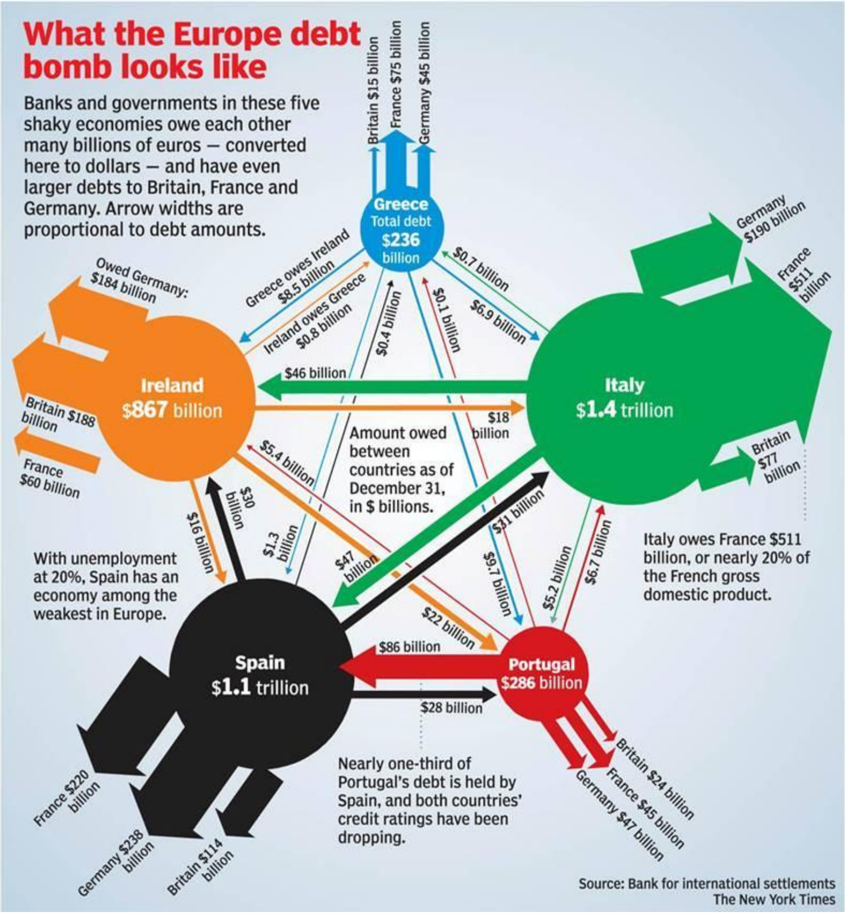
The Eurozone Crisis and Why it is so Hard to Resolve

Bob Jessop,
Sociology

Outline

- Crises, what crises?
- Variegated Capitalism and the World Market
- Variegated Capitalism and the European Project
- Neo-Liberalism vs Neo-Mercantilism
- The EU as a State in the Process of Formation
- A Crisis of Crisis-Management
- Design Failures or Designed to Fail?
- Muddling Through or Government Sachs?
- Conclusions



Crises, what crises?

危

機

- Crises are moments of *danger* and *opportunity*: as such, they have objective and subjective aspects
- Objectively, they occur when a set of social relations can’t be reproduced (cannot ‘go on’) in the old way
- They arise from (a) a mix of accidental and conjunctural factors; and, at least for structural crises, (b) system-specific tendencies and dynamics
- Subjectively, crises are moments of indeterminacy, where decisive action can restore these relations, via repair work, adaptation, or radical innovation
- If restoration does not restore these relations, the system fails, perhaps replaced by a new kind

Crises, What Crises?

