quickly replaced by a technocratic administration led by the former governor of the Greek central bank; Lucas Papademos. This was soon followed by the removal of Silvio Berlusconi in Italy and his replacement with a technocratic economist: Mario Monti. Both of these events capture the functional problem of legitimacy that is central to all political systems: *compliance*. Why should member-states comply with the requests of external agents aimed at stabilising the Eurozone?

Greece, Ireland and Portugal have been priced out of sovereign bond markets and in receipt of non-market financial funding from the ECB, EU Commission and IMF (hereafter the Troika). In return for this funding they must implement fiscal austerity packages that directly undermine the social contract of their national welfare states. Italy and Spain have pursued the same austerity policies that would be required if they were in the bailout program, in order to bring down their borrowing costs. In this regard they are *de facto* governed by the Troika. Collectively we can refer to these countries as the GIIPS. The policy response in each country is to simulate an internal devaluation. This involves three components: unprecedented cuts in the public sector to reduce the fiscal deficit to three percent of GDP, downward reduction in unit labour costs to improve national competitiveness, structural supply-side reforms and flexibilisation of the labour market to enhance economic growth. The outcome of this adjustment is that national political leaders are prioritising the fiscal stability mandates of the EMU over the constituent interests of their citizens.

The Greek crisis can certainly be traced to the reckless fiscal policies of successive governments since entry into the common club of the Eurozone. In this sense, Machiavelli would argue that Greek politicians are reaping the consequences of prioritising the *fox* in politics: fraud. But this is the opposite in Spain and Ireland where the crisis can be traced to the reckless behaviour of private market actors in the financial sector. Banks borrowed excessively on the European money markets at negative interest rates and pumped this cheap money into property speculation. In Italy and Portugal the crisis reflects an increase in public debt that has not been matched by productivity increases or economic growth. Their competitiveness problems are structural not cyclical and will be exacerbated by austerity. None of these countries have the flexibility to pursue an autonomous response to their specific economic problems because of a political commitment to the compliance requirements of the EMU. Rather than be *responsive* to the constituent interests of their electorates, political leaders consider it more *responsible* to internalise the preference of the Troika in order to save the common currency. The core argument that emerges from *Il Principe*, however, is that this Ciceronian humanist morality of the common good is irrational.

This brings us to Republican conceptions of the common good and reflected in Machiavelli's reformed use of the Roman concept *Virtù*. In my reading of Machiavelli, he uses this concept throughout *Il Principe* to identify the qualities of leadership which are both aimed at personal glory and the stability of the *Stato*. Contrary to Cicero he argues that political leaders need to combine both the fox and lion. As will be argued in section (4), this is precisely how one should consider the power resources of the German chancellor. This is not the case when we examine Ireland and Southern European governments. Their compliance with the economic policies of the Troika has undermined the "republican" basis of member-state legitimacy (Scharpf 2012). This is best understood by examining what Fritz Scharpf (2009) calls the functional dimensions of legitimacy underpinning the democratic state: *input* and *output*. I will now reformulate these two conditions into a Machiavellian strategy of power in order to assess the processes through which political leaders (governors) can justify the imposition of policies on citizens (the governed), and subsequently demand their compliance to external mandates from the EMU.

Input legitimacy

Input legitimacy refers to the process through which political leaders take state power. In contemporary representative democracies this normally occurs through elections. Political parties develop manifestos in collaboration with experts and put themselves before the electorate to receive a mandate to implement their policies. Those who win a numerical majority of seats in parliament can claim a right to form the government of the state. This democratic process gives them the input legitimacy to justify the imposition of policies (such as fiscal austerity) and subsequently demand compliance from citizens. The point here is *not* that elections and majority rule should be normatively favoured over other forms of representation. But in a Machiavellian sense they give political leaders the strategic means to justify and legitimate their position. That is, they provide a useful tool for powerful elites to consolidate the *Stato*. None of this applies to the European response to the Eurozone crisis. In fact, on the contrary, in Portugal, Greece, Italy and Spain the main political parties of the centre-left and centre-right made an informal pre-election pact to implement the Troika fiscal adjustment targets regardless of election outcomes. In Ireland, despite the election of two different governments the conditions of the Troika adjustment has meant that there is no variation in policy outcomes. The politicians change and policy remains the same.

