

BRATISLAVA INTERNATIONAL SCHOOL OF LIBERAL ARTS

**Greek Tragedy:
The Death of Democracy in the European Union**

Bachelor Thesis

Bratislava 2016

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Declaration of Originality

I declare that this bachelor thesis is my own work and has not been published in part or in whole elsewhere. All used literature and other sources are attributed and cited in references.

Bratislava, 22 February 2016

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Greek Tragedy: The Death of Democracy in the European Union

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Abstract

A long-time idealization of the EU project, a few years ago has turned into the objects of debate among many politicians and academics. The main reason for doubts has been adduced by an issue of the democracy deterioration in the European Union and its increasing tendency supported by undemocratic features in decision-making of the EU institutions. One of the most obvious victims, of the on-going undemocratic processes in the European Union, has become the Greek debt crisis and Greece which has been forced to accept a dictated policy of the EU, and has had a very little freedom of choice in deciding its own future. The democracy deficit of the European Union is therefore a highly pressing issue to be faced and solved.

The aim of this bachelor thesis is to identify the causes of the democracy deficit in the European Union. To analyse the causes of the democracy deficit in the EU two hypotheses are formulated a) a preference of the EU's economic interests over the democratic principles in the policy-making b) an incorrect procedural setting of the European institutions neglecting the sufficient opportunity for public involvement in decision-making. The democracy-deficit in the processes of the EU policy-making will be examined using the example of the debt crisis in Greece, characterized by forced dic-

Petrincová: Greek Tragedy

tates of policy reforms designed by Troika which neglected the Greek bailout referendum results, held in July 5th, 2015.

The intention of this bachelor work is to better understand the status of democracy in the European Union, root causes of the democracy deficit and its actors. It is not expected that democracy-deficit in the European Union is caused only by one factor. The expected conclusion of this bachelor thesis is the verification of the working hypothesis formulated on democracy deficit in the European Union.

Grécka tragédia: smrť demokracie v Európskej únii

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Abstrakt

Dlhoročná idealizácia projektu Európskej únie sa pred pár roky začala objavovať, ako predmet záujmu politikov a akademikov. Hlavnou príčinou tejto debaty bola obava zo zhoršeného stavu demokracie v Európskej únii a problematické nastavenie európskych inštitúcií z hľadiska demokratickej legitimacy, ktoré spôsobovalo nedemokratické rozhodovanie týchto inštitúcií. Jednou z najvýraznejších obetí prebiehajúcich nedemokratických procesov v Európskej únii, sa stala grécka dlhová kríza a Grécko, ktoré bolo nútené prijať diktovanú politiku EÚ, zatiaľ čo, malo veľmi malú slobodu rozhodovaní o svojej vlastnej budúcnosti. Demokratický deficit v Európskej únii je preto veľmi naliehavou problematikou, ktorej je potrebné čeliť a vyriešiť ju.

Cieľom tejto bakalárskej práce je identifikovať príčiny deficitu demokracie v Európskej únii. Analyzovať príčiny demokratického deficitu v Európskej únii dvomi hypotézami, ktoré sa pokúsia overiť, že a) preferencia ekonomických záujmov EÚ nad demokratickými princípmi, prispieva k rozvoju demokratického deficitu a b) nesprávne procesné nastavenie európskych inštitúcií znemožňuje efektívne a symetrické zapájanie sa občanov do riadenia únie. Demokratický deficit v procesoch tvorby EÚ politiky bude skúmaný na príklade dlhovej krízy v Grécku, ktorá sa vyznačuje nútenou politikou úsporných reforiem navrhnutých Trojkou, ktorá

Petrincová: Greek Tragedy

ignorovala výsledky gréckeho referenda konajúceho sa 5. Júla, 2015, ktoré odpovedalo v neprospech prijatia tretej finančnej asistencii od Trojky.

Zámerom tejto práce je lepšie pochopiť stav demokracie v Európskej únii a hlavné príčiny demokratického deficitu a jej aktérov. Táto štúdia nepredpokladá, že demokratický deficit v EÚ spôsobuje iba jeden činiteľ. Očakávaným záverom tejto bakalárskej práce je overenie pravdivosti dvoch hypotéz, ktoré skúmajú príčiny demokratického deficitu v EÚ.

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Table of Contents

Declaration of Originality.....	iii
Abstract	iv
Abstrakt	vii
Acknowledgment.....	viii
Introduction	10
1 Representative Democracy and Public Participaton.....	13
1.1 Public participation: source of legitimation in modern democrtic capitalistic state	13
1.2 Political equality: essence of liberal democracy	15
1.3 Poverty: the reason why democracy cannot reach its potential?.....	19
2. The Modern Democratic-Capitalistic State and Its Legitimacy Crisis	23
2.1 Postwar reforms: the beginning of the catastrophe	24
2.2 Democratic capitalism and its two incompatible justices	26
2.3 Debt state: new relationship between state, citizen, and capital	29
2.4 The Greek debt state: how the Troika's neoliberal policy deepened the democratic deficit in Greece	33
3. The international community: a threat to global and nation-state sovereignty and democracy?	Error! Bookmark not defined.
3.1 How the democratic deficit in the EU reflects its structural failures	42
3.2 The European Central Bank and its undemocratic nature	46
3.3 The ECB and the Greek debt crisis	49
Conclusion	53
Resume	54
Bibliography	56

Introduction

The decline of democracy has been, for several years, one of the most discussed issues worldwide. The expectations which were embodied in the arrival of the new millennium, after a few years, replaced a deep disappointment and the crisis of both economics and Western democracy. A limping democracy was no longer just a problem of developing countries. The crisis of democracy, therefore, became the new world phenomenon which arose as a side effect of the economic crisis and ultimately evoked the anxiety about the future existence of democratic capitalism. It is one of the reasons why the academic world has started to deeply analyse the possible solutions of the economic crisis along with the crisis of democratic capitalism. Since 2008, the collapse of either democracy or capitalism has been introduced in the academic world as one of the most realistic scenarios after the long-lasting conflict between their different natures. Neither has the European Union avoided the trend of economic and social crisis. Two of the first academics who warned about the democratic deficit and legitimation crisis of democratic capitalism in the European Union were Jürgen Habermas and Wolfgang Streeck. Both of them noticed the decreased ability of democratic capitalism to secure prosperity and an environment supporting the development of human potential. On the other hand, growing economic inequality and global poverty, which became a negative side effect of the frustration with policy-making, indicated an endangered future existence of Western democracy. Supposedly, one of the most discussed issues of the present day has been the economic crisis which hit the southern periphery of the European continent. Countries like Greece, Portugal, and Spain have become the most frequent targets as "victims" of policy dictated by the European Union and its institutions. Troika of these institutions – the European Commission, the European Central Bank, and the International Monetary Fund – has become the "judge" of the destiny of countries struck by hard economic and social crisis. Harsh measurements and cuts in government budgets, introduced as a result of fulfilment of the conditions for obtaining financial assistance from the Troika, have caused a radicalization of national political scenes. This radicalization has reflected negative social effects caused by the adopted austerity reforms, which have been damaging the everyday life of ordinary European citizens. The austerity reforms have activated mass riots and protests of citizens and the mobilization of many political parties. The most criticized country from the group of Southern defaulters has become

Petrincová: Greek Tragedy

Greece. Greece has also been many times called as an unadaptable state which endangers the future economic and political prosperity of the Eurozone. Eventually, the sequential collapse of democratic capitalism has highlighted the malfunction of representative democracy which, as it appears, is not able to fulfil the expectations of its electorate. The citizens, therefore, are at the mercy of the free market's will. This situation, however, underlines the extensive deformation of democratic capitalism which fails in protecting its own citizens as much as in securing its main source of legitimation. Representative democracy, experiencing its legitimation crisis, appears to be an urgent object of analysis. The main problem of the future will become the question of a possible way through which democracy will be able to rebuild its legitimation and trust from the side of citizens. In an attempt to identify the possible source of the democratic-capitalism crisis, the analysis of both its ideological natures is needed be done. For this reason, this bachelor thesis will attempt to analyse representative democracy, capitalistic ideology, and last but not least, their incompatible relationship in the modern (democratic-capitalistic) state. The first chapter will focus predominantly on the clarification of the importance of public participation and its part in the formation of the democratic system. It will be an examination of public participation and a demonstration that its importance consist not only of its position as (1) the main source of democratic capitalism's legitimation but also as (2) an essential element in a fight against social and economic inequality. Since the public participation of citizens in the decision-making of state affairs is one of the main civil rights, the attempt of the first chapter will be to highlight the necessity of civil and human rights support for the healthy development of a democratic regime. The second chapter will introduce the analysis of democratic capitalism. It will be an examination of the first hypothesis, which focuses on the analysis of the EU's preference for economic interest over the democratic regime and its development in the union. This chapter will rely on the findings of Wolfgang Streeck and his book, *Buying Time: The Delay Crisis of Democratic Capitalism* (2015), which investigates the socio-economic effects on the vitality of democratic capitalism caused by extensive neoliberal reforms. Therefore, the main task of the second chapter is to demonstrate the need for democratic intervention in the regulation of the free market. Using the example of the Greek debt crisis, austerity policy of the Greek government will be analysed as a policy ordained by a state with high debts, which has obtained strong support from the European Union and its institutions. The centrepiece of the research will be an extensive analysis of the austerity

Petrincová: Greek Tragedy

measures which have forcibly been accepted by Greek governments in order to obtain financial support from the Troika. This policy will be studied in terms of its effect on the increase in unemployment and the deepening socio-economic inequalities between citizens. Austerity policy will be reviewed as a possible source of the democratic deficit in Greece and in the European Union. The third chapter will build on the first two chapters and will analyse the institutional structure of the European Union with focus on the European Central Bank (ECB) in terms of its democratic legitimacy. This chapter will draw on a book by Jürgen Habermas, *The Lure of Technocracy* (2015), which will assist in explaining a problematic institutional character of the ECB, which lacks transparency and accountability to European citizens. The Greek debt crisis and the year 2015, which was marked by a significant deterioration in Greco-European relations, will serve as a basis for examining the policy supported by the European Central Bank and its problematic democratic legitimacy.

1. Representative democracy and public participation

Representative democracy, according to research by the Freedom House focusing on domestic and global political scenes, is the most widespread governmental form in the world (Freehouse.org, 2016). The aim of this chapter is to explain the ability of representative democracy to function correctly and the essential preconditions desired for this functioning. Representative democracy is broadly defined as "a system of rule embracing elected 'officers' who undertake to 'represent' the interests and/or views of citizens within the framework of 'the rule of law'" (Held, 2006, p. 25 – 95). Therefore, the first chapter's centre of analysis is civic participation and its importance for representative democracy. While explaining the importance of citizen participation as an essential component of an environment conducive to civil and national development, this chapter will use academic works focusing not only on the historical development of democracy, but also on works of democratic theory from the twentieth and twenty-first centuries. Emphasis will be placed on the problems of growing economic and social inequality as a factor undermining civic participation and as an indicator of democratic failure. The second subchapter will clarify both social and economic inequalities, as results of the failure of democracy "to check the growing inequality" and "to protect those at the bottom" (Stiglitz, 2012, p. 5 – 30). The aim of the first chapter is also to clarify the effect of increasing social and economic inequalities on the legitimacy and popularity of the democratic system. Therefore, the civil participation will serve as a basis for an analysis of how the mitigating of social and economic inequalities can contribute towards the reestablishment of democratic legitimacy.