- Baudrillard claimed that ‘the Gulf War did not take place’
- The system-specific and conjunctural aspects of crises have many spatio-temporal complexities and affect social forces in quite varied ways. So it’s hard to read crises.
- If their spatiotemporal boundaries are unclear, if causes and effects are contested, can we speak of The CRISIS?
- Resolving them into one CRISIS involves at best ‘strategic essentialism’ rather than rigorous scientific practice
- But such simplifications may help to create conditions to resolve a crisis by focusing minds and actions – but only if objective overdetermination and construals correspond

Varieties of Capitalism (VoC)

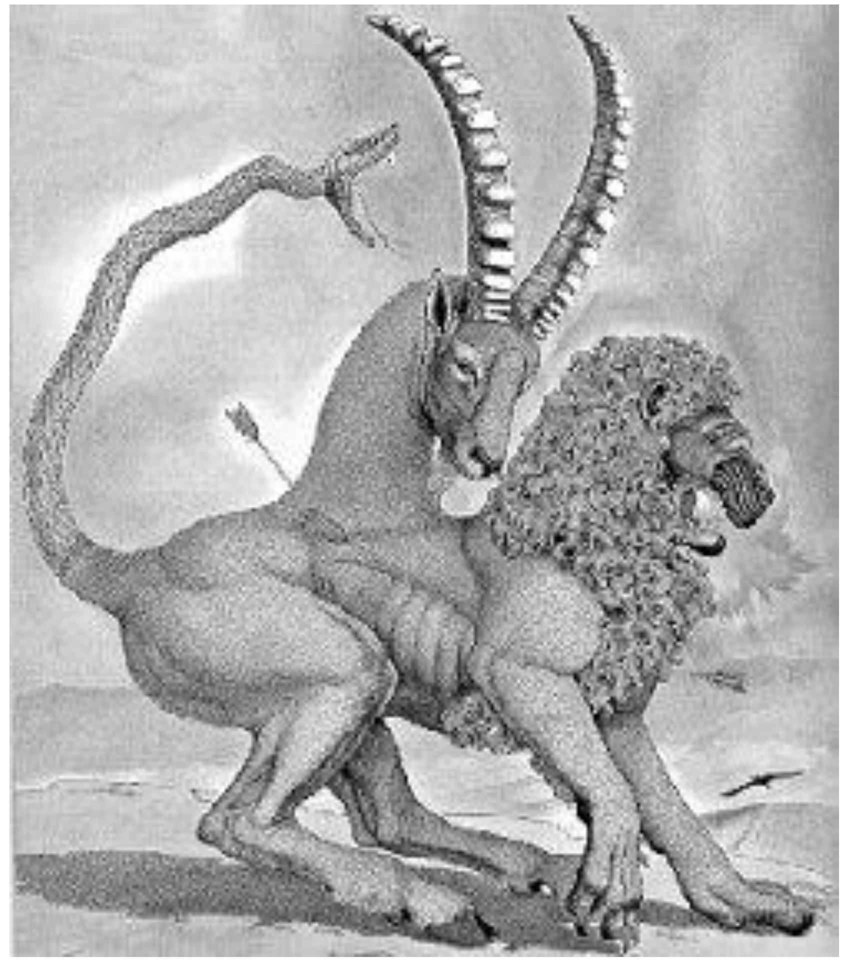
- Pluralistic logic based on different types of capitalism, each with its own dynamic (e.g., Rhine capitalism)
- Pure types involve path-dependent ensembles of institutional complementarities that efficiently solve critical coordination problems in capitalist market economies
- Evolution of world market reflects institutional competition among VoCs as well as profit-oriented, market-mediated competition

Four Problems with VoC Approach

- Lists distinct (families of) local, regional, national, or more comprehensive models (e.g., Confucian capitalism) seen as rivals on same scale or same terrain for same stakes
- Describes the forms of *internal* coherence of distinct VoC on the false assumption that they can and do exist in (relative) isolation from each other
- Studies temporal rhythms and horizons of different VoC as internal, specific, short- or medium-term, unrelated to long-term global dynamics in the world market
- Treats all varieties as equal and, if one proves to be more "productive" or "progressive", it could and should be copied, exported, or even imposed elsewhere

