Europe after the Coronavirus: A “Return of the State”?

by Hans Kundnani

ABSTRACT
Against the background of the coronavirus pandemic, there has been much discussion of a “return of the state” across two dimensions: a state-society one and a state-market one. In both dimensions, the institutional structure of the EU constrains or distorts its response in ways that should worry “pro-Europeans”. In the first dimension, the EU’s inherent technocratic nature and way of functioning may lead it to respond to the crisis by further continuing the shift in recent decades from the “popular” to the “constitutional” pillar of democracy and thus deepen the crisis of liberal democracy in Europe. In the second dimension, EU rules limit the possibility of a shift from the market to the state that may now be demanded by citizens.
Europe after the Coronavirus: A “Return of the State”?

by Hans Kundnani*

Introduction

In a short space of time after the coronavirus spread throughout Europe in the spring, the reach of the state grew enormously as governments suddenly took on new and previously unthinkable roles both in regulating and restricting the private lives of citizens and providing economic relief. States imposed lockdowns that have limited the freedoms of citizens in the name of (health) security and at the same time taken extraordinary steps to mitigate the economic impact of those lockdowns, including providing enormous monetary and fiscal support to businesses (including the re-nationalisation of airlines), workers (for example furlough schemes) and citizens (including experiments with a universal basic income). Against this background, there has been much discussion of a “return of the state”.

It is not yet clear is how permanent these measures will be, or, to put it another way, how significant the impact of the crisis will turn out to be. The scale of the crisis could lead to a far-reaching re-evaluation of the role of the state in relation to society and the market in Europe. On the other hand, the extraordinary measures that have been taken could turn out to be temporary and followed by a return to something like pre-coronavirus normality. Exactly how this shift could take place – in other words, what exactly a “return of the state” might look like – is also unclear. The coronavirus could create greater expectations of state capacity, but it is not clear in which areas these expectations will be strongest and what this might mean for European economies and societies.

This paper examines the possibility of a “return of the state” within the European Union across two dimensions: a state-society dimension and a state-market dimension. In other words, it examines a possible shift around questions of democracy and political economy in Europe. In particular, it discusses the effect

* Hans Kundnani is Senior Research Fellow at Chatham House, London.

This paper was presented in a joint webinar on transatlantic relations by the Istituto Affari Internazionali (IAI) and the Deutsche Gesellschaft für Auswärtige Politik (DGAP), organised in cooperation with the Italian Ministry of Foreign Affairs and International Cooperation, the Compagnia di San Paolo, the Friedrich Ebert Stiftung (Rome Office) and the US Embassy to Italy on 5 November 2020. In the closed-door webinar, US and European experts and diplomats gathered to discuss the future of transatlantic relations.
of the coronavirus in terms of two fault lines in European politics that pre-date the current crisis – a centrist/populist fault line around the relationship between the “constitutional” and “popular” elements of democracy and a left/right fault line over the relationship between the state and the market – and explores how the coronavirus has already impacted and may further impact contestation along these fault lines.

The paper argues that, in both dimensions, the institutional structure of the EU constrains or distorts its response in ways that should worry “pro-Europeans”. In the first dimension, the EU’s inherent technocracy may lead it to respond to the crisis by further continuing the shift in recent decades from the “popular” to the “constitutional” pillar of democracy and thus deepen the crisis of liberal democracy in Europe. In the second dimension, EU rules limit the possibility of a shift from the market to the state that may now be demanded by citizens. Across both dimensions, therefore, the current crisis has the potential to deepen the dysfunctionality of the EU and lead to a further increase in Euroscepticism.

1. A technocratic surge?

In recent decades, there has been a dramatic expansion of technocratic modes of governance. In part as a deliberate move that was taken by national governments in order to regulate highly technical policy areas and in the case of monetary policy to maintain price stability, and in part a consequence of “hyper-globalisation” and the proliferation of international treaties and organisations during the past 40 years, powers that were previously held by national legislatures have been ceded to courts, central banks and supranational institutions. This shift has troubled analysts of democracy: “non-political, or depoliticized, modes of decision-making” has led to a “creeping erosion of democracy”.