In a context whereby public policies are drawn up by non-elected technocrats and citizens have no capacity to choose between competing parties then it is safe to assume that the minimal conditions required for republican democracy have been suspended. To be more precise, if governments change yet there is no difference in policy outcomes then the capacity for political leaders to generate stability in the *Stato* based on arguments of input legitimacy declines. This is particularly the case when national governments are implementing policies that are not only designed by non-elected technocrats in the Troika but primarily benefit the distributional interests of private financial actors. This might be overcome if there was increased input legitimacy at the transnational European level. But, as will be argued in section (3), the European parliament has been side-lined during the crisis. Hence, in the absence of a European wide democratic process to legitimate Troika induced cuts in pay, social welfare and public services the rationale for why citizens should comply with EMU mandates radically decreases. The outcome is increased political volatility.

Output legitimacy

In the absence of input legitimacy, however, political leaders can draw upon arguments of output legitimacy. For Fritz Scharpf (2012) and Peter Mair (2009) output legitimacy refers to the responsibility governments must show toward the common good. That is, the *particular* interest of political parties seeking re-election must be balanced with the *general* interest of the polity. What constitutes the ‘common good’ in the multi-level polity of Europe, however, is almost impossible to define. To begin with it must pre-suppose some sense of shared identity among the governed and the governors. This applies to the level of a national Republican state where there is direct accountability between government and citizens. But it would be naïve in the extreme to suggest it exists at a transnational European level, even if it constitutes a normative ideal. For Mair (2009) responsible governments are those that put the interest of EMU and the shared currency ahead of their national interests. For Machiavelli, this is irrational for not only does it mean the end of personal political glory but it puts the stability of the *Stato* at stake.

It for this reason I develop a different conceptualisation of output legitimacy. In the absence of a democratic process to legitimate the taking of state power (means) political leaders can justify their position if the policies they implement lead to efficient outcomes (ends). That is, Ireland and Southern European leaders could legitimate transferring sovereignty to the Troika if the consequences of austerity led to successful outcomes such as strong economic growth, increased income or full employment. In this situation the governed might accept the absence of input legitimacy and validate the authoritarian imposition of technocratic economic policies. In the context of the Eurozone crisis, if countries manage to reduce their fiscal deficits and public debt, whilst simultaneously improving economic and employment growth, then national political leaders in Europe can justify their responsibility to EMU mandates. A brief detour into the empirics of the Eurozone crisis, however, quickly erodes this claim to output legitimacy.

Portugal and Ireland have implemented over 92 percent of the adjustment targets drawn up by the Troika. Greece is somewhat behind but has still managed to implement over 70 percent of the targets. In Italy and Spain there has been four structural adjustment programs aimed at pension, labour and collective bargaining reforms. In all of these countries, however, the debt to GDP ratio has increased rather than decreased, economic growth is contracting rather than expanding and unemployment has soared. Furthermore, one of the core actors of the Troika; the IMF, has concluded that their policy prescription of endless austerity has failed. Only Ireland has a realistic chance of re-entering the private bond markets. In all five countries the nominal fiscal deficit has decreased marginally but this is not a sufficient condition to legitimise the absence of political sovereignty.

Hence, political leaders in the GIIPS cannot draw upon either input or output arguments to justify and legitimate the EMU imposed internal devaluation. Rather than threaten withdrawal from the Eurozone, however, political leaders have opted to promote a European response that is insulated from domestic politics as means to tackle a crisis of the sovereign. In a sense this is similar to the historical problem which Machiavelli was concerned with when writing *Il Principe,* namely how political leaders could integrate conflicting city-states into a stable federal Italian polity.

Transnational and Intergovernmental Response in Europe

Perhaps the more important question, therefore, from a Machiavelli point of view, is how to create and legitimate a European federal state. Presently the EU lacks all the pre-requisites of input legitimacy that characterises a nation-state. There are no European wide political parties[1], no European wide capacity to generate revenue and no directly elected President or European wide government. Political cleavages and the public sphere remain an entirely national affair. Furthermore, the capacity to coordinate a European wide solution to the Eurozone debt crisis is restricted by the multiple veto points built into the multi-level polity. Policymaking and power relations are diffused across a wide variety of actors and institutions. It is for all these reasons that political scientists have argued that the EU is best characterised as a negative process of market-making that is structurally biased toward the promotion of neoliberal markets. Even if enlightened politicians wanted to turn the EU into a federal system capable of satisfying the most basic social contract implicit in democratic republics they would be incapable of doing so because of institutional asymmetries. The political dimension of European integration, therefore, remains an intergovernmental affair.