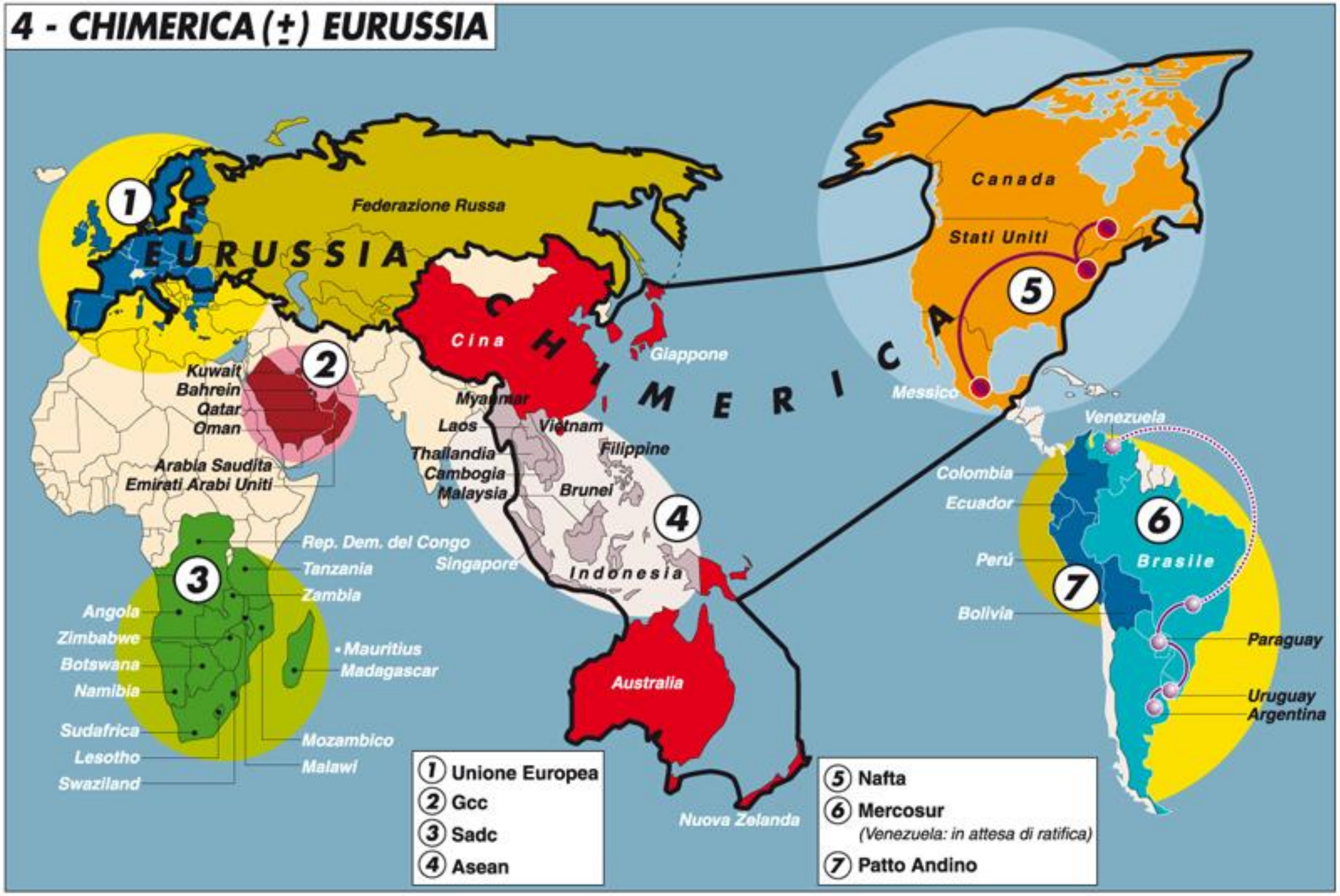
Variegated Capitalism

- A self-organizing "ecological system" at level of world market
- Based on the co-existence, structural coupling, mutual conditioning, and co-evolution of different, but conjuncturally *compossible*, economic regimes that exist on, or link, different territories, places, and scales
- These regimes have different institutional and spatio-temporal fixes that seek to "handle" their respective crisis-tendencies in different, asymmetrical, ways