In particular, this has manifested itself in the rise of what is generally called “populism”, which can be understood as a response to this expansion of depoliticised forms of decision-making. As technocratic governance has expanded, it has led to a backlash – as Cas Mudde, a leading scholar of populism, puts it, “an illiberal democratic response to undemocratic liberalism”. The rise of populism in turn leads to the further expansion of technocratic governance as elites seek to insulate decision making from politicians who are perceived as

---

“irresponsible” or “irrational”. Thus, there is a dialectical or symbiotic relationship between technocracy and populism in which one feeds off the other.⁵

Europe has experienced a particularly acute version of this dialectic or symbiosis. This is above all because of the EU itself, which can be thought of as the ultimate experiment in technocratic governance – “depoliticisation” is in a sense the essence of what the EU does. This process of “depoliticisation” can also be understood in terms of a shift away from the “popular” pillar of democracy to the “constitutional” pillar.⁶ European integration involves “constitutionalisation” – that is, the removal of areas of policy from the space of democratic contestation as rules are developed to govern them.⁷ In so far as these rules can be challenged, it is often through the judicial review – in particular, through European Court of Justice (ECJ) – rather than through democratic politics.

As a result, the predominant way in which the dialectic or symbiosis between technocracy and populism has played out in Europe is along the fault line between “pro-Europeans” and Eurosceptics, which overlaps to a large extent with the fault line between “centrists” and “populists” (centrists tend to be “pro-European” and nearly all figures, movements and parties who are generally described as “populists” are Eurosceptic). As the “permissive consensus” that once enabled European integration has eroded and Euroscepticism has increased, the technocratic approach to politics embodied by the EU has been increasingly challenged.⁸ In recent years, the momentum seemed to be with the “populists”, as the much-used (though misleading) metaphor of a “wave” suggested.⁹

It may seem as if the coronavirus has strengthened and vindicated the EU – indeed, this is what many “pro-Europeans” hope. The coronavirus created what might be called a technocratic moment in which executive competence and expertise is clearly needed – indeed, lives depend on it. As a result, since the crisis began, many “pro-Europeans” have argued that it has discredited “populism”. For example, High Representative Josep Borrell wrote in April that the pandemic “brings the importance of a rational approach, expertise, and knowledge into sharp focus – principles that the populists mock or reject as they associate all of those qualities

⁹ On the metaphor of a “wave”, see Larry Bartels, “The ‘Wave’ of Right-Wing Populist Sentiment Is a Myth”, in Monkey Cage, 21 June 2017, http://wapo.st/2sOoMZU.
with the elite”.

The centrist hope is that, after the “populist surge” of recent years, the coronavirus will lead to a kind of “technocratic surge”. Some point to the polling that suggests that centrist leaders, particularly those associated with a technocratic approach such as German Chancellor Angela Merkel, have become more popular because of their competent response to the crisis. Conversely, some “populist” parties such as the Alternative für Deutschland have declined in popularity since the crisis began. However, the reality is more complicated. Some “populist” figures like Hungarian Prime Minister Viktor Orbán have also benefited from the crisis, suggesting that popularity may be as much a function of incumbency in a crisis as ideology.

Indeed, the focus of debates among “pro-Europeans” about democracy since the coronavirus began have focused almost entirely on Orbán and the threat to democracy from “populism”. In particular, they have focused on way that in April, he introduced emergency measures that allowed him to rule by decree and made criticism of the government unlawful. For many analysts, these measures were a “coronavirus coup” that signalled the end of democracy in Hungary. (However, the measures were revoked in June.) There was also much discussion about how the EU recovery fund could be tied to conditionality on the rule of law, though the decision to implement the fund through the EU budget – in other words at the EU level rather than the eurozone level – made this more difficult.