European policy elites are acutely aware of these multiple-veto problems and the absence of input legitimacy. To compensate for it they argue that Europe should not be judged against the criteria of democratic citizenship but economic performance. This claim to output legitimacy prioritises non-

[1] With the ironic exception of the Irish based '*Libertás*' who are a right-wing conservative libertarian party.

political modes of policymaking and reflected in the unprecedented autonomy given to the European Central Bank (ECB) and the European Court of Justice (ECJ). The ECB's fundamental policy objective is to stabilise inflation which it has successfully conquered across the Eurozone (excluding asset-prices). The single market guarantees the free movement of goods and services and has created a raft of legislation that governs national regulatory standards. It was assumed that the single market, in addition to the fiscal requirements of monetary union, would induce market convergence and generate the necessary conditions to legitimise member-state compliance with the EU. The impact of the monetary union, however, was to remove the necessary macroeconomic tools available to national governments to manage their economies. Simultaneously, these tools were not transferred to a centralised European government. The outcome was a one-size-fits none currency union that was cruelly exposed during the international financial crisis. There is neither input nor output legitimacy.

In the aftermath of the sovereign-debt crisis the European response has been dominated by both *political* intergovernmental bargaining and *apolitical* technocratic policy making. This is not some grand intentional design by neoliberals but the direct outcome of the structural and asymmetric constraints that coincide with governing a multi-level polity. There has been no attempt to enhance input legitimacy because it is assumed that the source of the crisis is reckless behaviour by national politicians rather than the EMU itself. National parliaments are viewed with mistrust for good reason. Politicians, it is argued, require strict binding fiscal rules to ensure their compliance with Troika mandates unless they are willing to transfer more sovereignty to the European level. This is not likely to occur because the electoral relationship between citizen and government remains at national level. The outcome for Scharpf (2012) is a variant of authoritarian neoliberalism or Hayekian technocracy.

Political elites such as Valery Giscard and Helmut Schmidt in the late 1970 followed by Jacques Delors, Helmut Kohl and Francois Mitterrand in the 1980's and 1990's were acutely aware that creating a common currency without a political union was a high risk strategy. Machiavelli would have marvelled at their political prowess in pushing it through. But he would have been aghast at the idea that the project could be consolidated by transferring sovereignty to non-political modes of policy making. Given the high consensus requirements of the community method, it was probably rational for member-states to create economic agencies such as the ECB and regulatory bodies that are beyond the political control of governments. But these institutions can never generate the necessary input or output legitimacy to ensure the compliance of those who vote for national governments; citizens. Technocracy assumes, somewhat naively, that compliance can be generated by the assumed *Virtù* of clever elites with a claim to more 'knowledge' than others. This is a mistake that Mario Monti and the EU learnt in the aftermath of the Italian elections in 2013.

The emergent Hayekian regime in the Eurozone now includes a new fiscal compact, the macroeconomic scorecard and enhanced monitoring of budgetary cycles – all aimed at controlling the public expenditure of weak democratic states with current account deficits. These, in addition to the

Troika adjustment programs, are an attempt to overcome a political crisis through the centralisation of economic rules to apply across diverse nation-states. In the *Principe*, Machiavelli outlined a host of strategies that political leaders could adopt to ensure citizen compliance with such quasi-authoritarian rule (i.e. the absence of input or output legitimacy). Myths, brutality and lies were certainly not ruled out. But it is safe to assume that he would have considered a political leader who only offered austerity and unemployment to ensure compliance with this transfer of sovereignty was on a path to self-destruction. It is a means to destroy rather than consolidate the European polity. In the 16th century political leaders across Europe were at war rather than engaged in a series of horse-trading at intergovernmental diplomatic summits. The need to consolidate the *Stato* and the means to achieve this; *Virtù*, was what defined the success and failure of turning conflict into a stable polity.