A chimera: features of several species in one animal

Chimerica



"Chimerica" coined by Niall Ferguson and Moritz Schularick (2006): China + USA have c13 percent of world's land surface, one quarter of total population, a third of total output, and half of global growth of past six years (2000-2006).[I]

Note: Map shows a Chimerica that includes Canada, Mexico, Australia, New Zealand, Japan, and ASEAN – an even bigger 'variegated space' than that discussed by Ferguson/Schularick

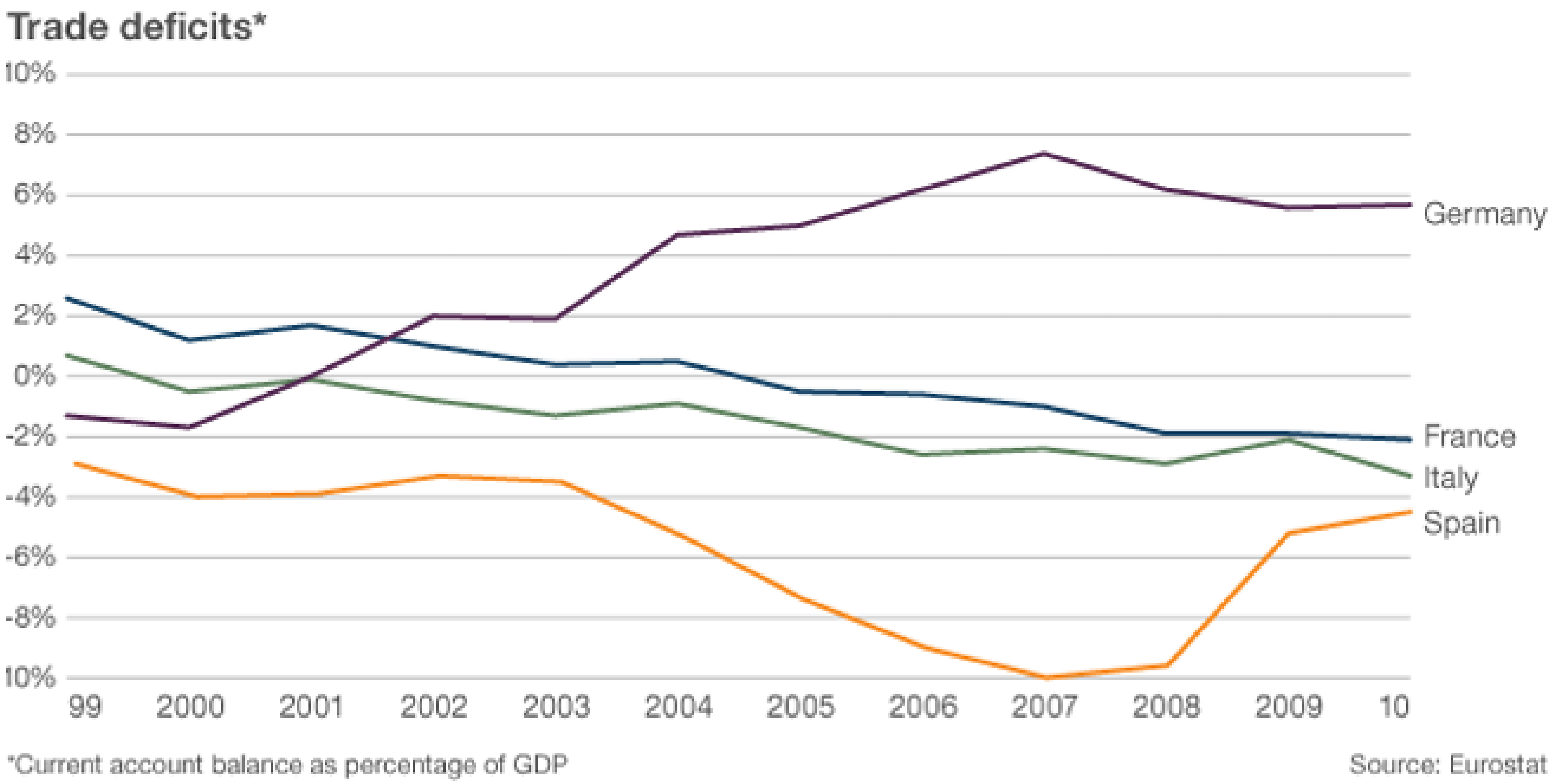
World Market in Shadow of Neo-Liberalism