However, the perception that centrism has been vindicated and populism discredited itself creates a danger: that “pro-Europeans” will double down on technocracy as if the problems that led to the populist backlash during the last decade had somehow been solved. In other words, the current crisis has increased what Peter Hall has called the “technocratic temptation” – that is, the temptation “to leave the important decisions to experts ensconced in agencies far-removed from electoral politics”. Instead of seeking to find a new equilibrium between the “constitutional” and “popular” pillars of democracy in Europe, which would require a difficult reform of the EU, many “pro-Europeans” may seek to continue or even accelerate the current trajectory of European integration towards what Jürgen Habermas has “market-conforming executive federalism”.

---

11 Guy Chazan, Miles Johnson and Sam Jones, “Europe’s Far Right Stumbles As Infighting and Rivals Sap Strength”, in Financial Times, 14 October 2020, https://www.ft.com/content/2ac8b5ff-2068-4ee3-acb8-2ca11cc083b1.
Of course, there is clearly a place for experts in policymaking. It is also clear that, in the acute health crisis that Europe is still struggling with, decisions about measures that restrict freedoms such as lockdowns should be guided by science. But such measures are still political and should therefore be taken within the space of democratic contestation. Future questions around how to deal with the huge debt overhang that has been accumulated in the response to the crisis will be even greater distributional consequences – that is, they will create winners and losers – than decisions about imposing and lifting the lockdown. In other words, the problems with technocracy will quickly come back into sharper focus.

In particular, in the aftermath of the coronavirus, the question of the legitimacy of decisions taken at the EU level, in particular decisions about economic policy, is likely become more acute. The recent battle the German Constitutional Court and the ECJ over the European Central Bank’s bond buying programme illustrates how, within the eurozone, economic policy with huge distributional consequences is to a large extent now made by competing “independent” institutions that are relatively free from democratic pressures. This isolation of decision making from democratic legitimation has the potential to create another populist “wave” even bigger than the one that Europe has just experienced.

The political shocks produced by the rise of populism have forced Europeans to recognise, and to begin to deal with, the problems with technocratic governance. In particular, it has demonstrated the need to find a new balance between what Peter Mair called “responsible” and “responsive” government – another distinction that corresponds to the distinction between the “constitutional” and “popular” pillars of democracy. If, after the coronavirus, the EU now doubles down on technocracy, it would mean unlearning the lessons of the last few years and deepening rather than resolving the crisis of liberal democracy in Europe.

The problem, however, is that the EU has an inherent technocratic bias. At least in its current form, European integration means depoliticisation. So, the choice for the EU may be between further integration that deepens the fault line between technocracy and populism, or an attempt to rebalance that will involve a rethink of fundamental elements of the European project and even of the concept of what it means to be “pro-European”.

2. A new political economy?\(^\text{17}\)

The history of the evolving relationship between the state and the market in post-war Europe can be divided into two phases. The first was the 30-year period after the end of the Second World War, which Jean Fourastié famously called *Les Trente Glorieuses*. This Keynesian period was dominated by economic planning, which became, as Tony Judt put it, “the political religion of post-war Europe”.\(^\text{18}\) As reconstruction drove growth in Europe, the post-war settlement between capital and labour produced the activist welfare state. But the settlement did not function in quite the same way everywhere. Different models of welfare capitalism co-existed in Europe: a “liberal” model (as in the UK), a “conservative-corporatist” model (as in Germany and Italy), and a “social democratic” model (as in Sweden).\(^\text{19}\)

A second period began after the oil shock of 1973, in which the balance shifted away from the state towards the market in what is sometimes called the “neoliberal turn”. Price stability replaced full employment as the primary goal of economic policy and governments sought to reduce the power of organised labour, which was then seen as driving the rise in inflation. Keynesian thinking was replaced by monetarist economics and policies such as tax cuts and deregulation. As had been the case with welfare capitalism, this new settlement functioned in different ways from one European state to another. The UK went furthest in “financialisation” – that is, the growth in the size and importance of the financial sector. Germany, on the other hand, retained much of its social market economy, though it was always extremely hawkish on inflation – a key element of neoliberalism.