Supranational European institutions such as the European parliament have been side-lined during the crisis. They have been replaced by intergovernmental summits between heads-of-state as the main forum for political decision-making. The Commission subsequently monitors and implements the outcomes, particularly the Finnish economics commissioner; Oli Rehn. In a context of crisis management where creditor countries in Northern Europe have to distribute scarce resources to deficit countries in the South, this shift to intergovernmentalism should not be surprising. But it draws our attention to the asymmetrical influence of powerful *nation-states*, as opposed to European politics, in designing the Troika adjustment programs in deficit countries. Hence, contrary to the assumptions of pro-Europeans from Jürgen Habermas to Ulrich Beck, the crisis is not leading to more European integration but a return to the nation-state. This brings us back to the question of the strategies pursued by national leaders to retain the support and compliance of those who brought them to power.

National Responses in Southern and Northern Europe

Political leaders at the national level in creditor and deficit countries are operating in a complex institutional matrix that offers competing incentives and constraints on their behaviour. They have to respond to the popular preferences of domestic electorates to ensure re-election and simultaneously respond to the interests of other political leaders at the EU level to ensure their membership of a 'government of governments'. In the aftermath of the Eurozone crisis this has become an asymmetric tension. Those countries with the most economic resources are in a significantly stronger bargaining position to get other member-states to comply with their interests.

Germany accounts for almost 27 percent of Eurozone GDP. Given its fiscal capacity, it is a rule 'maker' rather than a rule 'taker' in the EMU. This 'shadow of hierarchy' over European rules has become explicit since the establishment of the European Stability Mechanism (ESM), a permanent fund established to support member-states in financial distress. Germany contributes approximately 28 percent of the funding, and directly involved in the negotiation of the terms and conditions for member-states who need to avail of it. The smaller states that have been directly priced out of international bond markets (Greece, Ireland, Portugal), and larger states who are *de facto* or close to being priced out of the market (Spain and Italy) have to negotiate terms and conditions via this bi-lateral intergovernmental process. The outcome is a German-led monetary union or what Ulrich Beck (2012) calls the unintentional German-Euro Empire.

Political Strategies and Legitimising Discourses in the North

The problem for the German Chancellor; Angela Merkel, however, is that she has to generate a justification strategy or communicative discourse to her electorate to legitimise this transfer of taxpayer resources to other member-states in the Eurozone. But simultaneously she has to generate a legitimising discourse to ensure the cooperation of other national governments to her vision of a German led fiscal-monetary union. One can think of this as a two level-game whereby a political leader has to retain the support of two very different constituent interests. Pure populism would damage her position in Europe and alienate business leaders whilst potentially undermining the Eurozone polity. At the same time pure generosity, such as the issuing of Eurobonds in the interest of the common European good, would result in the end of her domestic political career. For Ulrich Beck, Angela Merkel has managed this constraint by adopting a 'Merkiavellian' strategy; she is loved at home yet feared abroad. It is a combination of caution and fear, or deliberate hesitation.

At a domestic level Angela Merkel draws her political rhetoric from the idea of the Swabian housewife that moralises to other member-states that they should follow the German model of permanent austerity (Streeck, 2012). This promotion of conservative domestic household management as a strategy to ensure re-election would have been alien to Machiavelli. It is the opposite of what he considered the necessary 'manly' or '*Virile*' qualities that a *Prince* needs to consolidate his power in the *Stato*. This is because Machiavelli considered individual personal *Gloria* as a pre-requisite to and the priority of the Prince in building a stable polity. Such a Nietzschean or authoritarian position is not likely to go down well in Germany for obvious historical reasons. But if we accept that the quest for stability is the overarching objective of the Prince then the strategy of Merkel satisfies Machiavellian principles. Angela Merkel uses a moralistic rhetoric based on austere abstinence because it enables her to legitimate 'charity' to others. But simultaneously it ensures that she can demand that countries in debt, and in receipt of German financial support, will repay for their sins.

This moralising discourse of Protestant severity, however, is not likely to go down well when negotiating with other member-states in building a European polity. In this arena Merkel adopts a strategy that would be more in line with Machiavelli thinking: using fear and credible threats to withhold financial resources. The Chancellor is not an enthusiast for increased European integration yet the process cannot proceed without her support. In the absence of German money the entire Eurozone project would collapse. Her tactical cautious approach to not support policies that would clearly consolidate the EMU polity (such as the issuing common Euro-bonds) enables Merkel to shore electoral support at home but strikes fear into weaker member-states. This vigilance ensures that she retains the support of the German electorate who are reluctant to build a Euro-polity unless it is constructed around the stability oriented policies of the German nation-state. For Germany, therefore, the question of citizen compliance to EMU is resolved by building a stability-oriented fiscal union.