1.1 Public participation: source of legitimation in modern democratic capitalistic state

The second half of the twentieth century brought to liberal democratic theory many questions about the streamlining and fulfilment of its promises in reality. Some philosophers, however, were not sure that already existing works examining the theory of democracy could have covered all of the potential issues that the democratic system could face and, therefore, could have reached satisfactory results in practice (Held, 2006, p. 209 – 216). This problem brought many issues to light, especially for socie-

Petrincová: Greek Tragedy

ties based on individual rights and freedoms, and forced academics and politicians to actively search for better definitions of state functions which would ultimately lead to the stimulation of democratic vitality and efficiency (Held, 2006, p. 209 – 216). The fact that freedom and equality among citizens is found "much more rarely than liberal theory suggests" brought a change of attitude in understanding the roles of the state and its citizens within the modern liberal-democratic state (Held, 2006, p. 209). "The formal existence of certain rights is, while not unimportant, of very limited value if they cannot be genuinely enjoyed. An assessment of freedom must be made on the basis of liberties that are tangible and capable of being deployed within the realms of both state and civil society. If freedom does not have a concrete content – as particular freedom – it can scarcely be said to have profound consequences for everyday life" (Held, 2006, p. 210). Thus, it can be said that one of the major sources of concern was the failure of the first liberal thinkers who "failed to explore systematically the ways asymmetries of power and resources impinge upon the meaning of liberty and equality in daily relations" (Held, 2006, p. 210). Real experience with the system of liberal democracy, highlighted the errors which earlier democratic theorists failed to analyse in detail. It additionally revealed mistakes in the system which, on the background of poorly defined relationships and obligations of a modern state, failed to meet the expectations and promises of liberal democratic theory (Held, 2006, p. 209 – 216). "If liberals were to take such an inquiry seriously, they would discover that massive numbers of individuals are restricted systematically – for want of a complex mix of resources and opportunities – from participating actively in political and civil life. What were referred to earlier as vicious circles of limited or non-practition directly illustrate this point. Inequalities of class, sex and race substantially hinder the extent to which it can legitimately be claimed that individuals are 'free and equal'" (Held, 2006, p. 210). The role of a defender of human rights and freedoms, according to modern liberal philosophers, should be held by public institutions. Such behaviour from the side of public institutions would lead to (1) support and maintenance of a strong democratic state, offering an environment for the full development of citizens, and (2) a gain in the demanded democratic legitimacy (Held, 2006, p. 209 – 216). Assuming, then, that the ideal of liberal democracy is the participation of the greatest number of citizens, the obligation and the goal of the liberal-democratic state would be to ensure exercising civic participation to the greatest number of citizens (Dahl, 2006, p. 1 – 30). "In a more thorough statement of the case for the extension of the

Petrincová: Greek Tragedy

sphere of democratic participation, (Carole) Pateman has argued, drawing upon central notions in Rousseau and J.S. Mill, that participatory democracy fosters human development, enhances a sense of political efficacy, reduces a sense of estrangement from power centres, nurtures a concern for collective problems and contributes to the formation of an active and knowledgeable citizenry capable of taking a more acute interest in government affairs" (Held, 2006, p. 212). This would mean, conversely, that if a state was failing to meet these obligations for any reason, it could not truly be called democratic (Dahl, 2006, p. 1 – 50). Therefore, philosophers began to vigorously address the issues of need in social policy which would help to control the free market by democracy and possibly improve the civic participation of citizens from different social and economic backgrounds (Green, 2008, p. 40 – 51). Thus, there was a belief that social policy would be able to increase the performance of the democratic system (Green, 2008, p. 40 – 51). Because a democratic state recognizes a diversity of citizens in terms of social, ethnic, religious, or other groups, the necessity to accept the electorate diversity has become a precondition for healthy policy with the focus on a limitation of one-sided political decisions (Held, 2006, p. 209 – 216). The following sub-chapter focuses on the conditions that are a prerequisite for a functioning modern liberal-democratic state. This analysis will draw on the book by Robert Dahl, *On Political Equality* (2006), which explains why civic participation is an important component for the functioning of a democratic state based on the equality of rights of all citizens.

1.2 Political equality: essence of liberal democracy

Every political system or establishment depends on the definition by which it is characterized and legitimized (Dahl, 2008, p. 10 - 80). This is also the case with liberal democracy, the theoretical core of which has, from the beginning of its formation, been characterized by the promotion of personal rights, with an emphasis on equality between the citizens and their right to participate in running the state (Held, 2006, p. 70 – 95). This idea has persisted since the birth of democracy in the eighteenth century (Held, 2006, p. 78 – 95). While the idea of liberal democracy has undergone many changes, especially in functional terms, the problem of its transformation into the

Petrincová: Greek Tragedy

most effective form has still remained a question (Dahl, 2008, p. 10 – 80). Even as many surveys point to a general increase of electoral democracies in the world, their effectiveness is questionable (Freedomhouse.org, 2016). The global phenomenon of the twenty-first century has become a growing economic and social inequality which, to a large extent, casts a shadow on the legitimacy of liberal democracy (Dahl, 2006, 60 – 120). Therefore, it is important to analyse the principles of democracy, with an emphasis on the definition of the basic preconditions of democracy's in order to identify the most functional attainable form of liberal-democratic state. Robert Dahl, one of the most significant democratic theorists of the twentieth century, points to the need to accept that the ideal form of democracy, which is described by many theorists of liberal democracy, is very difficult to achieve in practice (Dahl, 2006, p. 3 – 30). Therefore, as he says, it is necessary to introduce a new, more realistic concept of liberal democracy that can respond to the demands of the modern state in terms of its legitimacy, and practical functionality, and efficiency (Dahl, 2006, p. 3 – 70). In *On Political Equality*, Dahl describes six basic preconditions which must be preserved in order to make the current liberal system work "at the minimum" of "an ideal democracy" (Dahl, 2006, p. 8). The first rule for maintaining a powerful democracy in a modern state is to secure an effective civic participation (Dahl, 2006, p. 8). "Before a policy is adopted by the association, all the members of the demos must have equal and effective opportunities for making known to other members their views about what the policy should be" (Dahl, 2006, p. 8). This precondition is, therefore, focused on the need to secure the participation of the greatest diversity of the citizens, reflecting the diversity of interests, and thereby avoid the policy of the tyranny of a minority (Dahl, 2006, p. 8 – 10). It means that each participating citizen increases the legitimacy of the democratic state (Dahl, 2006, p. 8 – 15). Dahl's second precondition is "equality in voting" (Dahl, 2006, p. 8). "When the moment arrives at which the decision will finally be made, every member must have an equal and effective opportunity to vote, and all votes must be counted as equal" (Dahl, 2006, p. 8). The right and necessity for obtaining information, to which Dahl refers as a right of "gaining enlightened understanding," is the third precondition of effective democracy (Dahl, 2006, p. 8 – 15). As he points out, citizens need to have a sufficient amount of information about electoral processes, political candidates, and their political projects in order to defend their interests (Dahl, 2006, p. 8). The fourth precondition is defined as a "final control of agenda" (Dahl, 2006, p. 9) The "inclusion" of every citizen in ruling the

Petrincová: Greek Tragedy

affairs of the state becomes Dahl's fifth precondition (Dahl, 2006, p. 8 – 9). Finally, Dahl mentions the need to preserve the fundamental rights which is more or less a prerequisite for the implementation of the five characteristics of an effective democracy (Dahl, 2006, p. 9). "Each of the necessary features of an ideal democracy prescribes a right that is itself a necessary part of an ideal democratic order: a right to participate, a right to have one's vote counted equally with the votes of others, a right to search for the knowledge necessary in order to understand the issue on the agenda, and a right to participate on an equal footing with one's fellow citizens in exercising final control over the agenda. Democracy consists, then, not only of political processes. It is also necessarily a system of fundamental rights" (Dahl, 2006, p. 9). Thus it can be argued that the primary incentive and condition for an effective democratic system is the inalienable disposition of rights, which are not only the centre and basis of the system, but also an ultimate goal of democratic state (Dahl, 2006, p. 8 – 30). Dahl's principles of a minimal ideal democracy, as he refers to them, are mutually conditional, starting with the individual rights of citizens who, through a political process, consolidate their position within a democratic system and thus directly legitimize the existence of the state (Dahl, 2006, p. 8 – 15). Dahl further notes that the development of liberal democracy's functioning cleared out that effectiveness of the democratic system also depends on the institutions which help to maintain and re-promote its legitimacy (Dahl, 2006, p. 10 – 13). "Yet it would become increasingly apparent that they were necessary institutions for achieving a satisfactory level of democracy in a political unit, like a country, that was too large for assembly democracy" (Dahl, 2006, p. 13). Therefore, another prerequisite necessary for the effective modern liberal democratic state is a clear definition of institutions which would hold a protective hand over the maintenance of basic human and civil rights and supervise on the political processes in the country (Dahl, 2006, p. 12 – 14). "Elected representatives; free, fair, and frequent elections; freedom of expression; alternative sources of information; associational autonomy; inclusion of all members of the demos" are, according to Robert Dahl, the main institutions that are necessary to protect the rights of citizens and their ability to manage and freely participate in the decision-making of state affairs (Dahl, 2006, p. 13 – 14). An important and often problematic feature of representative democracy is majority rule. Dahl refers to majority rule as possibly dangerous, especially because of the political power of a majority, which is capable of largely negative impacts on (1) the functioning of state institutions and (2) the rights

Petrincová: Greek Tragedy

of citizens on which the legitimacy and efficiency of the democratic state is based (Dahl, 2006, p. 14 – 18). It must be clarified that Dahl's fear increases mostly because of electoral preferences and victory of certain political parties may not fully reflect the real needs and interest of all citizens (Dahl, 2006, p. 14 – 18). On the contrary, many times it happens that the majority of voters who participate in the decision-making of state affairs are members of one or two social groups (Dahl, 2006, p. 14 – 18). It follows that the political scene, in terms of the diversity of political interests, achieves only a minimal level (Dahl, 2006, p. 14 – 30). This fact is one of the key problems that representative democracy faces (Dahl, 2006, p. 14 – 18). Hence, the central feature of a democratic system must be the protection of equal rights for all (Dahl, 2006, p. 14 – 18). For this reason, Dahl asks whether and under what conditions it is possible to limit the political power of the electoral majority, so that their acts do not limit the rights of any minorities (Dahl, 2006, p. 14 – 18). He answers this question by additional terms and conditions that need to be preserved in order not to jeopardize the rights of the minority (Dahl, 2006, p. 16). "Achieving political equality is a desirable and feasible goal. Majority rule is justified only as a means of achieving political equality. A democratic political system is a necessary (though not sufficient) condition for achieving political equality. And certain rights are necessary (though not sufficient) for full achieving a democratic political system" (Dahl, 2006, p. 16). Dahl argues that the provision of these criteria is essential for the healthy development of democracy, which ultimately leads to the stimulation of its efficiency and legitimacy (Dahl, 2006, p. 14 – 18). Limitation of the political forces of the electoral majority is to some extent desired for the existence of the democratic states and to ensure their development (Dahl, 2006, p. 14 – 18). "It would not be inconsistent with democratic beliefs, then, to impose limits on the authority of a majority to undertake actions that would destroy an institution like freedom of speech that is necessary if a democratic system is to exist" (Dahl, 2006, p. 16 – 17). Assuming that the above-mentioned characteristics and preconditions of the modern democratic state were true, the state would have been responsible for removing barriers adversely affecting the legitimacy and efficiency of the democratic system (Dahl, 2006, p. 50 – 77). Thus, the centre of the analysis of the following subchapter is a clarification of the role of social policy in the conflict against inequalities of any kind. Its attempt is to point out the fact that social support and public services are two of the main ways that the modern democratic state contributes to the protection and development of human rights.

1.3 Poverty: the reason why democracy cannot reach its potential?

Perhaps one of the biggest problems with which democracy has dealt for a long time is that of "the distribution of political resources, skills and incentives" (Dahl, 2006, p. 83 – 91). Dahl describes this phenomenon as one of the "barriers to equality" (Dahl, 2006, p. 83). Poverty is the result of material inequality between citizens and largely acts as one of the main factors for the further development of inequalities in the other spheres of life (Dahl, 2006, p. 85). "As numerous studies have shown, inequalities in income and wealth are likely to produce other inequalities" (Dahl, 2006, p. 85). A proponent of this theory is also Amartya Sen, whose studies focus on the exploration of poverty as the main incentive for increasing inequality and clarify the necessity of social policy in a democratic state (Sen, 2000, p. x – 30). "Extreme inequality provokes outrage and condemnation, because it violates the widely held notion that all people, wherever they are, enjoy certain basic rights. Addressing inequality is essential if countries are to live up to their obligations under the international human rights framework established by the UN, to guarantee equal civil and political rights and to purpose the 'progressive realisation' of economic, social, and cultural rights" (Green, 2008, p. 5 – 6). Sen argues that the systematic eradication of poverty would contribute to the economic and social growth of a country (Sen, 2000, p. 10 – 30). Thus, he believes that the more effective redistribution of wealth among all social and economic groups is, the more legitimacy the democratic system gains (Green, 2008, p. 40 – 51). Sen supports the idea of equality of rights among all citizens, which must be preserved in order to secure an orderly development of the world and its societies (Sen, 2000, p. 15 – 25). This condition, as well as Dahl's, is the central idea of Sen's socio-economic studies (Sen, 2000, p. 15 – 25). "Having greater freedom to do the things one has reason to value is (1) significant in itself for the person's overall freedom, and (2) important in fostering the person's opportunity to have valuable outcomes. Both are relevant to the evaluation of freedom of the members of the society and thus crucial to the assessment of the society's development" (Sen, 1999, p. 18 – 20). Inequalities can occur in different forms and have different sources of existence (Sen, 2000, p. 17 – 19). One form of inequality is the lack of freedom, which many times occurs as a result of a lack of resources and ineffective policy (Sen, 2000, p. 17 – 19). "Unfree-