Shadow results from relative predominance of finance-led accumulation in neo-liberal economies, from ‘ecological dominance’ of such economies in world market, from general place of finance in global circuits, from rolling out of specific forms of competition law based on neo-liberal view of market , and from other factors

EU in the Shadow of Neo-Mercantilism

Shadow in EU results from relative weight of export-led accumulation in the ‘Modell Deutschland’, from ‘ecological dominance’ of German economic *Grossraum* in European Economic Space (EES), notably Eurozone, from institutional flaws in design of Euro (cf. original sins of Bretton Woods), and from Germany’s hegemonic position in EU and wider EES

Export-Modell Deutschland



Variegated Capitalism and the EEC

- Founding members were "Rhenish" and backed the "Jean Monnet mode of integration" to create conditions for an integrated European economic space supporting this model
- Initial steps to European integration aimed to integrate W. Europe into circuits of Atlantic Fordism, with a spatial division of labour corresponding to competitive positions; mode of integration aimed at a "Keynesian-corporatist" form of statehood on European level favourable to national Fordist mode<u>s</u> of development (see Ziltener 1999, 2000)
- Spillover of market integration would consolidate variegated *regulated* capitalism and deepen EEC political integration

Variegated Capitalism and the EU

- As new members with other modes of growth, regulation, and welfare joined EC, initial coherence decomposes
- UK initially isolated as liberal market economy but played key ‘Trojan horse’ role in facilitating entry of de-regulated international finance into Continental heartland
- Got harder to establish a tripartite Euro-corporatism, let alone to re-scale state planning from national to EU level
- Monnet mode replaced by a more liberal *internal market* project, based on *negative integration*, prompting conflicts among neo-liberal, neo-corporatist, neo-statist currents
- Uneven impact of Atlantic Fordist crises on ‘national models’ aggravates latent *incompossibility* of VoCs in EU