In other creditor countries such as Finland and the Netherlands, political leaders have rolled in behind the Merkiavellian strategy of Protestant severity as a means of coercion. Euro-scepticism is growing in these countries and any unconditional support for the Eurozone polity, at the expense of domestic taxpayers, would lead to negative electoral outcomes for their governments. The Liberal Dutch Prime Minister; Mark Rutte, and the Finnish Conservative; Jyrki Katainen are close political allies of the German Chancellor. They promote a culture of fiscal conservatism based around strict controls on public spending, whilst combining nation-state orthodoxy with rules based Europe. The impact of their populist austerity programs on the electoral fortunes of governments in deficit countries is of little or no concern. From a Machiavellian point of view they are cleverly using the *occasione* to retain the support and compliance of those who brought them to power.

However, the disregard for the input or output legitimacy of the Troika austerity programs may well prove to be a mistake in the long-run. This is particularly the case if deficit countries threaten the nuclear option of exiting the EMU. It is impossible to predict whether this will occur. What is more likely to impact on the strategy of the German government, however, is the potential emergence of a Eurosceptic party that would hold the balance of power in parliament[2]. If this occurs then the government might regret adopting a pro-European strategy premised on a discourse of punishing the moral debt of feckless southern European countries, rather than focusing on the Eurozone itself. I will return to this tension between populism and the common good in section (5).

Political Strategies and Legitimising Discourses in the South

Whereas creditor countries have chosen to shore up electoral support and prioritise domestic political interests over the 'common good' of the Eurozone this is not the case for deficit countries; Ireland and Southern Europe. In these countries the political strategy and legitimising discourse has not been to transpose domestic policies to the rest of the Eurozone but stabilising the currency. Radical cuts in expenditure, austerity and the undermining of domestic welfare states are sold to electorates as a necessary evil to ensure the stability of the Eurozone. That is, they are 'taking one for the team'. The difference in strategy between deficit and creditor countries, of course, can be directly traced to the asymmetry of economic bargaining power. Ireland, Greece, Portugal, Spain and Italy are ultimately dependent upon the financial goodwill of the ECB and Germany. In a sense this is akin to a domestic

[2] The German Eurosceptic party Alternative für Deutschland (AfD) held their inauguration in April 2013. They have seen their membership jump to over 7,500 since their formation in February 2103.

relationship whereby one partner controls the other through holding their shared financial assets.

Hence, contrary to what Machiavelli would anticipate, the governments in all of these countries, regardless of political partisanship, have chosen stability of the EMU over domestic electoral politics. In the Peter Mair's (2009) sense of the term, they are prioritising *responsibility* to other member-states over *responsiveness* to their citizens. To legitimise this they draw upon the counter-factual situation of what would occur if they did not internalise the preference of Germany and the Troika; governments would have no access to financial markets, public sector wages would not be paid, pensions and social security would be cut further, and the bank machines would stop issuing money. There may be an element of truth in some of these arguments. But from a Machiavellian point of view it draws attention to the fact that they are using fear as a means of coercion to ensure citizen compliance with the mandates of unaccountable external actors.

There is, however, variation across these countries in how political parties have domestically legitimised the transfer of sovereignty to external actors. In Ireland there has been a clear strategy by successive governments to distance themselves from southern European countries and to roll in behind their 'northern neighbours'. The conservative Prime Minister; Enda Kenny, is a close ally of Angela Merkel and has agreed to every proposal put forth by the German Chancellor since the onset of the crisis, winning him the accolade; 'European of the Year' in Berlin. The Irish government have become one of the most vocal advocates of stability oriented fiscal policies in Europe. This is despite the fact that the Irish crisis is the outcome of reckless market behaviour by private banking actors rather than fiscal fecklessness of politicians. The only difference between Ireland and Germany is in relation to a coordinated financial transaction tax. Irish political leaders legitimate their passive acceptance of EMU austerity to secure their low corporate tax regime.

