

Preface

People of my generation are all children of austerity – we were born around the time of the first oil shock. Many memories of my childhood and teenage years are coloured by *kemer sıkma politikaları* (belt-tightening), which I remember asking my parents about back in the early 1980s. As I grew up and started reading the newspapers, I noticed stories of austerity everywhere. And just like that, I continued reading about austerity for three decades and counting.

My interest in austerity – what it is, what it is good for, and at what price – crystallized during my late teenage years. I was majoring in economics at the Middle East Technical University (METU) but was also interested in questions of who gets what, when, and how – not exactly the typical questions economics majors would ask at the height of the Conservative Revolution. I do not think there were any courses on the welfare state at METU, but I remember taking advanced courses on political economy and institutions. I continued taking courses on economic policy and distribution in my economics master's program at Ankara University. These courses taught me about how institutions are designed to distribute resources (and therefore power) to particular groups of actors and not to others. I was all eyes and ears about how austerity was commonly institutionalized and what its distributive consequences were for different groups in society. My master's work, therefore, *had* to be on austerity and its social consequences.

Going through one IMF austerity package after another, my native Turkey would be an ideal test case; but, unlike my peers and professors, the contrarian in me did not want to work on my own country. The late 1990s was a time when Europe's leaders were hammering out the final details of the Economic and Monetary Union (EMU). There was no match for this experiment on the institutionalization of austerity on such a scale for a research project, I thought. And I was obviously

interested in its future social consequences. To predict these, I had to learn where the euro came from. Given my training at the kitchen table and onwards, the answer was self-evident: the EMU was nothing but the institutionalization of orthodox macroeconomic principles for its own overarching economic governance. Convergence on these principles had already begun in some EU member states. The EMU would seal the fate of the remaining others by collectively locking in the process of conversion to macroeconomic discipline (read: austerity) across Europe. Since the EMU was institutionalizing austerity at the highest level, member states would have no choice but to bear the brunt of falling wages, rising unemployment, and other social disruptions.

What I read hints of, while learning about all this, was how *politicized* the project was. In the simplest terms, the euro was the economic means to political ends. These ends included building disciplined economic governance along with a multi-level policy-making state. Having been trained as an economist up to that point, and despite having read Karl Polanyi, I could hardly see the *politically constructed* nature of institutionalizing the euro. But as I learned more about the politics behind the euro, I realized that economic policymaking was nothing but “an essentially political process” (Hall 1986). I became increasingly interested in what I learned to be the “political sociology of political economy” (Gourevitch 1986).

My interest in the social and political conflicts that produced changes in the organization of power, and the consequences of power distribution within and among societies, led me to pursue a PhD in sociology at McGill University in Montreal. My training in political sociology and economic sociology at McGill helped me understand the interplay of ideas, interests, and institutions in political economy. In the meantime, I was still mesmerized by the unfolding EMU experiment and decided to continue working on it. I chose to focus on what Andy Martin and George Ross (whom I first knew as leading scholars on the euro and fortunately as role models after that) saw as “the single most important area still reserved to national politics” – the welfare state (Martin and Ross 2004, 17).

Even before the euro went into circulation, we were all convinced that the EMU would institutionalize austerity across Europe. With respect to its effects on Europe’s welfare states, expectations on the political left, right, and centre were more or less the same. Given its neoliberal origins, the supranational EMU straitjacket would corner member states into downsizing their social security programs. Facing material cost-cutting pressures, politicians, particularly those on the left, would feel obliged to introduce welfare state cutbacks to secure

entry in the EMU. Others, especially on the right, would be able to use the EMU card in pursuing slash-and-burn strategies to “rightsize” their welfare states. Thus, virtually everyone who pondered on the euro’s social consequences agreed on the impact of Euro-austerity on Europe’s welfare states. It was this curiously widespread agreement, not only in academic and policy circles but also among the public, that prompted my PhD project. And I was intent on showing, with all the evidence I could find, the ways and means through which Euro-austerity would spontaneously retrench the welfare states in Europe.