This evolution in the relationship between state and market overlapped to a large extent with the development of globalisation. During the 30 years after the Second World War, barriers to the movement of manufactured goods were removed under the General Agreement on Tariffs and Trade (GATT), although agricultural goods were exempt and barriers to the movement of capital and people remained.\(^\text{20}\) After the end of the Cold War, this moderate form of globalisation gave way to a more expansive model that significantly reduced the sovereignty of states – for example, through the rules of the World Trade Organisation, which went much further than GATT in liberalising trade. In this period of “hyper-globalisation”, economic interdependence between states and regions increased as global trade surged and was restructured around international supply chains and “just in time” manufacturing.

\(^{17}\) The first part of this section is based on Pepijn Bergsen et al., “Europe After Coronavirus: The EU and a New Political Economy”, in *Chatham House Research Papers*, June 2020, p. 3-5, https://www.chathamhouse.org/node/23626.


European integration also developed against the background of this evolution of globalisation. It, too, can be divided into two phases: a first that included the Schuman Plan in 1950 and the Treaty of Rome in 1957; and a second that began in the 1980s with the single-market project, and continued with the creation of the economic and monetary union in the 1990s. If globalisation is understood as the removal of barriers to the movement of capital, goods and people, Europe clearly went even further in this second phase than the rest of world – at least by these measures. European integration can therefore be thought of as an extreme form of “hyper-globalisation” in a regional context.

In the first wave of European integration beginning in the 1950s, continental European states formed a cartel to produce coal and steel, and then, in 1968, a customs union with a common external tariff. National governments retained extensive autonomy in many areas of policy. In fact, during this period integration seems to have strengthened the nation state rather than overwhelming it. As Alan Milward has argued, integration “rescued” the European nation state after the Second World War. But after the 1957 Treaty of Rome, European integration stalled at the political level throughout the 1970s – though, importantly, “judicial integration” continued through decisions by the European Court of Justice, with significant consequences for competition law.

The relaunch of European integration that took place with the single-market project in the 1980s coincided with, and was closely connected to, the neoliberal turn (the British prime minister, Margaret Thatcher, was central to both developments). It was made possible by the way that the French Socialist Party embraced deep integration after the abandonment in 1983 of French President François Mitterrand’s experiment with “Keynesianism in one country” and puts its faith in a corresponding drive for a more “social Europe” at the supranational level. The single-market project drove deregulation, privatisation, subsidy reduction and the removal of barriers to the flow of capital, goods and services. As Chris Bickerton put it: “Closer European integration became a way of burying the post-war compromise.”

What emerged during the 1980s was a European Community that was structurally skewed towards the removal of market barriers between European countries (a process known as “negative integration”) rather than the agreement of common policies to shape markets (or “positive integration”). The EU subsequently

became a kind of machine for negative integration even in the absence of political agreement. Meanwhile, positive integration proved extremely difficult to undertake, particularly as the EU enlarged, because it required agreement (usually unanimous) between member states. The regulatory competition unleashed by negative integration put pressure on welfare states, and aspirations for a more “social” Europe were largely frustrated.

What might be called the “neoliberalisation” of the EU continued and intensified in the 1990s after the end of the Cold War. In particular, with the creation of the European single currency, the EU went further in “constitutionalising” elements of neoliberal economic policy. The European Central Bank (ECB) was given a narrow mandate focusing on price stability. Meanwhile, the eurozone’s fiscal rules, which have been gradually expanded and tightened since their first iteration in the Maastricht Treaty that created the single currency, set limits on government debt and deficits. In parallel, freedom of movement increased as the EU enlarged, raising concerns about immigration – in particular, but not only, in the UK.