A similar strategy has been pursued by the recent conservative governments in Portugal. The Supreme Court recently declared in 2013 that cutting public sector wages any further was illegal. This set a legal precedent for how much austerity and public spending cuts can be implemented by member-states in the Eurozone. The Troika flew into Portugal and issued its mid-term review that required that the government and opposition unit to find a way to achieve the cuts elsewhere. The Prime Minister; Pedro Manuel Mamede Passos Coelho, also went on the attack, declaring the independent court judgement 'irresponsible', and forcefully defended the Troika adjustment program as an economic success. This is despite the fact that the country is experiencing its worst ever unemployment crisis in Portuguese history. The strategy, much like the Irish, is to become more German than the Germans themselves. The Greek Prime Minister; Antonis Samaras, has also adopted a strategy to align the Greek state with Northern Europe, in the hope that they will win back the favour of international investors. His predecessor; George Papandreou, as mentioned in section (1) was removed from political office after he tried to consult the electorate on the troika bailout program. Compliance to EMU, he was informed, must be imposed not negotiated.

In the two larger states; Italy and Spain, the situation was somewhat different. Initially both countries tried to develop a coalition with the French against Germany. At a Eurozone summit in 2010, the Spanish Prime Minister; José Luis Rodríguez Zapatero called for an alternative to austerity and for a European wide solution to the crisis, in order to push back financial markets from speculating against Spanish bonds. He was quickly silenced and informed that if he did not impose an equivalent to the Troika adjustment he would be replaced by a technocrat. This was followed by an ECB letter outlining what fiscal policies must be imposed. He returned to Spain, quickly changed policies, and was roundly defeated in the 2012 election. His successor; the Conservative Mariano Rajoy ignored the emergent *indignatos* social movement and aligned himself with Germany. Rather than seek a direct financial loan from the Troika, the ECB stepped in and flooded the secondary market with liquidity, providing the necessary funding to keep the Spanish sovereign solvent. The legitimising discourse of EMU imposed austerity was that the country had no alternative.

Italy, much like Spain, also tried to drive a hard bargain against Angela Merkel. But the Prime Minister; Silvio Berlusconi, suffered the same faith as his Spanish counter-part. Despite introducing emergency legislation to bring down public debt he was considered too volatile for the Eurozone club, and was quickly disposed. In a dramatic series of events he was replaced by the technocrat; Mario Monti, who was subsequently defeated in the 2013 election. Monti rolled in behind Angela Merkel but simultaneously attempted to shift the German position on the issue of Eurobonds. Given his international economic credibility he began to advocate a European wide solution to the crisis, which would involve northern European countries putting the 'common good' or 'shared sovereignty' of the Eurozone ahead of their domestic electoral interests. Needless to say, this strategy was unsuccessful. But it draws our attention to the fact that international diplomacy among heads-of-state had replaced the relationship between citizens and government as the main arena of policy-making.

Political Volatility in the Eurozone

All of this brings us back to the question of citizen compliance with EMU. In each of these countries there has been unprecedented electoral volatility at the national level. Incumbent governments who implement economic policies that are imposed upon them by external actors are being severely punished at the ballot box. In Ireland, in 2011, the main party of the centre-right coalition; Fianna Fail, went from 77 seats in parliament to 15. This is unprecedented in Irish politics. Their coalition partner; the Green party lost all of their seats at both national and local level. The current centre-right coalition; Fine Gael and Labour, won the election on the basis that they would re-negotiate the Troika adjustment program. This never materialised. The Labour party are suffering the most in electoral terms. They received 33 seats in parliament in 2011, their biggest electoral victory in history. In the current polls they are set to lose 18 of these seats. In a recent by-election they received less than 5 percent of the vote. A new populist party; Direct Democracy, established a mere three weeks before the election finished ahead of the Labour candidate who came last.

The Greek centre-left party; Panhellenic Socialist Movement (PASOK), won 43 percent of the national vote in 2009. In 2010 they entered the Troika adjustment program and began to implement the conditional austerity measures. In 2011 the Prime Minister; George Papandreou resigned after a series of violent protests and the government collapsed. In the subsequent 2012 election PASOK suffered a historic defeat and barely secured 13 percent of the vote. The newly emerged leftist party; Coalition of the Radical Left - Unitary Social Front (SYRIZA), under their new charismatic leader; Alexis Tsipras took 27 percent of the popular vote. A government was formed by the centre-right; New Democracy, who whilst losing 10 percent of the vote secured enough seats to form a minority government. A neo-Nazi party; Golden Dawn, took 7 percent of the national vote or 18 seats in parliament. According to current polls (2013) they would win over 20 percent of the vote if new elections were held giving them the balance of power in parliament. The post-dictatorship political party system comprised of the centre-left and centre-right is collapsing.