Petrincová: Greek Tragedy

dom can arise either through inadequate processes (such as the violation of voting privileges or other political or civil rights) or through inadequate opportunities that people have for achieving what they minimally would like to achieve (including the absence of such elementary opportunities as the capability to escape premature mortality or preventable morbidity or involuntary starvation" (Sen, 1999, p. 17 – 19). Therefore, the state should be a supporter and defender of equal rights and opportunities mainly because of the possible benefits from the talents of its citizens that it can gain (Green, 2008, p. 40 – 51). This support can be accomplished especially by the help of socially engaged political reforms, which would provide at least minimal health care, education, and social protection from adversity (Green, 2008, 40 – 51). "Provision of decent public services is one of the key roles of an effective state, both in terms of building a dynamic economy, and in securing its own legitimacy. Social investment in health, education, clean water, and sanitation is not a luxury for countries that have achieved growth, but is in fact a precursor of that growth, and also makes it much more likely that growth and its proceeds will be equitable" (Green, 2008, p. 40 – 41). It should be pointed out that a deepening of inequality and great poverty not only contributes to the inability of people to participate in elections, but also causes a loss of interests and discourages lower social groups in involvement in the decision-making of state affairs (Green, 2008, p. 5 – 6). The political frustration of citizens from certain social groups (predominantly the lower social groups) is a bad indicator for the current state of democracy as well as for its future (Green, 2008, p. 5 – 6). "Poverty is about much more than a low income, something that becomes particularly clear when people living in poverty are asked to define it for themselves. It is a sense of powerlessness, frustration, exhaustion, and exclusion from decision-making, not to mention the relative lack of access to public services, the financial system, and just about any other source of official support" (Sen, 2004, p. 6). Therefore, Duncan Green argues, building from Sen's socio-economic studies, that the central goal of democracy in pursuit of its legitimacy is the support of an "active citizen" and (2) an "effective state" (Green, 2008, p. 8). According to Sen, it is important to realize that the correct interface of relations between these two basic factors of the legitimation process in a democratic system is the main factor on which the existence of modern liberal democratic state depends (Sen, 2000, p. xii – xiii). "By active citizenship, we mean that combination of rights and obligations that link individuals to the state, including paying taxes, obeying laws, and exercising the full range of political, civil,

Petrincová: Greek Tragedy

and social rights. Active citizens use these rights to improve the quality of political or civil life, through involvement in the formal economy or formal politics, or through the sort of collective action that historically has allowed poor and excluded groups to make their voice heard" (Green, 2008, p. 8). As he notes, the close and interdependent relationship that causes the existence of active citizen is a necessity for the existence of the effective state. Thus, every active citizen, in order to be active, needs an effective state which "can guarantee security and the rule of law, and can design and implement an effective strategy to ensure inclusive economic growth. Effective states, often known as 'developmental states', must be accountable to citizens and able to guarantee their rights" (Sen, 2004, p. 12). Any violation of this relationship will ultimately result in a reduced productivity of active citizens, and efficiency of the state, and the loss of the legitimacy of the democratic system from out of growing inequalities among the population (Green, 2008, p. 2 – 22). Therefore, Sen argues, the role of the state consists in unconditional maintenance of "certain crucial instrumental freedoms, including economic opportunities, political freedoms, social facilities, transparency guaranteed, and protective security" (Sen, 2000, p. xii). These rights are a key indicator and a crucial element in the healthy development of democracy (Sen, 2000, p. xii – xiii). It is important to note that all the fundamental rights that Sen describes are to some extent interlinked (Sen, 2000, p. xii – xiii). In practice, it means that the disturbance or reduction of one of them can cause a domino effect of adverse impact on the others (Sen, 2000, p. xii – 20). One of these fundamental rights, Sen argues, is also economic opportunities. Those, as he explains, to a large extent define our life chances and quality of life (Sen, 2000, p. 10 – 30). "This concerns the relation between incomes and achievements, between commodities and capabilities, between our economic wealth and our ability to live as we would like" (Sen, 2000, p. 13). It is the reason why he believes that the role of the state consists in an elimination of the obstacles that are able to limit a development of human potential (Sen, 2000, p. 280 – 285). In terms of democratic capitalism, it means that institutions (both national and supranational) are responsible for the proper regulation of the free market (Sen, 2000, p. 249 – 280). Such regulations of the necessary elements of public policy (Sen, 2000, p. 249 – 280). Analysis of these will be the subject of following chapter. Sen's analysis of the state's role in a democratic system identifies the state as a protector of the rights wherever their possible limitations may appear (Sen, 2000, p. 280 – 295). "Public policy has a role not only in attempting to implement the priorities that emerge

Petrincová: Greek Tragedy

from social values and affirmation, but also in facilitating and guaranteeing fuller public discussion. The reach and equality of open discussions can be helped by a variety of public policies, such as press freedom and media independence (including the absence of censorship), expansion of basic education and schooling (including female education), enhancement of economic independence (especially through employment, including female employment), and other social and economic changes that help individuals to be participating citizens" (Sen, 2000, p. 281).

2. The Modern Democratic-Capitalistic State and Its Legitimation Crisis

The first chapter clarified the functioning of representative democracy with a focus on an analysis of the importance of civic participation not only as the main source of democratic legitimacy, but also as the essential component in the development of equality among citizens. Based on the study of representative democracy, it was observed that only the system which can guarantee equal rights and opportunities can be labelled as democratic (Sen, 2000, p. x – 10). After outlining Dahl's main preconditions of the efficient democratic system it was pointed out that the democratic system faces with the problem of growing inequality (Dahl, 2008, p. 60 – 90). Drawing on Amartya Sen's book, it was clear that the inequality of opportunities in citizens' lives is many times caused by the (negative) effects of economic inequality (Sen, 2000, p. x – 30). Therefore, one of the main objectives of the first chapter was to clarify the impact of economic inequalities on the performance of representative democracy and the status of its legitimacy. As stated in the first chapter, social policy is one of the most effective ways to achieve the equality of rights and to fight against social and economic disparity. Based on Sen, it was observed that public services are one of the most essential components and characteristics of a modern liberal-democratic state (Green, 2008, p. 20 - 95). Therefore, the aim was to highlight that public institutions are obliged to create an environment and conditions in which even the poorest social classes are able to exercise their rights (Sen, 2000, p. x – 30). Otherwise, the heterogeneity of citizens involved in the decision-making of state affairs cannot be guaranteed (Sen, 2000, p. x – 30). This analysis will be helpful in the next two chapters, which will examine (1) the EU's preference for economic interests as a potential threat to the democratic system and (2) the wrong institutional setting of the EU's institutions and their impact on democratic performance.

The investigation of socio-economic inequalities in a democratic state becomes one of the central themes of the second chapter. This time, however, the chapter will further examine the possible sources of inequality in democratic capitalism, in this case, incorrectly defined relationships between free trade and democracy, as a factor causing the legitimation crisis. An examination of both theoretical essences of democratic capitalism, democracy, and capitalism, will be based on Streeck's *Buying Time*, focus-

Petrincová: Greek Tragedy

ing on their controversial relationship, which becomes the central issue of the democratic deficit, especially if the free market operates without extensive democratic reforms (Streeck, 2015, p. 5 – 40). After examining the theoretical basis of democratic capitalism, it will be explained that democracy has been for many years restricted by capitalistic demands which ultimately boosted the global growth of social and economic inequalities among people. The centre of the analysis will be a verification of the effectiveness and legitimacy of neoliberal policies, the enforcement of which became a worldwide trend in the second half of the twentieth century (Streeck, 2015, p. 5 – 40). Therefore, the investigation will be focused on attention to the right balance in defining the relationship between democracy and capital. Using the example of the Greek debt crisis, it will be explained when and why the democratic deficit in democratic capitalism appears. The heart of this claim will analyse the austerity policy which, as Streeck argues, is a distinctive feature of the debt state policy (Streeck, 2015, p. 10 – 70). In this case, it will be explained that the debt state of democratic capitalism must not only meet the demands of citizens, but also of investors and creditors, who guarantee the state's credibility on the free market (Streeck, 2015, p. 30 – 70). The aim of this chapter is to explore the policy of the Troika, as a possible factor of deepening the neoliberal capitalism and the growth of economic and social inequalities.

2.1 Postwar reforms: the beginning of catastrophe

For decades, economic growth and the prosperity boom was defended as the main source of the legitimacy of democratic capitalism (Streeck, 2015, p. 7 – 40). Democracy should have guaranteed to people the equal rights and opportunities to create a sufficient number of resources to meet the growing needs of society (Streeck, 2015, p. 5 – 30). Democratic capitalism was able to work especially effectively in the post-war period of Western European rehabilitation (Streeck, 2015, p. 7 – 30). The demands of production consequently affected an increase in employment and rising living standards (Streeck, 2015, p. 7 – 30). Perhaps only a few people were aware of the problematic natures of the system that seemed to be working so effectively (Streeck, 2014, p. 11 – 30). The late 1960s, however, brought the first problems: stagflation, i.e., economic stagnation and inflation, rising unemployment, decreased living standards, and

Petrincová: Greek Tragedy

the growth of social riots (Streeck, 2015, p. 5 – 30). At that time, the system of democratic capitalism was experiencing the first crisis of its legitimacy (Streeck, 2015, p. 11 – 30). In these years, as Streeck argues, the myth of neoliberal free-market reforms as the best democratic response to avoid economic stagnation was introduced (Streeck, 2015, p. 5 – 30). As it turned out, the response of governments to unfavourable economic development was not only unfair to the majority of the citizens, who supported the liberalization reforms and the belief that they would stimulate economic growth, but also, as Streeck explains, dangerous to or controversial for the future of the nation-state in the upcoming decades (Streeck, 2015, p. 5 – 30). The basic task of democracy to regulate the market in the interests of its citizens, therefore, subsided in favour of the free market, the growing power of which supported its appetite in gaining the benefits from a paralyzed democracy (Stiglitz, 2012, p. 5 – 25). As Streeck notes, the state started to promote for several decades policies which were effective only temporarily in order to maintain democratic capitalism (Streeck, 2015, p. 10 – 30). Since the end of the 1970s, neoliberal reforms have been promoted. However, their introduction has caused a complex crisis in both components of democratic capitalism, which not only failed to fulfil the promises of economic growth and prosperity, and has caused the democratic deficit and the surge in social and economic inequalities (Streeck, 2015, p. 10 – 26). The deficit of the democratic system was mainly stimulated by the low taxation in favour of the wealthiest (Streeck, 2015, p. 10 – 35). Aggressive enforcement of neoliberal reforms resulted in the arrest of emancipation of the labour unions which failed to effectively enforce union/s requirements (Streeck, 2015, p. 10 – 35). The main purpose of neoliberal reforms was to prevent the unwanted intervention of citizens and governments in the processes of the free market (Streeck, 2015, p. 10 – 30). It ultimately caused a gradual decline in the civic participation of the lowest social classes and further deepened the democratic deficit (Streeck, 2015, p. 10 – 35). Streeck and Joseph Stiglitz agree that the long-accepted neoliberal reforms and the limitations on democratic interference in the processes of the free market were especially beneficial for the owners of capital because of their ability to valorise their capital as increasingly quick and incredibly efficient (Streeck, 2015, p. 10 – 35; Stiglitz, 2012, p. 10 – 20). "Any economic system has to have rules and regulations; it has to operate within a legal framework. There are many different such frameworks and each has consequences for distribution as well as growth, efficiency, and stability. The economic elites have pushed for a framework that benefits

Petrincová: Greek Tragedy

them at the expense of the rest, but it is an economic system that is neither efficient nor fair" (Stiglitz, 2012, p. 7 – 20). For a better understanding of the limits of democratic capitalism, which led to booming income inequality, and the disparity in the division of wealth in favour of capital holders, it is necessary to examine both its theoretical bases.