As a first step, I set out to show how the EMU institutionalized an austerity regime at the EU level and how this regime constrained fiscal policy decisions at the national level. I found that, among the member states, the higher the need for austerity to qualify for the EMU, the stronger the reversals in fiscal policies and the more significant the changes in fiscal politics. All governments that aimed for EMU entry slashed government deficits and public debt in line with the requirements of the Maastricht Treaty.

Then came the second step: did Euro-austerity translate into welfare state retrenchment in the 1990s? For this, I mustered key evidence that comparative welfare state specialists commonly used to detect changes in all the EU member states of the time. I constructed a variety of indicators on the basis of public social expenditures and analyzed changes in them. I then traced the development of legislated social rights by focusing on the replacement rates used in social security programs. Finally, I traced the changes in the key social security programs in Belgium, Greece, and Italy, the member states that needed to introduce the most radical fiscal changes. I followed, using in-depth case studies, all the key welfare state reforms introduced by every government that had come to power in these countries.

As I confronted the evidence I obtained at every step, I was struck by how off the mark those earlier expectations – including my own – had been. The evidence showed no systematic welfare state cutbacks in the countries in which we had expected to see radical retrenchment as a result of Euro-austerity. Europe’s welfare states had proved resilient because the beneficiaries of mature welfare programs – labour unions, political parties, and even coalition partners in ruling governments – had defended social rights against frontal attacks.

The fact that we could not have predicted this was understandable. No one in the early 1990s who had been theorizing the euro’s effects had had access to the detailed statistical data on social expenditures and social rights that I had obtained for my research. Moreover, scholars who expected dire scenarios back then had not fully received the insights of

new theoretical perspectives. The “new politics of the welfare state,” which could help explain its resilience, became influential only in the 2000s. In addition, the evidence showed that the political economy of welfare reform was also shaped by forces depicted in the “old politics of the welfare state.” Labour unions and their allies, organized under union leadership, played key roles even at the peak of Euro-austerity in virtually all reform processes in Belgium, Greece, and Italy.

In the end, I learned that the extent to which pressures may be modified, muted, or even fully mitigated by counter-pressures has been, and will continue to be, contingent on the very political economy of reform. At the time I was writing, I benefited from hindsight as new data became available. Thus, I was able to develop a new perspective on all these events, which I share in this book.

In its first incarnation, this book told the story of how these extraordinary events occurred in what we later learned to be only the *first episode* of Euro-austerity. Just as I was completing this work, the Great Recession hit. Europe began to struggle with yet another wave of austerity – Euro-austerity Episode II. Strikingly, just as in Episode I, doom-and-gloom scenarios ran through the popular press as well as scholarly work. Europe’s welfare states may have outlasted the first episode of Euro-austerity. But this time, almost everyone concurred, it was different: welfare states would not be able to survive the second episode.

Just as in Episode I, commentators and scholars making predictions about the impact of the current episode of Euro-austerity on welfare states did not have enough data. But we now know much more than ever about the link between Euro-austerity and welfare states. We have come to learn that partisan politics structure all decisions about who gets what, when, and how, even under the direst circumstances. We have also learned that institutions, and the coalitions that support them, are shaping and reshaping partisan choices. We know, therefore, that welfare states will not disappear, no matter how structural the austerity constraints are or how powerful the Euro-austerity card is.

We talked about tightening our belts back in the 1970s; little did I know that we would still be talking about it decades later. But what this book shows, or so I hope, is that governments and progressive forces should beware writing off democratic politics even when taking on Goliaths. I tried to illustrate how Euro-austerity was largely what governments made of it: when there was political will, there was a (in fact, more than one) way. I also tried to show how Euro-austerity was what organized societal actors made of it. I hope these messages in the book will shed some light as we explore democratic alternatives in the current and future episodes of austerity.