In 2005, the Portuguese Socialist Party (PS) won 45 percent of the vote which was reduced to 35 percent in 2009. In 2012 after entering the Troika adjustment they suffered their largest ever defeat taking 28 percent of the vote. In six years they lost over 30 seats. The current centre-right liberal party; the Social Democrats, increased their popular vote from 28 percent to 38 percent. But according to current polls they would be voted out of office if a new election is held, with a variety of emergent parties set to change the parliamentary landscape. The trend is identical to other EMU program countries; sitting governments regardless of political partisanship are being voted out of office with new parties and social movements emerging that are likely to reconfigure the political landscape.

In Spain and Italy similar processes can be observed. A snap general election in 2011 was called in Spain after the perceived failure of the government to cope with the economic crisis. The ruling Spanish Socialist Workers' Party (PSOE) led by former Deputy Prime Minister; Alfredo Pérez Rubalcaba, suffered their worst election since Spain's transition to Democracy in 1977. They went from 43.9 to 28 percent of the national vote. The centre-right Peoples Party under Mariano Rajoy swept to power taking 44 percent of the popular vote. But he is now confronted with increased national separatist movements across Spain. This return to regional politics, particularly in Catalonia, is primarily driven by right-wing nationalist discourses that are at odds with pro-European integration. It is in Italy, however, were there has been most political volatility. In 2013 the electorate rejected the technocrat Mario Monti and his Civic Movement. They received 10 percent of the vote which is less than what was gained by the pre-existing centrist parties that he gathered to form his civic movement. While the Social Democratic Party; 'Partitio Democratico' (PD) led by Pier Luigi Bersani, emerged as the largest party, taking 29.5 per cent of the vote, it was 8 per cent less than what they had achieved in the 2005 elections. The clear winner of the Italian elections was Beppe Grillo and the *Cinque Stelle Movimento* (Five Star Movement). They emerged out of nowhere to take 25 per cent of the vote, recording the largest ever vote share for a party entering their first election. Berlusconi's centre-right 'Popollo Della Libertá' (PDL) emerged as the second largest party, taking 29 per cent of the vote. Some have lauded this as a political comeback, but this hides the fact that it was the biggest ever defeat for a sitting party in Italian elections, losing 16 per cent of their vote. This is much like what happened to the Christian Democrats in the late 1980s. The outcome of the election was that Italy found itself in the hands of the anti-Euro Beppe Grillo, who does not play by the rules of representative democracy, heralding an unprecedented crisis for the Italian polity.

The two main parties of the left and right have lost their largest share ever in Italian elections, making it the second most volatile election since WW2. This collapse of the centre can be explained by a change in 'supply' (i.e. the entry of a new party). Hence to understand the political fiasco of Italy we have to explain the success of Beppe Grillo and his Movimento. In much of the Italian press they are dismissed as a joke led by a quasi-authoritarian comedian. In truth they are a mix between the German pirate party and anti-establishment populism with a charismatic political leader. From a Machiavellian perspective we should not be surprised by this political volatility. He argued that political leaders should always trust the *populace* over *elites* because it is the former that will ultimately consolidate their political power. This is an observation that both Beppe Grillo and Silvio Berlusconi understand. But it begs an additional question; what is the threshold of 'populism' that political leaders should support in the context of the Eurozone crisis?

National leaders across deficit countries in the Eurozone have opted for the *responsible* position of internalising the adjustment pressures associated with EMU membership rather than responding to the populist pressure of their domestic electorates. The problem with this, however, is that responsible governments are implementing *irresponsible* economics. The suspension of input democracy would be justified if austerity solved the economic problems facing these countries. Most objective analyses would conclude that this is not the case. The outcome is growing popular support for anti-austerity movements on both the far-left and the far-right. In this situation the stability of the national *Stato* is being seriously called into question. There has yet to be a replacement at a transnational European level primarily because of a retreat back to the nation-state in Northern European countries. Given these conditions Machiavelli would conclude that the supposed responsible position of political leaders in the GIIPS countries is irrational. To increase their bargaining power they should make a credible threat to leave the Eurozone.