2.2 Democratic capitalism and its two incompatible justices

In the previous paragraphs, it was highlighted that widespread reforms in favour of the free market causes negative consequences on social development and the legitimacy of democratic capitalism. This subchapter, on the contrary, will focus on an analysis of the theoretical foundations of democratic capitalism, which, as it turns out, are not able to work effectively for a long time and legitimize their existence if democratic intervention in the management of the free market is largely limited. The main aim of this subchapter will be the clarification of different characteristics and goals on which capitalism and democracy cannot agree. Since, as will be explained, the contradictions in their relationship is rooted in the different theoretical foundations of capital accumulation and restrictions on the redistribution of capital reproduction, the analysis will include the examination of the concepts of justice both theoretical foundations (Streeck, 2015, p. 30 – 55). As Streeck states, democratic capitalism faces two different "principles of distribution," the requirements of which support the opposing interests of the social classes (Streeck, 2015, p. 35 – 65). Since capitalism is based on the motives of the reproduction of invested capital and its sole interest is the profit and welfare of the investors, altruistic social (democratic) justice acts as a (possible) threat to the efficiency of the capitalist system (Streeck, 2015, p. 45 – 55). Streeck distinguishes between the market and social (democratic) justice. "Market justice" is defined as a "distribution of the output of production according to the market evaluation of individual performance, expressed in relative prices; the yardstick for remuneration according to market justice is marginal productivity, the market value of the last unit of output under competitive conditions" (Streeck, 2014, p. 55 – 68). Thus, its mechanical perception is incompatible with the definition of democratic social justice, which "is 'socially constructed' and therefore subject to cultural – political discourse as well as historical changes" (Streeck, 2014, p.55 – 68). As Streeck points

Petrincová: Greek Tragedy

out, social justice "follows collective ideas of fairness, correctness and reciprocity, and recognizes civil and human rights to such things as health, social security, participation in life of the community, employment protection and trade union organization" (Streeck, 2014, p. 55 – 68). Therefore, capitalism and its market justice cannot cooperate with democratic justice as equal. Since social justice is seen as an intruder who "confuses the market process, muddles its outcomes, creates false incentives and 'moral hazards', undermines the performance principles and is generally alien to the 'business world',"the aim of capital is to neutralize the impact of social justice and democratic interventions from the processes of free trade existence (Streeck, 2015, p. 50 – 68). The results of capital's aspirations, therefore, are the widest neoliberal reforms based on the prevention of capital from further restriction on capital (Streeck, 2015, p. 50 – 68). "In the course of this, the states of advanced capitalism are to be constructed in such a way that they warn the enduring trust of the owners and movers of capital, by giving credible guarantees at the level of policy and institutions that they will not intervene in 'the economy' – or that, if they do, it will only be to protect and enforce market justice in the shape of suitable returns on capital investments" (Streeck, 2014, p. 55 – 68). The contrary of market justice is social justice, which focuses on the protection of all groups of society, consequently gaining its legitimacy and support from the citizens (Streeck, 2015, p. 50 – 68). The primary duty of liberal democracy and the representative (democratic) system is the protection of the rights and guarantees of equal opportunities for all citizens (Streeck, 2015, p. 50 – 68). To fulfil this vision, however, it is necessary to apply a (large enough) force that can ensure the redistribution of proliferating capital between as many people as possible and, consequently, symmetrically legitimize the existence of democracy (Streeck, 2015, p. 50 – 68). "From the point of view of social justice, the democratic class struggle' is an indispensable corrective in a system which, resting upon unequal contracts between wage-earners and profit-makers, gives rise to a cumulative advantage in line with what has been called the Matthew principle: 'For to all those who have, more will be given, and they will have an abundance; but from those who have nothing, even what they have will be taken'" (Streeck, 2014, p. 55-68). On the basis of this argument, it can be claimed that the idea of democratic capitalism is in theory and in practice a controversial and incompatible system, which includes two theoretically opposed ideological bases (Streeck, 2015, p. 40 – 70). Thus Streeck concludes that democratic capitalism must have a balance of relations between its foundations if it aspires to the

Petrincová: Greek Tragedy

achievement of legitimacy and economic growth (Streeck, 2015, p. 80 – 110). Therefore, the preference for the free market, as Streeck argues, affected the adoption of extensive neoliberal reforms that, over time, have undermined the legitimacy of democratic capitalism and pointed to the impossibility of the existence of a democratic system along with neoliberal capitalism (Streeck, 2015, p. 10 – 38). "On the other hand, neoliberalism is incompatible with democratic state, in so far as democracy involves a regime which, in the name of its citizens, deploys public authority to modify the distribution of economic goods resulting from market forces" (Streeck, 2014, p. 53 – 63). Streeck claims that the loss of democratic legitimacy, as a consequence of the vast neoliberal reform which resulted in the limitation of the democratic system, has become a phenomenon of the modern state in the twentieth and twenty-first centuries (Streeck, 2015, p. 25 – 65). This contradiction, according to Streeck, reached its peak in 2008, when it became clear that "crisis of public finances is the contemporary form of a functional problem of the modern state" (Streeck, 2014, p. 57 - 69). The current situation is more likely to appear as a defeat of democracy in the fight against the capitalism of the free market, particularly in countries which symmetrically undergo the requirements of the free market and capital to a point where, according to Streeck, existential crises are experienced not only by the democratic system, but also by the state and its sovereignty (Streeck, 2015, p. 25 – 69). Thus the question arises. Who, or what, has been causing the decline of democratic capitalism? Who, or what, has been the cause of ever-emerging global economic and social disparities among people? Last but not least, who or what will help the modern democratic state recover its legitimacy and status as a regime which encourages and supports all its citizens? Streeck, it seems, has a straight answer to the first question. "Democracy and democratic politics failed to recognize and oppose the counter-revolution against post-war social capitalism for what it was; when they neglected to regulate the mushrooming financial sector amid the illusory boom of the 1990s; when they gave credence to the fall of 'hard' government giving way to a 'soft' governance friendly to democracy; when they refrained from making the beneficiaries of capitalist economic growth pay the social costs of their gains; and when they not only accepted growing inequality between those at the top and those at the bottom of society, but promoted it by tax and welfare reforms to provide greater incentives for capitalist progress. Furthermore, democratic politics contributed to the formation of the debt state when they failed to secure the stable political participation of social groups that would have an interest in preventing

Petrincová: Greek Tragedy

tax cuts for the better-off" (Streeck, 2014, p. 65 – 79). The main culprit for the global adverse economic and political situation is, according to Streeck, the democratic system itself, which has been for too long and too clearly ignoring the different natures of democratic capitalism, and, because of this fact, supported neoliberal reforms (Streeck, 2015, p. 20 – 75). As Streeck further notes, the behaviour of democracy and longstanding support of neoliberal reforms have largely contributed to a decline in the civic participation of people who have been either (1) discouraged by the political decisions of governments, or (2) unable to participate in the matters of state affairs (Streeck, 2015, p. 20 – 75). Therefore, as one consequence, the phenomenon of the debt state has formed, which has greatly influenced the development of the democratic system of the twenty-first century and became one of the causes of the financial and fiscal crisis in 2008 (Streeck, 2015, p. 50 – 80). This situation, as Streeck claims, became a direct response to the inability of voters to force the government to assert greater taxation of capital holders, which could have significantly facilitated a more effective social policy (Streeck, 2015, p. 50 – 80; Mair, 2013, p. 2 – 16).

2.3 Debt state: a new relationship between state, citizen, and capital

The previous subchapter, which clarified the contentious theoretical nature of democratic capitalism, largely pointed to the need of (some) state intervention in the free market, if democratic capitalism aspires to its future existence. On the basis of Streeck's considerations, it was shown that neoliberal reforms have failed to support the development of democracy, and consequently have significantly contributed to the decline in economic vitality (Streeck, 2015, p. 10 – 45). Long-term assertion of the belief that "democracy was impossible without capitalism (or, what came to the same thing, without economic progress), just as capitalism was claimed to be impossible without democracy" has been proved as a fatal error which has ultimately been threatening the existence of a modern democratic state (Streeck, 2015, p. 63 – 89). Thus, the modern state can no longer be labelled "democratic," mainly because its appearance as the debt state has been greatly weakening the state's loyalty to its citizens (Streeck, 2015, p. 55 – 89). At the same time, according to Streeck, the modern state has started to change the relationship between citizens and debt creditors (Streeck, 2015, 60 – 89). The shift to the modern debt state from the tax state, which covered its

Petrincová: Greek Tragedy

financial expenses mainly by collecting taxes, has supported the deepening of socio-economic inequalities and, further, has reduced the legitimacy of democratic capitalism (Streeck, 2015, p. 60 – 89). Streeck believes that the emergence of the debt state was the first hallmark of a transformation of democratic capitalism to neoliberal capitalism (Streeck, 2015, p. 40 – 89). "The first is the transformation of the tax state into a debt state – that is, a state which covers a large, possibly rising, part of its expenditure through borrowing rather than taxation, thereby accumulating a debt mountain that it has to finance with a never greater share of its revenue" (Streeck, 2014, p. 63-80). The modern state has gradually been limiting its sovereignty and losing its legitimacy as a result of a forced adaptation of neoliberal policies in order to find new financial resources on the free market to finance its existence (Streeck, 2015, p. 40 – 89). The second step, which caused an even more intensive intervention in the relationship between state, citizens, and capital, on the one hand, and the decline of social justice, on the other hand, was the privatization of state assets and services (Streeck, 2015, 55 – 89). "But it should be noted in advance that the formation of the debt state was impeded by a countervailing force which, in the neoliberal reform movement of the 1990s and 2000s sought to consolidate government finances by privatizing services that had accrued to the state in the course of the twentieth century" (Streeck, 2014, p. 65 – 80). As Streeck claims, this situation has introduced the two basic problems for the modern state, which is rooted in the state's problematic financing and resulted into an even more complicated relationship between state and citizen, whose welfare and rights is no longer the sole interest of the government (Streeck, 2015, p. 50 – 89). After all, this unfavourable condition, in which the modern state appears to be, is a logical result of the obligation to its creditors (Streeck, 2015, p. 50 – 89). A state which is (primarily) forced to repay its debt, and thereby to maintain the status of a trusted environment for further investment of capital, is not able to efficiently represent the interests of its citizens who struggle to establish social justice (Streeck, 2015, p. 50 – 89). Social justice, however, comes down to a contradiction with the interests of creditors and their effort to multiply invested capital at any price (Streeck, 2015, p. 50 – 89). Therefore, Streeck describes the modern debt state "as addressee and mandatory of two differently constituted collectives, and as an intermediary system between two conflicting environments" (Streeck, 2014, p. 63 – 80). The role of the state, which is forced to satisfy the interests of both mutually limiting groups, appears to be extremely paradoxical (Streeck, 2015, p. 50 – 89). "While these function in accord-

Petrincová: Greek Tragedy

ance with logics that tend to be incompatible with each other, government policy must as far as possible satisfy them at one and the same time: the *Staatsvolk* (the general citizenry) and what it refers to as the *Marktvolk* (the people of the market)" (Streeck, 2014, p. 63 – 80). Since both groups are extremely important components of the existence and legitimacy of the modern state, its task becomes even more complicated (Streeck, 2014, p. 63 – 80). While *Staatsvolk* is defined as the main legitimizing component of a modern (democratic-capitalist) debt state, *Marktvolk* largely contributes to the funding and functionality of the debt state (Streeck, 2014, p. 63 – 80). However, it must be said that the two groups, which support the existence of the debt state, expect the debt state's support of their interests in return (Streeck, 2014, p. 63 – 80). It is also important to note that both of the groups have the power to change the sequences of events if their interests are not satisfied (Streeck, 2014, p. 63 – 80). "A *Staatsvolk* is nationally organized and consists of citizens tied to a particular state, from which they can claim certain inalienable rights of citizens. One of these is the expression of their will at periodic elections. Between elections citizens can influence the decisions of their constitutional representatives by speaking out and contributing to the formation of a 'public opinion'. From this they have a duty of loyalty to the democratic state, influencing the payment of taxes, whose use is in principle freely decided by the competent bodies of the state. The loyalty of citizens may be seen as being given in return for the state's role in safeguarding their livelihood, and especially in guaranteeing democratically founded social rights" (Streeck, 2014, p. 63 - 80). As already mentioned, the main reason for the incompatibility between the interests of citizens and capital is the controversial issue of capital relocation and its income (Streeck, 2014, p. 30 - 89). The phenomenon of the debt state, however, largely limits the majority of the society from benefiting from its status as legitimizers of the democratic state's existence, while the creditors, under certain conditions, can benefit greatly (Streeck, 2014, p. 30 - 89). "Weizsäcker's analysis makes it clear that, so long as the state's capacity to repay its creditors can be relied upon, the long-term debt-financing of government activity is definitely in the interests of financial asset-holders" (Streeck, 2014, p. 63 – 80). Thus, as Streeck claims, the interest of capital to lend encourages such a state which is able to meet its obligations to its creditors (Streeck, 2014, p. 63 – 80). However, such an alliance between state and creditors cannot be done without scapegoat, which, in this case, becomes the citizens and the limitation of social justice in favour of the market (Streeck, 2014, p. 63 – 80). "Whereas the debt state can expect

Petrincová: Greek Tragedy

a duty of loyalty from its citizens, it must in relation to its Marktvolk take care to gain and preserve its confidence, by conscientiously servicing the debt it owes them and making it to appear credible that it can and will do so in the future as well" (Streeck, 2014, p. 63 – 80). The phenomenon of the debt state thus has deepened the legitimization crisis of democratic capitalism to a greater extent, especially because people were not protected by market justice, causing an increase of economic and social inequalities (Streeck, 2014, p. 63 – 80). "In this way, the state as debt state serves to perpetuate extant patterns of social stratification and the social inequality" (Streeck, 2014, p. 63 – 80).