The 2008–09 global financial crash and subsequent eurozone crisis highlighted many of the challenges of market fundamentalism. The crisis was considered by many as an opportunity to recalibrate the state–market balance and address market overreach. However, despite the growth of radical left-wing parties in a number of European countries, the political and policy dynamics of the time prevented a serious paradigm shift. Instead, after an initial fiscal stimulus, the collective EU and national responses to the crisis entailed aggressive fiscal consolidation with massive social and political consequences. In particular, after the start of the euro crisis in 2010, the EU imposed austerity and “structural reform” (including privatisation) on crisis-hit countries in the name of “competitiveness”.

The coronavirus has now created a widespread demand beyond the left for a new settlement between the state and the market. For example, even the Financial Times called for a new economic settlement. In an editorial in April comparing the current moment to the one immediately after the end of World War II that produced the welfare state, it said that “radical reforms” that would “reverse the prevailing policy direction of the last four decades” were now needed. Governments would have to take a more active role in the economy. In particular, they would need to focus on reducing inequality and invest in public services. Redistribution should once again be on the agenda and “policies until recently considered eccentric, such as basic income and wealth taxes” should also be taken seriously.26

However, the EU faces particular challenges in making such a shift towards a more state-centric economic model. The current form of the EU, centred on negative integration, the single market and the single currency, came into being during

---

26 “Virus Lays Bare the Frailty of the Social Contract”, in Financial Times, 3 April 2020, https://www.ft.com/content/7eff769a-74dd-11ea-95fe-fcd274e920ca.
Europe after the Coronavirus: A “Return of the State”? 

the neoliberal period. Because of the way this model has been “constitutionalised”, changing it is (deliberately) difficult. In particular, EU rules constrain member states in two areas. First, EU fiscal rules may make it difficult for member states to continue to run high levels of debt. Second, EU rules on state aid may prevent member states pursuing the kind of industrial policy they now want to. In both cases, the rules are currently suspended, but discussions about to reform them have barely begun and there could be clashes in future as some member states seek to reimpose them.

In theory, the EU could be reformed to accommodate a more state-centric economic model. Given sufficient consensus between member states, the EU could even conceivably be the driver of collective change in these areas and create a real “Next Generation EU” – the name given to the recovery fund that member states agreed in July. However, because of the existing economic imbalances within the eurozone that pre-date the coronavirus – which the recovery fund will do nothing to address – and because the health crisis has had asymmetric effects within Europe, it is more likely that the pandemic response will lead to an uneven demand for a shift in economic policy across the EU.

The danger, therefore, is that EU may now be trapped in a suboptimal status quo without a consensus on how to change it. As a result, it may be unable to accommodate the kind of shifts by member states in the state-market paradigm that are now necessary in economic terms and are demanded by many citizens. As with a doubling down on technocracy, this is likely lead to a further increase in Euroscepticism.

3. Institutional constraints

As David Runciman has pointed out, the coronavirus has had both a stabilising and a transformative effect in Europe. In terms of the two dimensions discussed in this paper, one might say that the crisis has been stabilising in the state-society dimension (that is, in terms of questions around democracy) and transformative in the state-market dimension (that is, in terms of questions around political economy). Put differently, and simply, centrists have in many cases been strengthened relative to “populists”, but they have been forced by the crisis to transform the relationship between the state and the market. The question, though, is how permanent this transformation in the relationship between the state and market will turn out to be.

Anthony Gregory shows that, in the United States, 2020 was a “revolution that wasn’t”. The “springtime for the state” did not ultimately materialise because of

ideological and structural constraints. In particular, political polarisation in the United States prevented a realignment of American federalism and liberalism. The possibility of a “return of the state” has also been constrained in Europe by a mixture of ideological and structural factors. But relative to the United States, structural factors may be more important than ideological ones. In particular, what makes the situation in Europe different is the EU, which functions as a particular institutional constraint.