A Machiavellian Strategy

Machiavelli famously stated that there are only two ways for political leaders to deal with potential enemies: pamper them or destroy them. If the first fails one must pursue the second. The case of Ireland's failure to get support from Germany, Netherlands and Finland to retrospectively allow the European Stability Mechanism (ESM) take on the bank debt of those countries who guaranteed their financial institutions in the early stage of the crisis (leading to a sovereign insolvency) is an example of a failed strategy to pamper large states. In this context, there are five legitimate reasons why Ireland should shift toward a more forceful bargaining position if they are to generate citizen compliance to external EMU mandates.

First, these countries were unwilling to accept the decision of the European Council in June 2012 that Europe needs to break the link between sovereign and bank debt in individual member-states. In this sense they have violated the rules of the game (or implicit social contract that emerged from this meeting). These rules are not written into hard legislation but they are premised on a gentleman's agreement that Europe, as a collective club, must help individual member-states separate sovereign from bank debt. This is absolutely necessary if member-states are to develop the conditions for economic and employment recovery (which is in the common interests of all Europeans).

Secondly, if these countries – or more precisely their Finance Ministries – insist that 4.5 million people continue to shoulder the burden of private bank debt (which amounts to over €60bn and originates in a complex web of banking transactions within the EMU) without collective support from Eurozone partners, then no amount of pampering by the Irish government will resolve the problem. The approach of heads-of-state in Ireland and Southern Europe to appease and accommodate the interests of stronger states has failed to change their position.

Thirdly, regardless of whether Ireland gets a deal to federalise bank debt it will still require financial assistance from the ESM when the current round of funding expires. Program countries, whilst being a member of the Eurozone, cannot access international financial markets. Therefore they remain non-sovereign economic countries pursuing a fiscal and structural adjustment program that is imposed by the Troika. This is difficult for a government to sell to the electorate as it is. It will be impossible for any government to sell a Troika adjustment programme to citizens if these same actors refuse to cut the link between sovereign and bank debt. Furthermore, as long as the banking and sovereign debt is connected, the prospect of the fiscal adjustment programme working declines. Therefore it is completely within the self-interest of the Eurozone to relieve its member-states of its banking debt. In recognition of this, the IMF and ECB have challenged the uncompromising bargaining position of the Dutch, Finnish and German government.

Finally, and perhaps most importantly, it is completely inequitable to enable the ESM to take on the bank debt of Spain (and all European countries in the future) without retrospectively applying the same conditions for countries who took on their own bank debt at the beginning of the crisis. The most basic rule for any society, association or club is that its members are guaranteed equal rights and conditions. An association, such as the Eurozone, that applies different rules for different countries is not politically sustainable. It will feed into the rise of populist Euro-sceptic political parties. Double standards are illegitimate and violate all common sense notions of fair procedure. It is for all of these reasons that it would be perfectly legitimate for heads-of-state to change strategy and make a credible threat, in the interest of both democratic and economic performance, to leave the Eurozone.

One would be forgiven therefore if Ireland and Southern European leaders developed a coordinated strategy at a transnational Eurozone level to confront the Dutch, Finnish and German governments with a strategy that will potentially undermine their electoral support. In the absence of European wide solution to the crisis *realpolitik* at the level of the nation-state is probably the only way deficit countries will achieve their objectives, while simultaneously forcing Northern European governments to recognise what is really in their own long-term interest; a stable Eurozone polity.

Conclusion

This is a crisis of the political sovereign. Machiavelli's advice for national leaders in their attempt to build a union of European states would be a mix of caution and fear. Whether one wants more or less Europe is a normative question. The legitimacy that underpins this, however, is an empirical one. Presently there is neither input nor output legitimacy for program countries in the EMU. The outcome is unprecedented political volatility at the national level that seriously calls into question why member-states and their citizens should comply with EMU mandates. At the European level the outcome is a variant of Hayekian technocracy that undermines all vestiges of Republican self-government. Machiavelli would have recognised that in the absence of input or output legitimacy political elites will not get their vision of Europe. But the core argument of *Il Principe* is that it is *not* always rational to be moral. Weaker states should bargain more forcefully and stronger states should seek an alternative discourse to moral debt. It is only through this process of making credible threats that a new political *equilibrio* for the Eurozone polity will be found.

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