2.4 The Greek debt state: how the Troika's neoliberal policy deepened the democratic deficit in Greece

In the previous subchapter of this chapter, it was pointed out that the contradictions in democratic capitalism and its transformation into neoliberal capitalism, the negative impacts of which have been camouflaged for many years by the illusion of neoliberal stabilization policy, have no longer been able to bring economic growth and prosperity (Streeck, 2015, p. 10 – 80). Neoliberal policy has been causing a decline in economic vitality, democratic performance, and, last but not least, the global boom of social and economic inequalities (Streeck, 2015, p. 30 – 80). The policy of the debt state and its conflict with wealth redistribution have reached the point when even the democratic power of citizens is not able to significantly change the destiny of the modern state (Streeck, 2015, p. 30 – 80). The governments of the debt state thus resemble dolls in the hands of the financial markets and creditors who enslave a country and its population to the service of capital (Streeck, 2015, p. 30 – 80). Perhaps the most tragic case of the policy of the debt state is Greece, whose implementation of extensive austerity policies has brought the country to the threshold of economic and social collapse (Monastiriotis, 2016). The adoption of austerity measures was a necessary part of a financial support package from the Troika. The Troika's financial support should have ensured the minimizing of the crisis's negative impacts on the economy, and thus endangered the common European currency (Euro) from its collapse (Monastiriotis, 2016). The Troika's economic-rescue project for Greece, however, faces many uncertainties (Monastiriotis, 2016). Since the beginning of the debt crises

Petrincová: Greek Tragedy

in 2009, Greek debt increased from 126.7% of GDP to 178.6 % of GDP in 2014 (Ec.europa.eu, 2016). Thus, the question arises if the Troika's neoliberal policy has not been damaging the already crippled Greek economy and society even more. To come to a better evaluation of the overall situation of the Greek debt crisis it is important to analyse the Troika's aid plan and its political behaviour. The intention of this further analysis will be to clarify the preferences for economic interests pursued by the European Union at the expense of democratic development. The central point of the analysis will be the comparison of the Greek debt-crisis policy and the characterization of Streeck's debt policy analysed in the previous subchapters. On the basis of the first chapter and its study of the essential conditions for the functioning modern democratic state, which are stated by Robert Dahl, the fundamental contradictions which limit the development of the debt state and support of democracy in the modern state will be pointed out (Dahl, 2006, p. 8 – 29).

Streeck emphasises that the one of the most effective steps which creditors and investors imposes on a state's inability to repay its debt is a reduction of the state's credibility on the free market, which consequently discourages investors from investing (Streeck, 2015, p. 30 – 80). It ultimately triggers a series of negative effects which can drastically affect the performance and future of the economy (Streeck, 2015, p. 30 – 80). "As creditors, they cannot vote out a government that is not to their liking; they can, however, sell off their existing bonds or refrain from participating in a new auction of public debt. The interest rates that are determined at these sales – which correspond to the investors' assessment of the risk that they will not get back all or some of their money – are the 'public opinion' of the Marktvolk, expressed in quantitative terms and therefore much more precise and easy to read than the public opinion of the Staatsvolk" (Streeck, 2014, p.63 – 80). This phenomenon has significantly contributed to the deepening of the Greek debt crises, as when all of the three most prestigious rating agencies (Standard & Poor's, Moody's Investors System, Fitch Ratings) lowered the Greek rating by the end of 2009 (News.bbc.co.uk, 2016). Their move was justified by rising concerns about the ability of the Greek government to meet the obligations to its creditors (News.bbc.co.uk, 2016). "Under certain circumstances, the rating agencies may also help them coordinate their activity as a single, unified Marktvolk ('the markets'), so that they can jointly exert pressure on countries whose citizens or governments are reluctant to comply with their wishes" (Streeck, 2014, p. 63 – 80).

Petrincová: Greek Tragedy

The negotiations of the Greek government, which was that time led by newly elected Prime Minister George Papandreou, concerning the adoption of the first austerity-measures package, which should have ensured greater credibility of Greece, in the eyes of creditors, was a quick answer to downgraded Greek ratings (News.bbc.co.uk, 2016). Greece, which was defined as a typical debt state based on the high amount of its debt, faced a growing conflict between *Staatsvolk* and *Marktvolk* (Streeck, 2015, p. 48 – 89). "In struggle for 'market confidence', debt states must make visible efforts to show that they are always ready to fulfil their civil law contractual obligations. In times of crisis, confidence-building of this kind is most successful with resolute austerity measures against the national population, preferably involving the opposition parties and by legally enshrining permanent limits on spending" (Streeck, 2014, p. 63 – 80). The first package of austerity measures was adopted by the Greek government on February 9, 2010 (News.bbc.co.uk, 2016). This package was aimed at savings in the public sector, which mainly affected the salaries, bonuses, and expenses of public employees (Monastiriotis, 2016). In a few weeks, the Greek government was forced to adopt a second package of austerity measures whose impact on Greek society was even more unfavourable (News.bbc.co.uk, 2016). The main component of the reforms was an increase in taxes, a reduction of bonuses for public employees, and a further salary reduction for private and public employees (Smith, 2010). "The new measures included further cuts in civil servants' annual pay through a 30% reduction of bonuses traditionally handed out at Easter and Christmas; a 2% hike in VAT, from the current 19%; higher taxes on alcohol, tobacco and luxury goods, including cars and yachts, and freezing on state-funded pensions" (Smith, 2010). This great reduction in state spending, predominantly in the public sector, however, failed to adequately satisfy the requirements of the EU's political elites (Smith, 2010). Greece was forced to accept even more extreme cuts in government spending. Greek government/S adoption was accompanied by massive riots and protests by Greek citizens who had begun to feel the negative impact of the austerity measures in everyday life (Smith, 2010). Streeck argues that the government of the debt state is, in critical situations, always forced to sacrifice the welfare of its citizens and give priority to creditors (Streeck, 2015, p. 50 – 80). "The main aim of lenders to government in their conflict with a state's citizens must be to ensure that, in the event of a crisis, their claims take precedence over those of the *Staatsvolk* – in other words, that debt service gets priority over public services" (Streeck, 2014, p. 63-80). In spite of Greek government's attempt to adopt extensive

Petrincová: Greek Tragedy

austerity reforms, its credibility continued to decrease (Monastiriotis, 2016). Thus, Greece started to fall deeper and deeper into the abyss of the debt crisis (Monastiriotis, 2016). Therefore, the Greek government was forced to continue to adopt more radical measures which were applied to more and more sectors and citizens (Monastiriotis, 2016). The third package of austerity measures had the same characteristics as the previous two (Papachristou, Barkin & Stamp, 2016). Perhaps the only change in the overall austerity adoption was their implementation as the necessity for obtaining the first financial support package from the Troika (Papachristou, Barkin & Stamp, 2016). The Troika's condition for obtaining the first financial aid in the amount of € 107.3 trillion were deep cuts in public sector spending, additional tax increases, diminution of the minimum wage, reform of the pension sector (including raising the minimum retirement age), and support of banks' liquidity by the Greek government at the amount of € 17 trillion (Papachristou, Barkin & Stamp, 2016). These reforms were just the beginning of the Troika's failed neoliberal policy. The European Union and the International Monetary Fund consented to the play of creditors and thus set the stage for the additional humiliation of democracy in Greece (Monastiriotis, 2016). "As far as the creditors are concerned, they need to ensure that any future 'haircut' will not affect them but, for example, pensioners and clients of national health care system – in other words, that government exercise sovereignty only over their Staatsvolk, not their Marktvolk. If we think of the discussions of recent years, we can see that this principle is now already taken for granted: it is a commonplace across the political spectrum that 'the markets' must not be 'unsettled' at any cost, whereas the unsettling of citizens-as-pensioners or citizens-as-patients has to be accepted in the name of the public good" (Streeck, 2014, p. 63 – 80). The Troika, based on neoliberal political concepts, advocated the austerity policies, despite from a number of negative effects on the deteriorating social and economic living standards in Greece (Shuter, 2015). Despite that, in the following years, the Troika called for even more radical reforms of the private and public sector in Greece (Monastiriotis, 2016). In 2011, Greece was forced to take further austerity reforms in order to reduce the state's deficit (Monastiriotis, 2016). The fourth package of austerity measures was adopted by the Greek government on June 29, 2011 (Monastiriotis, 2016). The process of the austerity measures' adoption was accompanied by a further reduction of the Greek rating by the three major rating companies, which, since 2009, were gradually reducing the credibility of the state in investors' eyes (Monastiriotis, 2016). The impact of

Petrincová: Greek Tragedy

an increasingly deteriorating economic situation in the state and a re-acceptance of further austerity measures which aimed to reduce wages, pensions, and budget in the education sector caused many side effects which completed the catastrophic policy of the debt state to the population and the political bedrock of the country (Monastiriotis, 2016). The reaction to this situation was extensive waves of protest and violence by ordinary people, whose everyday life was significantly worsened by the adoption of the state's saving (Sandbrook, 2011). Reforms resulted in higher life expenses while the salaries of Greeks were constantly lowered (Monastiriotis, 2016). This phenomenon is described by Streeck as characteristic of debt state policy (Streeck, 2014, p. 63-80). "Countries 'rescued' by other countries are nevertheless required to impose deep cuts in their citizens' living standards, for the sake of long-term confidence-building in the financial markets, but also to pacify the citizens of donor states, who must themselves accept cuts in their public budgets and social services to finance the solidarity of the community of states with 'the markets'" (Streeck, 2014, p. 63-80).

The next step in the dominance of the market over democracy is a discrediting of democracy as a factor which can adversely affect the policy of the debt state (Streeck, 2016, p. 50 – 89). In late 2011, Prime Minister Papandreou tried to set up a referendum on the adoption of the next financial support package from the Troika (Schwarz, 2016). He responded to the increasing rebellion of the population against the additional austerity measures (Schwarz, 2016). The expected negative outcome of the referendum, however, would have caused widespread problems in Greece, according to statements by European political elites (Schwarz, 2016). In case of Greek failure to adopt the austerity plan, the government would not receive any financial support from the Troika (Schwarz, 2016). At the same time, it would have faced possible exclusion from the Eurozone due to the violation of the agreements on which not only was Greek future dependent but also the future of the Eurozone (Schwarz, 2016). After a clear threat from the international community, Papandreou was forced to revoke his decision about the referendum and chose to resign (Schwarz, 2016). This act was highly appreciated by the Troika (Schwarz, 2016). "Merkel and Sarkozy made clear to Papandreou that they will not tolerate any interference of the Greek people in the austerity measures dictated by the EU. They openly threatened him with expulsion from the euro zone. They warned him that a rejection of the EU decisions would inevitably lead to Greece's exit from the currency union and into state bankruptcy. A referendum can only decide whether Greece leaves or remains in the euro zone, but not the con-