Variegated Capitalism and Lisbon

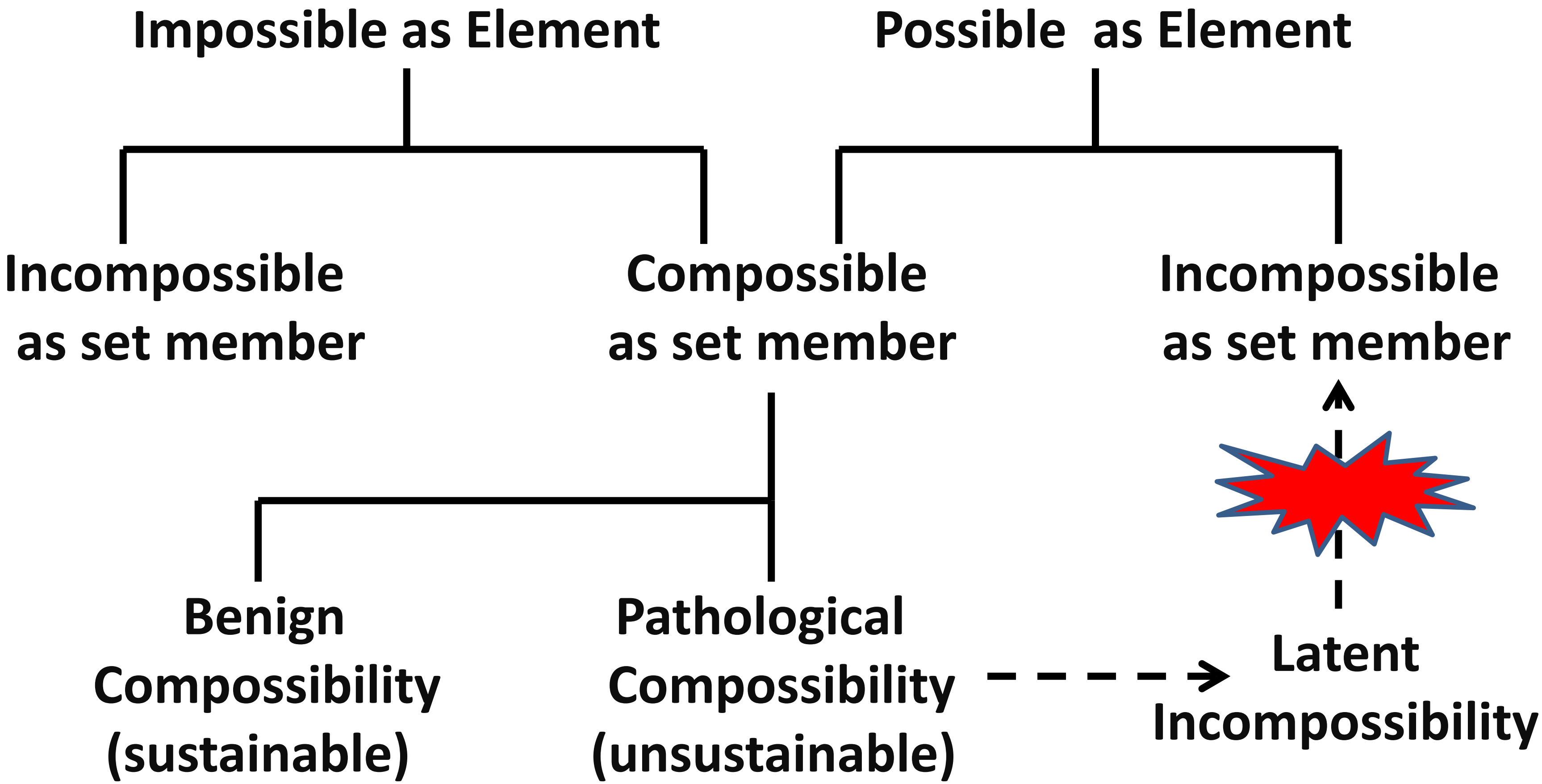
- Different forms and degrees of neo-liberalism (esp. regime shifts *vs* more modest policy adjustments) created greater heterogeneity in original core, intensify integration crisis, and prompt search for new mode of integration
- New economic and political strategy for EU arose in 1990s: embedded neo-liberalism in shadow of the German model.

  This is neo-liberal at its core and reflects the outlook of the most globalised sections of European capital, while at the same time seeking to accommodate the orientations of other social forces (Ziltener 2000; cf. van Apeldoorn 2002)
- New compromise organized around "competitiveness" and involved uneasy balance among different crisis-responses, biased towards neo-liberalism (Maastricht, then Lisbon)

Eurozone Crisis and Neo-Liberalism

- Eastward expansion aggravated incoherence of EU – an effect promoted by neo-liberal forces in and beyond EU
- Failure of Lisbon Agenda (KBE, European social model, inflected with neo-liberal bias) combined with global crisis (first post-war crisis of world market to have been made in US and have broken out there) weakens EU economic space
- Reinforced by crises in UK and Ireland and in new member states, then by sovereign debt crises in Greece and Spain
- Eurozone crisis is latest expression of latent incompossible variegation of EU and its partners in EEA (unless new mode of economic and political integration is consolidated) as these economies are inserted into world market as a whole