This paper has shown how this constraint functions. In the state-society dimension, the EU’s inherent technocracy has tended to prevent the kind of rebalancing from the “constitutional” to the “popular” pillar of democracy that is necessary to recreate legitimacy in Europe. In the state-market dimension, the neoliberal economic model that has been “constitutionalised” within the EU since the 1980s and especially since the creation of the euro makes it difficult to rethink the relationship between the state and market that may now be necessary. While many “pro-Europeans” see the creation of the recovery fund as a decisive breakthrough in European integration, the pressures on the EU may increase and Euroscepticism may continue to rise.

Updated 6 November 2020
References

Larry Bartels, “The ‘Wave’ of Right-Wing Populist Sentiment Is a Myth”, in Monkey Cage, 21 June 2017, http://wapo.st/2sOoMZU


Guy Chazan, Miles Johnson and Sam Jones, “Europe’s Far Right Stumbles As Infighting and Rivals Sap Strength”, in Financial Times, 14 October 2020, https://www-ft-com.eur.idm.oclc.org/content/2ac8b5ff-2068-4ee3-acb8-2ca11cc083b1


Anthony Gregory, “2020: The American Revolution that Wasn’t”, in IAI Papers, forthcoming


Jürgen Habermas, The Lure of Technocracy, Cambridge/Malden, Polity Press, 2015


Peter Mair, Ruling the Void. The Hollowing of Western Democracy, London/New York, Verso, 2013


Yascha Mounk, The People vs. Democracy. Why Our Freedom Is in Danger and How to Save It, Cambridge/London, Harvard University Press, 2018


Europe after the Coronavirus: A “Return of the State”?

Istituto Affari Internazionali (IAI)
The Istituto Affari Internazionali (IAI) is a private, independent non-profit think tank, founded in 1965 on the initiative of Altiero Spinelli. IAI seeks to promote awareness of international politics and to contribute to the advancement of European integration and multilateral cooperation. Its focus embraces topics of strategic relevance such as European integration, security and defence, international economics and global governance, energy, climate and Italian foreign policy; as well as the dynamics of cooperation and conflict in key geographical regions such as the Mediterranean and Middle East, Asia, Eurasia, Africa and the Americas. IAI publishes an English-language quarterly (The International Spectator), an online webzine (Affarinternazionali), three book series (Global Politics and Security, Quaderni IAI and IAI Research Studies) and some papers’ series related to IAI research projects (Documenti IAI, IAI Papers, etc.).

Via dei Montecatini, 17 - I-00186 Rome, Italy
T +39 06 3224360
iai@iai.it
www.iai.it

Latest IAI PAPERS

Director: Riccardo Alcaro (r.alcaro@iai.it)

20 | 32 Hans Kundnani, Europe after the Coronavirus: A “Return of the State”?
20 | 31 Christian Koch and Adnan Tabatabai, The Quest to Launch Regional Integration Processes in West Asia and the Arabian Peninsula
20 | 30 Trita Parsi, Pax Americana vs. Inclusive Security in the Middle East
20 | 29 Rouzbeh Parsi and Dina Esfandiary, So Close Yet So Far Apart. Facilitating Dialogue and Cooperation across the Persian Gulf
20 | 28 Alessandro Marrone and Karolina Muti, NATO’s Future: Euro-Atlantic Alliance in a Peacetime War
20 | 27 Riccardo Alcaro, Le elezioni negli Stati Uniti
20 | 26 Saeed Khatibzadeh, HOPE for a New Regional Security Architecture: Toward a Hormuz Community
20 | 25 Sinan Ekim and Nicola Bilotta, Italian–Turkish Economic Relations: An Overview
20 | 24 Josep Borrell, The Sinatra Doctrine. How the EU Should Deal with the US–China Competition
20 | 23 Jin Liangxiang, China and Middle East Security Issues: Challenges, Perceptions and Positions