Petrincová: Greek Tragedy

tents of the recent bailout deal, they insisted" (Schwarz, 2016). As Streeck argues, the behaviour of the European Union and the International Monetary Fund also expressed their general attitude and preference for the economic interests of the international community over democracy, largely ignoring the (very bad) socio-economic situation by which the life of Greeks was extensively influenced (Streeck, 2015, p. 50 – 89). "The first priority for the international community of debt states is that all members, including the weakest, maintain the fullest possible servicing of their existing debt state" (Streeck, 2014, p. 63 – 80). Therefore, the political pressure for the adoption of neoliberal reforms by the Troika was increasingly radicalized over the years. This situation also affected the radicalization of Greeks' democratic response to the introduction of reforms which were causing existential problems for the general population (Monastiriotis, 2016). A democratically elected government was unable to prevent Greek citizens from the international pressure. Lucas Papademos, who previously held the post of Governor of the Bank of Greece and the Vice President of the ECB, became the successor of Papandreou (Monastiriotis, 2016). Papademos helped to enforce the Troika's requirements for the next package of austerity measures in order that Greece could receive the second package of financial assistance from the EU and the IMF (Monastiriotis, 2016). Protests and riots became the most acute form of Greeks' response to the loss of social protection from the state and to the collapsing society (Monastiriotis, 2016). The development of the Greek debt crisis had the very same characteristics over the following three years. Political development was marked by the adoption of the seventh austerity package and Reform Bill during the reign of Antonis Samaras (Monastiriotis, 2016). Resignation of politicians, political heterogeneity, and fracturing of the Greek political parties reflected the problematic situation that was experienced by Greek politics in these years (Malkoutzis, 2012, p. 5 – 40). It could be described as "a reaction to the loss of national sovereignty and independence that would result from the permanent monitoring of Greek finances by EU bureaucrats, and from the plan to sell a huge range of public assets to pay off debt" (Schwarz, 2016). Greece had to face a period of a political chaos (Malkoutzis, 2012, p. 58 – 30). This situation significantly changed the preferences of traditional mainstream political parties, like PASOK or New Democracy, and resulted in the promotion and election of a left-wing government led by the head of SYRIZA, Alexis Tsipras (Chibber & Karaian, 2016). SYRIZA was known by the international community mainly from its promotion of anti-austerity statements about the need to im-

Petrincová: Greek Tragedy

prove the bad socio-economic situation of ordinary Greek citizens (Stewart & Smith, 2015). SYRIZA's attitude expressed concern about the status of democracy in the EU, which, since the beginning of 2010, was mainly in Greece suppressed in favour of debt policy and reflected a clear sign of the EU's preference for economic interests (Stewart & Smith, 2015). The loss of Greek sovereignty not only worsened the economic situation, the impact of which Greeks had to deal with, but additionally caused a paralysis of the democratic regime (Stewart & Smith, 2015). "The limitation of national sovereignty by 'market forces' amounts to a limitation of the freedom of the Staatsvolk to make democratic decisions and a corresponding empowerment of the Marktvolk, which becomes increasingly essential for financing government decisions. Democracy at national level presupposes nation-state sovereignty, but this is less and less available to debt states because of their dependence on financial markets" (Streeck, 2014, p. 70 – 85). The last step in the signing of the Greek democracy's death sentence was international pressure to adopt the additional austerity measures which were a necessity for obtaining the third financial rescue program from the Troika, ignoring the results of a referendum in which Greeks refused its adoption (Stewart & Smith, 2015). However, this will be further analysed in the third chapter.

The development of the Greek debt crisis has drawn attention to the problem of neoliberal policies and their negative impacts on the performance of the democratic system. Since the beginning of 2008, i.e., since the global economic collapse, the EU and its institutions have been criticized by academics, states, and European citizens. The object of the critique is the union's behaviour and its institutions which prefer economic interests at the expense of liberal democracy at both the national and international level. Relying on the academic considerations of Streeck and Dahl, the deteriorated policy of the debt state was pointed out, a policy which ultimately causes the existential and functional problems of the modern (democratic-capitalistic) state. Analysis of this policy and its support for the neoliberal free-market setting revealed the malfunction of democratic capitalism under the conditions of transition to neoliberal capitalism. The main claim of the second chapter is that the weakening of democracy not only contributes to the growth of social and economic inequalities among people, but also to a reduction in economic performance. Its decline is reflected by the extensive interventions that capital supports within the structure of the modern (democratic-capitalistic) state, and points to the need for a balance between the theoretical

Petrincová: Greek Tragedy

bases of democratic capitalism in terms of economic functioning and democratic legitimacy. The second chapter provides enough arguments to confirm the hypothesis that the EU prefers economic interests to the detriment of development and protection of the democratic system.

3 The International community: a threat to global and nation-state sovereignty and democracy?

The first chapter of this thesis, which clarified the theoretical and practical predispositions of a functioning liberal democratic state in the twenty-first century, was based on Dahl's book, *On Political Equality*. The theoretical foundations of his work point out the necessity of certain characteristics which must be preserved for the benefit of a functioning liberal democracy, as well as the analysis of various internal and external influences affecting the overall efficiency and legitimacy of the modern democratic state (Dahl, 2006, p. 10 – 80). While the first chapter largely analysed the role of the state and its obligations as a guardian of democracy, the third chapter will focus on an extensive study of the international community as a major player in the global development of liberal democracy. As Dahl argues, the importance of the international community comes from its significant contribution in affecting both the global and national performances of democratic system in various forms (Dahl, 2006, p. 66 – 70). "International systems make decisions that bear important consequences for, among others, citizens in democratic countries; many of the decisions resulting from international systems lead to highly desirable results; yet the decisions of international systems are not and probably cannot be made democratically" (Dahl, 2006, p. 67 -68). The most disturbing question for Dahl becomes the issue of the management of international communities and institutions that are largely interconnected, not only with national states but also other international communities and institutions and possibly affect each other enormously (Dahl, 2006, p. 67 – 75). "In speaking of decisions of international system, I have in mind four basic socio-political processes for arriving at collective decisions: hierarchy, or control by leaders; bargaining, or control among leaders; the price system, or control of and by leaders; and democracy, or control of leaders" (Dahl, 2006, p. 68). For all parties involved, it means that the actions of one can greatly affect the abilities and behaviour of the other. Mainly for this reason, Dahl points to the need for regulation and a clear definition of international and national relationships into a form which would not adversely affect the competence and efficiency of democracy (Dahl, 2006, p. 67 – 75). "Nonetheless, my basic point can be fairly stated, I believe, as follows: International systems of decision-making include hierarchies, bargaining among elites, and the price system. What is conspicuously absent, or weak to the point of utter irrelevance,

Petrincová: Greek Tragedy

is effective democratic control over decision-makers" (Dahl, 2006, p. 69). This problem, as many academics of the twentieth and twenty-first centuries argue, is the incorrect definition of relationships of competences and the limits of democratic capitalism, which can many times cause extreme problems for ordinary citizens (Dahl, 2006, p. 65 – 75; Habermas, 2015, p. 3 – 62; Stiglitz, 2012, p. 5 – 30).

In the second chapter, what was noted was what happens when the balance between the relationships within democratic capitalism disturb invasive reforms in favour of the free market. Analysis of democratic capitalism made it clear that an exclusive preference for capitalism to the detriment of democracy – which was for many years preferred by the international communities – have been causing (1) a large increase of social and economic inequalities between people, and (2) a democratic deficit. Therefore, the main purpose of this chapter is to confirm and advocate the need for a stronger status of human rights in an intricate network of national and international interests. "Human rights are required to civilize both democracy and markets by restricting their operation to a limited, rights-defined domain. Only when the pursuit of prosperity is tamed by economic and social rights – when markets are embedded in welfare – does a political economy merit our respect" (Donnelly, 2013, p. 233). The analysis of the third chapter focuses on clearing out undemocratic decision-making in the European Union, which largely affect the everyday lives of Europeans. The centre of the research is the institution of European Central Bank, which does not fit into the democratic concept of the European Union, and therefore becomes one of the least transparent and least democratically accountable institutions in the union (Habermas, 2015, p. 3). "The European Central Bank, the Commission and the European Court of Justice have intervened most profoundly over the decades in everyday lives of European citizens, even though these institutions are almost completely beyond the reach of democratic controls" (Habermas, 2015, p. 3).

3.1 How the democratic deficit in the EU reflects its structural failures

The problem of the democratic deficit in the EU began to be intensively discussed at the time when its Southern periphery was engulfed by the financial crisis. The

Petrincová: Greek Tragedy

intervention of the European institutions, requested by crisis-struck countries, should have brought financial support and confidence to the governments for their future steps in tackling the crisis. However, the opposite was true, and the politics of the financial crisis introduced by the European institutions have revealed the true nature of the EU's functional problems (Habermas, 2015, p. 3). Jürgen Habermas, Europe's leading political theorist, points out that the EU project stands mainly on economic grounds (Habermas, 2015, p. 3). For the union, this fact means that the political approximation and integration of European countries has become one of the most difficult parts of the EU's existence (Habermas, 2015, p. 3). "The Union legitimized itself in the eyes of its citizens primarily through the results it produced rather than by fulfilling the citizens' political will. This also explains why conceptions of the European Union and its future among the general population continue to be diffused" (Habermas, 2015, p. 3 – 4). In *The Lure of Technocracy*, Habermas analyses the current socio-political situation of the European Union, which, in his opinion, largely reflects the problematic nature of the union's democratic legitimacy. The central idea of the work is a demonstration of the technocratic policy of European institutions which often are not approved by the democratic legitimacy that would justify their political decision-making in the eyes of European citizens (Habermas, 2015, p. 3 – 10). This problem causes a crumbling of political groups in the EU whose visions are based on different political or economic interests (Habermas, 2015, p. 3 – 33). "From the perspective of our typology, however, cracks are forming in this heterogeneous alliance" (Habermas, 2015, p. 6). The project of the European Union, therefore, faces a rupture between the policies of national states and the international interest of the European Community, whose enforced policy often comes into conflict with the preferences of the national states. "The problem is compounded by the shortcomings of intergovernmental politics. That each government is democratically legitimised by its citizens does not mean that the collection of democracies fosters a composite, "greater" democracy. The Euro-crisis years alone feature several instances of elected governments across a number of countries being forced to implement policies that were in direct contradiction to their very own beliefs and commitments to their voters" (Stavrou, 2016). Therefore, the problem of political segmentation of the EU is one of the most important results of the institutional and ideological discrepancies which reflect a current economic and political crisis on the old continent (Habermas, 2015, p. 3 – 20). Habermas explains that the primary root of this problem is a poor

Petrincová: Greek Tragedy

configuration of EU's institutional system (Habermas, 2015, p. 3 – 30). According to Habermas, the technocratic government of the EU's institutions is one of the main results of a deteriorating democracy, and the reason why the current policy of the EU struggles with the problem of justifying its decisions by democratic legitimacy coming from European citizens (Habermas, 2015, p. 3 – 30). "From then how politics is conducted would have to be changed and European unification would have to be converted from an elite project into one that includes the citizens. The Commission, the Presidency of the Council, and the European Central Bank (ECB) – known in Brussels parlance as 'the institutions' – are the least subject to legitimation pressures because of their relative distance from the national public spheres" (Habermas, 2015, p. 7). Because the main trigger of the problems of the democratic deficit in the EU was the economic crisis, Habermas analyses the subsequent effect of the debt crisis as a milestone in the political crises that the EU has been facing (Habermas, 2015, p. 3 – 30). Dissatisfaction was expressed, in particular with the Troika's adoption of ineffective policies in fighting the debt crisis, which were not able to limit the negative socio-economic effects on either the stricken states nor other countries in the Eurozone (Habermas, 2015, p. 3 – 30). This fact highlights even more the need for political decisions which would address the long-term inconsistencies and differences between the economic bases of countries belonging to the Economic and Monetary Union (Habermas, 2015, p. 3 – 30). "Within this expanded time horizon, attention is no longer focused exclusively on the contingent constellation of causes that since 2010 has connected the global banking crisis with the vicious circle formed by the mutual refinancing of over-indebted European states and undercapitalized banks. Instead it directs attention to longer-term structural causes inherent in the monetary union itself" (Habermas, 2015, p. 7). According to Habermas, the policy of the monetary union, together with the technocratically deformed EU's institutions, are two of the reasons why European society has failed to effectively prevent the widespread negative effects that have been accompanying the European Union for more than five years (Habermas, 2015, p. 3 – 30). Ultimately, it has marked the suspension of the political integration of member states and has deepened both the democratic deficit of European Union and the frustration of citizens with the policy adopted by the European institutions. "On paper, supranational democracy may be the declared long-term goal. However, if the economic constraints become intertwined with the flexibility of a free-floating European technocracy, it is probably that the unification

Petrincová: Greek Tragedy

process planned for but not by the people will grind to a halt before reaching the proclaimed goal. Without feedback from the insistent dynamics of a political public sphere and a mobilized civil society, political management lacks the drive to use the means of democratically enacted law to redirect the profit-oriented imperatives of investment capital into socially acceptable channels in accordance with the standards of political justice" (Habermas, 2015, p. 11). Therefore, Habermas argues, a restructuring of the European institutions and their policy is needed, mainly because its current form is no longer able to fulfil democratically legitimized political decision-making (Habermas, 2015, p. 3 – 30). Habermas believes that, if the project of the EU wants to remain intact, it must inevitably preserve the support coming from European citizens (Habermas, 2015, p. 3 – 30). As the first chapter of this thesis observed, the only effective solution for achieving the functioning democratic system in the territorially larger state units is the right adjustment of institutions which would support and protect the basis of liberal democracy, the civil rights of citizens (Dahl, 2006, p. 8 – 40). The preservation of the democratic system, with an emphasis on the promotion of citizens' rights, is a key factor which should be the centre of the EU's political decision-making bodies (Habermas, 2015, p. 3 – 40). "This is why the functional benefits of an increase in the decision-making power of the European organs, without sufficient democratic oversight, would be problematic not only from the perspective of legitimation. The authorities would be predictably biased in favour of a particular pattern of politics. A technocracy without democratic roots would have neither the power nor the motivation to accord sufficient weight to the demands of the electorate for social justice, status security, public services and collective goods, in the event of a conflict with the systemic demands for competitiveness and economic growth" (Habermas, 2015, p. 11 – 12). Habermas is not satisfied with the technocratic government of the EU mainly because of its inability to meet citizens' needs (Habermas, 2015, p. 3 – 30). As he explains, one of these institutions, which is directly attached to democratic legitimacy, is the European Parliament (Habermas, 2015, p. 3 – 30). Its MPs are directly appointed through parliamentary elections (Habermas, 2015, p. 3 – 30). However, it has not guaranteed the long-term development and performance of democracy (Habermas, 2015, p. 3 – 30). Habermas is concerned, in particular, that the competences of the European Parliament are largely limited (Habermas, 2015, p. 3 – 30). Looking at the development of the financial crisis and European aid to the affected countries, it can be observed that the

Petrincová: Greek Tragedy

policy actually adopted by the Troika had very little to do with the institutions subjected to the democratic decision-making of the European citizens (Sally, 2015). "That Europe was once more facing an existential crisis, he said, was 'because already in May 2010, investor interests were more important for the German chancellor than debt relief to form the Greek economy. It is citizens, not banks, who must have the last word in questions of far-reaching European significance,' he wrote" (Sally, 2015). However, for a better understanding of the democratic deficit in the EU, it is necessary to analyse the institutional structure of the European Union. Because this thesis focuses on the Euro debt-crisis countries, Greece in particular, the study will focus on the European Central Bank as a key player in undemocratic political decision-making which results in a democratic deficit in the European Union.

3.2 EUROPEAN CENTRAL BANK AND IT'S UNDEMOCRATIC NATURE

For an effective analysis of the problem of the ECB's democratic deficit, the role of the ECB needs to be explained, as well as the functional and structural preconditions that should be preserved if the ECB aspires to be labelled as democratic. The first chapter will serve as a basis for characterizing the main preconditions of a functional liberal democratic state. One of these preconditions was an effective structure of the institutions which could take up roles as mediators and protectors of human rights and preserve democratic processes in the country (Dahl, 2006, p. 30 – 70). Since we are talking about the European Union, which consists of twenty-eight member states, the proper setting of institutions is essential for the maintenance and development of the democratic system (Habermas, 2015, p. 3 – 40). As Habermas points out, a democratic deficit often arrives when institutions fail to effectively respond to the demands of the population (Habermas, 2015, p. 3 – 40). It most frequently happens due to an incorrect adjustment of institutions whose existence, if they are not democratically legitimized, ultimately weaken or suppress the democratic system in the country (Habermas, 2015, p. 3 – 40). Therefore, Habermas explains that the democratic deficit in the EU is to a large extent a product of institutional

Petrincová: Greek Tragedy

maladjustment (Habermas, 2015, p. 3 – 40). "This deficiency is explained by the asymmetry between the scope of the democratic mandate of the member states and the scale of the competences of the organization formed by all of them together" (Habermas, 2015, p. 15). Thus, the problem of the lack of transparency and accountability of certain European institutions to European citizens has become a disturbing finding (Habermas, 2015, p. 3 – 40). One of the least transparent and democratic institutions in the EU is the European Central Bank (Hauter, 2016). The most alarming fact about the ECB, from the perspective of effective democratic institutions, is the independence of its political decisions from other EU institutions (Hauter, 2016). "To summarize, the ECB can be described as an institution, the policies of which are not subject to any kind of approval or formal control by another political actor, the executives of which are extremely difficult to remove once they are in office, the goals and procedures of which depend to a significant extent on its own interpretation, and the competencies of which cannot be changed by passing a simple law. At the same time, this institution holds the sole authority to issue banknotes and to determine the interest rate of the whole Eurozone, which, in turn, influences economic growth, employment, inflation, and the foreign exchange rate" (Hauter, 2016). The European Central Bank is part of the European System of Central Banks, which was founded in 1992 (McBride & Alessi, 2016). ECB/s mandate was acquired by ratification of the Maastricht Treaty, which started the creation of the Euro and the Eurozone (McBride & Alessi, 2016). Since 1999, the ECB has been managing the monetary policy of the Eurozone (McBride & Alessi, 2016). The decision-making processes of the ECB's policy are based on three bodies (McBride & Alessi, 2016). The Governing Council consists of the Executive Board of governors of all central banks which are members of the Eurozone (McBride & Alessi, 2016). This Council is the supreme body of the ECB and makes binding decisions on the regulation of the euro and the operation of the whole institution (McBride & Alessi, 2016). The Executive Board of the ECB is made up of the Vice-President of the ECB and four members who are elected by the European Council (McBride & Alessi, 2016). The General Council is composed of the governors of all national central banks of the EU member states and the ECB president. It holds the role of an advisory body for the adoption of policies and management of the ECB (McBride & Alessi, 2016). The ECB is an institution which does not correspond to democratically legitimate political institutions, such as the European Parliament (McBride & Alessi, 2016). Its only duty

Petrincová: Greek Tragedy

is to inform the institutions about its political decisions (McBride & Alessi, 2016). Since most of the governors of the ECB are financiers and many of them come from the world of private banks, its political competence and impartiality in decision making on such important union matters, which often decisively influences the quality of life in the EU, is highly questionable (McBride & Alessi, 2016; Hauter, 2016). "Indeed, an institution which possesses the described combination of independence and power appears prima facie somewhat problematic in the context of a political system that bases itself on the principles of representative democracy"(Hauter, 2016). This fact is also highlighted by Habermas, who is especially concerned about the lack of power of the European Parliament, which, on the one hand, is democratically legitimized, but, on the other, cannot significantly affect the performance of other institutions in the European Union (Habermas, 2015, p. 3 – 40). According to Habermas, the lack of democracy bias from the side of the ECB is reflected in the policy which has been adopted in fighting the Greek debt crisis (Oltermann, 2015). As Habermas argues, dictatorship by the Troika, which also includes the ECB, reveals not only the lack of democracy while adopting policies, but also its poor efficiency in handling the Greek economy's recovery (Oltermann, 2015). "Over the course of the crisis, the European executive has accrued more and more authority. Key decisions are being taken by the council, the commission and ECB – in other words, the very institutions that are either insufficiently legitimated to take such decisions or lack of any democratic basis. The balance between politics and the market has come out of sync, at the cost of the welfare state" (Oltermann & Habermas, 2015).

Habermas broadly agrees with Streeck's theoretical considerations in *Buying Time*. Habermas especially supports Streeck's analysis of the causes of the financial and debt crisis and the weak response of democracy in the fight against the adoption of neoliberal financial policy (Habermas, 2015, p. 40 – 90). According to Habermas, EU citizens have been victims of the deregulation of the free market, which, with the support of underdeveloped democratic institutions, has been able to consolidate its position and gain support through the EU's technocratic policy (Habermas, 2015, p. 20 – 90). His inclination towards democratic policy is evident especially from his long-term criticism of technocrats and neoliberals who, according to Habermas, have been causing the democratic deficit in the EU's institutions by a symmetrical exclusion of European citizens from decision-making processes (Habermas, 2015, p. 3

Petrincová: Greek Tragedy

– 40; Oltermann & Habermas, 2015). However, Habermas strongly opposes Streeck's idea of limiting the power of the EU and its institutions (Oltermann & Habermas, 2015). The main discrepancy between the two theorists is the understanding of the functioning of democratic capitalism. While Habermas strongly believes in the functioning of the democratic capitalism in the EU, in conditions of changed institutional settings and the symmetrical involvement of citizens in decision-making over union affairs, Streeck refuses the coexistence of capitalism and democracy in any form (Oltermann & Habermas, 2015). According to Streeck, capitalism is unable to function effectively and at the same time not to limit the functionality and legitimacy of democracy (Streeck, 2015, p. 70 – 120; Oltermann & Habermas, 2015). However, Habermas claims that the possible solution could be a return to the nation-state (Habermas, 2015, p. 40 – 70; Oltermann & Habermas, 2015). "Where we differ is in terms of the consequences to be drawn from this predicament. I do not see how return to nation states that have to be run like big corporations in a global market can counter the tendency towards de-democratisation and growing social inequality [...]. Such tendencies can only be countered, if at all, by a change in political direction, brought about by democratic majorities in a more strongly integrated 'core Europe'" (Oltermann & Habermas, 2015).

3.3 The ECB and the Greek debt crisis

The tension between the Greek government and the Troika was growing from 2012 to 2014. One year later, the pressure of the international community, led by European political elites and the Vice-President of the ECB, Mario Draghi, reached its peak in the conflicting relationship with Greece. This subchapter will exclusively focus on the analysis of the growing pressure from the side of the ECB and the international community in 2015. The reason for the increasing tension was mainly a lost Greek confidence in the effectiveness of the austerity measures and reforms the adoption of which, as claimed by the Troika, was a necessary guarantee (for the EU and creditors), in the fight against the Greece. Dissatisfaction in Greek citizens with the extensive spending cuts in the public and private sectors to a large extent affected the

Petrincová: Greek Tragedy

preferences of the Greek electorate in the years of the debt crisis (Malkoutzis, 2012, p. 4). "The lack of public money and the pressure for structural reforms applied by the Troika comprising the International, Monetary Fund, the European Central Bank and the European Commission, however, mean that Greek politicians have lost their traditional policy tools" (Malkoutzis, 2012, p. 4). Undermined relations between the EU and Greece over the period of the debt crisis not only stimulated the transformation of electorate preferences, which reflected the critical socio-political situation in Greece, but also the erosion of many long-lasting successful political parties (Malkoutzis, 2012, p. 3 – 20). Political parties were most often divided in their opinion on the adoption or rejection of the austerity measures which were a necessary condition for European financial aid, also known as bail-outs (Malkoutzis, 2012, p. 3 – 10). "In the eyes of most Greeks, the Troika is also seen as having imposed unnecessarily tough austerity measures, which have worsened the country's recession. This has led to the creation of two broad political camps: those who support the EU-IMF memorandum and those who oppose it" (Maloutzis, 2012, p. 12). In the beginning of 2015, with the January parliamentary elections in Greece won by SYRIZA, the most turbulent period of the relationship between Greece and the Troika finally began (Nixon, 2016). SYRIZA and its strong rhetoric against the extensive saving measures were strongly supported by Greek citizens (Nixon, 2016). On the other hand, SYRIZA's behaviour raised concerns of the Troika and creditors, who were especially worried about the ability and will of the new government to follow the long-term plan for financial assistance from the EU and the IMF (McBride & Alessi, 2016). The responses of European leaders was very contradictory. The states of the EU's southern periphery – which were also affected by the Troika's dictates – largely expressed support and joy over the victory of democracy in Greece (Telegraph.co.uk, 2015). The other side of the spectrum, which was in favour of the Troika's policy, expressed concern over the possible political complications, which were represented by the disturbing policy of SYRIZA (Telegraph.co.uk, 2015). "Bundesbank President Jens Weidmann said that he hoped 'the new Greek government will not make promises it cannot keep and the country cannot afford'. Belgium' finance minister said there is a room for negotiation with Syriza. Johan Van Overtveldt said on the eve of a Euro-zone finance ministers' meeting that 'we can talk modalities, we can talk debt restructuring, but the cornerstone that Greece must respect are the rules of monetary union that must stay as it is'. He told VRT network

Petrincová: Greek Tragedy

that even if some things could be changed to accommodate the demands of Syriza, 'it is impossible to fundamentally change things'" (Telegraph.co.uk, 2015). Probably the most radical response was made by the ECB which, on February 4, 2015, a few days after the new government was elected, refused to accept the Greek bonds as a guarantee for acquiring so-called "cheap money" from the Emergency Liquidity Assistance (ELA) (Weisbrot, 2016). In its official statement, the ECB referred to the inability of the Greek government to "fulfil minimum credit rating requirements," which became a consequence of the adoption of changes in debt policy towards Greece (European Central Bank, 2016). "The Governing Council decision is based on the fact that it is currently not possible to assume a successful conclusion of the programme review and is in line with existing Eurosystem rules" (European Central Bank, 2016). The decision of the ECB was suspicious for many reasons. Many politicians labelled this move from the side of the ECB as a betrayal, since the decision of such an important dimension came just few days after the formation of the new government (Weisbrot, 2016). "We should be clear about what this means. The ECB's move was completely unnecessary, and it easy done some weeks before any decision had to be made. It looks very much like a deliberate attempt to undermine the new government. They are trying to force the government to abandon its promises to the Greek electorate, and to follow the IMF program that its predecessors signed on to" (Weisbrot, 2016). The new Greek government, therefore, came under pressure from the international community which did not allow Greece to commit any failures in fulfilling their duties to the Troika (Weisbrot, 2016). On the other hand, the Troika was bound by commitments to alleviating the economic and social crisis in the country, which highly supported the anti-Troika rhetoric of SYRIZA (Weisbrot, 2016). This was the reason why, after months of negotiations between the Greek government and the international community, the issue of a Grexit began to be discussed more and more frequently (Monastiriotis, 2016). The Troika refused to provide to Greece any further financial support without the adoption of the next package of austerity measures and reforms by the Greek government (Monastiriotis, 2016). Such a policy was, however, not an option mainly because of SYRIZA's refusal to adopt even more invasive saving policy reforms (Monastiriotis, 2016). The disagreement led to Tsipras's decision to hold a referendum in which the Greek citizens were to decide the issue of adopting further financial assistance from the Troika, ultimately resulting in the approval of additional saving measures

Petrincová: Greek Tragedy

(Monastiriotis, 2016). The referendum was held on July 5, 2015, when Greek citizens rejected the adoption of the conditions under which the Troika would have financially assisted in the fight against the Greek debt crisis (Menton, 2016). Tsipras expressed joy over the victory of democracy and a determination to comply with the decision of the Greeks not to accept the other bail-out from the Troika (Menton, 2016). The result of the Greek bail-out referendum stimulated decisive action of the European politicians (Menton, 2016). The effort of the Greek government to establish a new policy finally failed on the lack of financial liquidity in Greek banks, which was hardly limited by the ECB (Blamont & John, 2016). "A crisis meeting of EU leaders on Sunday is 'really the final deadline' for Greece to reach a deal with creditors or face economic collapse, ECB Governing Council member Christian Noyer said on Wednesday. 'In the last six months we maintained the lifeline set up for Greek banks and put enormous sums of money on the table ... Our rules oblige us to stop immediately at the point when there is no prospect of a political accord on a programme, or at the point when the Greek banking system crumbles – which would happen if it enters generalised default on all its debts" (Blamont & John, 2016). The Greek government thus faced the threat of acute shortage of financial liquidity in banks (Andrews & Rampen, 2015). This danger forced banks to make decision to limit the maximum daily withdrawal from the Greek cash machines to € 60 (Andrews & Rampen, 2015). Strong pressure from the international community finally managed to force the Greek government to adopt the third bail-out, despite the fact that Greeks demanded a refusal of it in the democratic referendum (Wearden & Fletcher, 2015). Therefore, the case of the Greek debt crisis manifests a current domination of capital over democracy, strengthened by the anti-democratic structure of European institutions which are unable to defeat the policy of the debt state (Wearden & Fletcher, 2015).

The role of the third chapter was to confirm or refute the hypothesis that the wrong institutional setup of the European Union contributes to a deepening of the democratic deficit at the national and international levels. The example of the Greek debt crisis and the political behaviour of the ECB highlighted the deficit in democratic legitimacy on the part of European institutions whose political decisions often lacks support from European citizens. Analysis of the functional setup of the European institutions was carried out mainly with the help of the academic considerations of

Petrincová: Greek Tragedy

Habermas, who has been long-time critic of the alarming state of the democratic system and institutional malfunctioning. Since the centre of the study was the behaviour of the ECB, it was shown that the international institutions significantly affect the quality and efficiency of the democratic system at the national level. Therefore, the third chapter confirmed the hypothesis which claims that an incorrect adjustment of the institutions in a democratic state or multinational formations limits the effectiveness and legitimacy of a democratic state and threatens its existence.

Conclusion

The first chapter examined the essential preconditions which must be fulfilled in order to maintain a democratic system. On the basis of its analysis it was pointed out that one of the main essences for the effective democratic system is civic participation of citizens. The second preconditions of an effective democracy are democratic institutions which maintain and safeguard the democratic processes in the state. Therefore, it was pointed out that the effective democratic system desires an active participation of citizens and institutions supporting and ensuring the development of citizens' rights. It ultimately reduces the economic and social inequality among population. The second chapter explained the why the balance of democracy and capitalism is needed in order to legitimize the existence and effectiveness of the democratic capitalism. Using the example of policy of Greek debt state it was found that the EU has strong economic interest which many times undermine the position of democracy in the union and the member states. Thus the first hypothesis was approved. The austerity measures which was the Greek government forced to adapt pointed out that the EU highly favours the neoliberal policy which, however, have caused an increase in socio-economic inequality and democratic deficit in Greece and the EU. The third chapter focused on the analysis of the EU's institutions and their controversial adjustment. The centerpoint of the study was the ECB which has been one of the institutions which largely influence the everyday life of Europeans besides its missing democratic legitimacy. Based on this fact, the research focused on the examination of ECB's behaviour during the development of Greek debt crisis. The ECB's neoliberal policy contributed to the rise of economic and social inequality in Greece. Therefore, it was approved that the wrong

Petrincová: Greek Tragedy

adjustment of the EU's institutions contributes to the rise of the democratic deficit on the national and international levels. Thus the second hypothesis was proved as right.

The bachelor thesis examined and approved the both of its hypotheses which highlights that (1) the EU's preference of the economic interests negatively affect the level of democracy within the union and that (2) the wrong adjustment of the EU institutions highly contributes to the rise of the socio-economic inequality and democratic deficit in the union and member states.

Resume

Demokratický deficit sa stal jednou z najdiskutovanejších tém v Európskej únii. Očakávaná, ktoré stelesňoval začiatok nového tisícročia, bolo už po pár rokoch vystriedané hlbokým sklamaním a krízou nielen ekonomiky, ale aj samotnej západnej demokracie. Pokrivkávajúca demokracia už viac nebola problémom len v rozvojových krajinách. Novým fenoménom sa naopak stala kríza demokracie, ktorá ako sprievodný jav ekonomickej krízy, vyvolala obavu o budúcnosť existencie demokratického kapitalizmu. Preto sa mnohí akademici začali zapodievať nielen riešením ekonomickej krízy, ale aj krízy kapitalistickej demokracie. Kolaps demokracie alebo kapitalizmu sa od roku 2008 začal v odborných kruhoch spomínať, čím ďalej, tým viac, ako jeden z najreálnejších scenárov dlhodobého súperenia ich rozdielnych základov. Tomuto trendu sa koniec koncov nevyhla ani Európska Únia. Jedným z prvých akademikov, ktorý upozornili na tendenciu úpadku demokracie v EU, boli Jürgen Habermas a Wolfgang Streeck. Obaja poukázali na zníženú schopnosť demokratického kapitalizmu zabezpečiť prosperitu a rozvoj ľudského potenciálu. Naopak, rozrastajúca sa príjmová nerovnosť a rast chudoby, rozmáhajúca sa nezamestnanosť, ktoré patria medzi faktory poklesu záujmu o voľby, naznačujú jeden smer ohrozenia demokracie. Druhý smer ohrozenia demokracie má iný charakter. Azda najdiskutovanejšou témou, je ekonomickou krízou postihnutý juh Európy. Krajiny ako Grécko, Portugalsko a Španielsko, sa stali najčastejším terčom toho, čo kritici hodnotia ako diktát európskych inštitúcií. Trojica inštitúcií v zložení Európska komisia, Európska centrálna banka a Medzinárodný menový fond sa stala „sudcom“ nad osudom krajín v ekonomickej kríze. Tvrdé opatrenia a škrty v rozpočtoch vlád v dôsledku plnenia podmienok pre získanie finančnej pomoci Trojky, mali za následok radikalizáciu lokálnych

Petrincová: Greek Tragedy

politických scén. Tá odrážala sociálne dopady reforiem vlád, ktoré postihovali najmä každodenný život obyčajných ľudí. Reformy vyvolali masové nepokoje obyvateľstva a mobilizáciu viacerých politických strán. Najviac kritizovanou krajinou, zo skupiny južných previnilcov, sa stalo Grécko, ktoré si vyslúžilo titul neprispôsobivého štátu, ohrozujúceho chod celej Eurozóny. V konečnom dôsledku, postupný kolaps demokratického kapitalizmu vrhá svetlo na nefunkčnosť reprezentatívnej demokracie, ktorá, ako sa zdá, nedokáže ďalej naplňať očakávania svojich voličov. Tí sú odkázaní na slepé nasledovanie toho, čo im prikazujú trhy. Táto situácia poukazuje na hrubú deformáciu demokratického systému, ktorý zlyháva v ochrane svojich občanov, a teda aj v ochrane svojho hlavného zdroju legitimacy. Reprezentatívna demokracia, ktorá zažíva krízu legitimacy, sa stáva naliehavým objektom skúmania. Hlavnou otázkou pre nasledujúce roky bude, akou formou je demokracia schopná obnoviť svoju legitimitu a dôveru zo strany občanov. V snahe zistiť, odkiaľ pramení hlavný problém demokratického kapitalizmu, je potrebné preskúmať oba komponenty tohto systému a ich ideológie. Preto sa táto bakalárska práca pokúsi o analýzu reprezentatívnej demokracie, kapitalistickej ideológie a v neposlednom rade ich spoločného nažívania bok po boku, ktoré prináša v posledných rokoch tak rozporuplné názory. Prvá kapitola tejto bakalárskej práce sa prevažne sústreďí na objasnenie dôležitosti občianskej participácie a jej podielu na formovaní demokratického systému. Jej snahou bude overiť a dokázať, že význam občianskej participácie nespočíva iba v jej kľúčovom postavení ako hlavného zdroja legitimacy demokratického kapitalizmu, ale taktiež slúži ako dôležitý element v boji proti sociálnej a ekonomickej nerovnosti. Nakoľko je verejná participácia občana na rozhodovaní o štátnych záležitostiach jedným z hlavných občianskych práv, zámerom prvej kapitoly bude poukázať na nutnosť podpory práv občana pre zdravý rozvoj demokratického režimu. Jej pokračovaním bude analýza demokratického kapitalizmu v druhej kapitole, ktorá bude overovať prvú z hypotéz. Tá sa bude zaoberať otázkou EU a jej preferenciou ekonomického rastu na úkor demokratického rozvoja. Druhá kapitola bude opieraná o knihu *Wolfganga Streeck, Buying Time: The Delay Crisis of Democratic Capitalism, 2015*, ktorá skúma socio-ekonomické vplyvy rozsiahlych neolibérálnych reforiem na demokratický kapitalizmus. Preto bude hlavnou úlohou druhej kapitoly dokázať potrebu demokratickej intervencie v regulácii voľného trhu. Na príklade gréckej dlhovej krízy bude analyzovaná austerita policy ako politika ordinovaná štátom s vysokou zadlženosťou, ktorej prívržencom je Európska únia a jej inštitúcie. Centrom analýzy

Petrincová: Greek Tragedy

budú rozsiahle úsporné opatrenia, ktoré bolo Grécko nútené prijať v snahe získať finančnú podporu od Trojky. Táto politika bude analyzovaná, z pohľadu jej efektu na zrast nezamestnanosti a prehĺbenie socio-ekonomickej nerovnosti medzi občanmi. Táto politika sa bude skúmať ako možný zdroj vzniku demokratického deficitu v Grécku, a neposlednom rade aj EU. Tretia kapitola nadviaže na prvé dve a jej snahou bude analyzovať štruktúry inštitúcií EU, so zameraním na Európsku centrálnu banku (ECB) z pohľadu demokratickej legitimacy. Táto kapitola sa bude opierať o knihu *Jürgena Habermasa The Lure of Technocracy, 2015*, ktorá pomôže v objasnení problematického charakteru ECB z pohľadu transparentnosti a zodpovednosti európskym občanom. Grécka dlhová kríza a rok 2015, ktorý bol poznačený výrazným zhoršením grécko-európskych vzťahov, nám poslúži ako základ v skúmaní politiky prijímanej Európskou centrálnou bankou a jej demokratickej legitimacy.

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