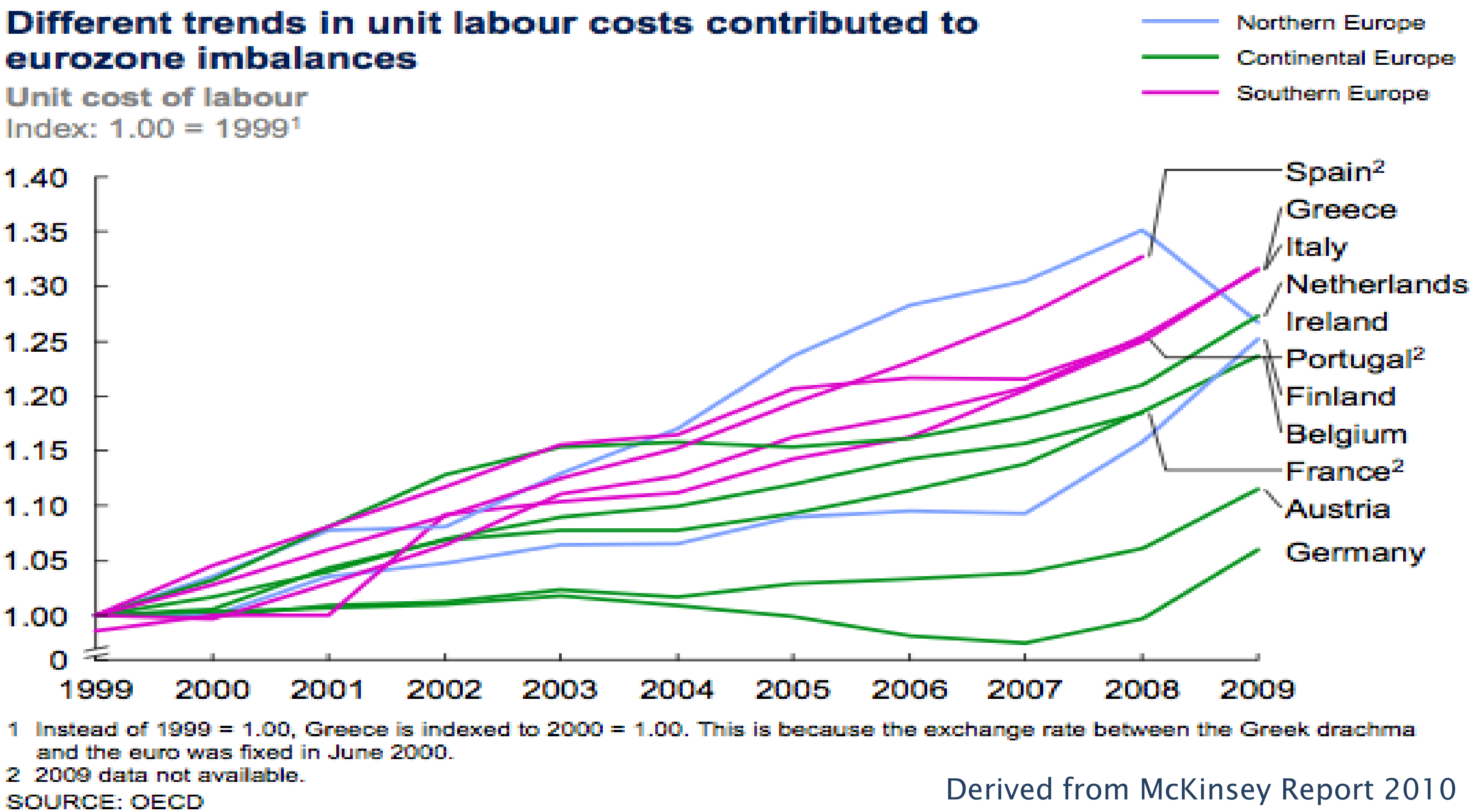
Modalities of Relational Compossibility



Partial Interpretation of this Figure

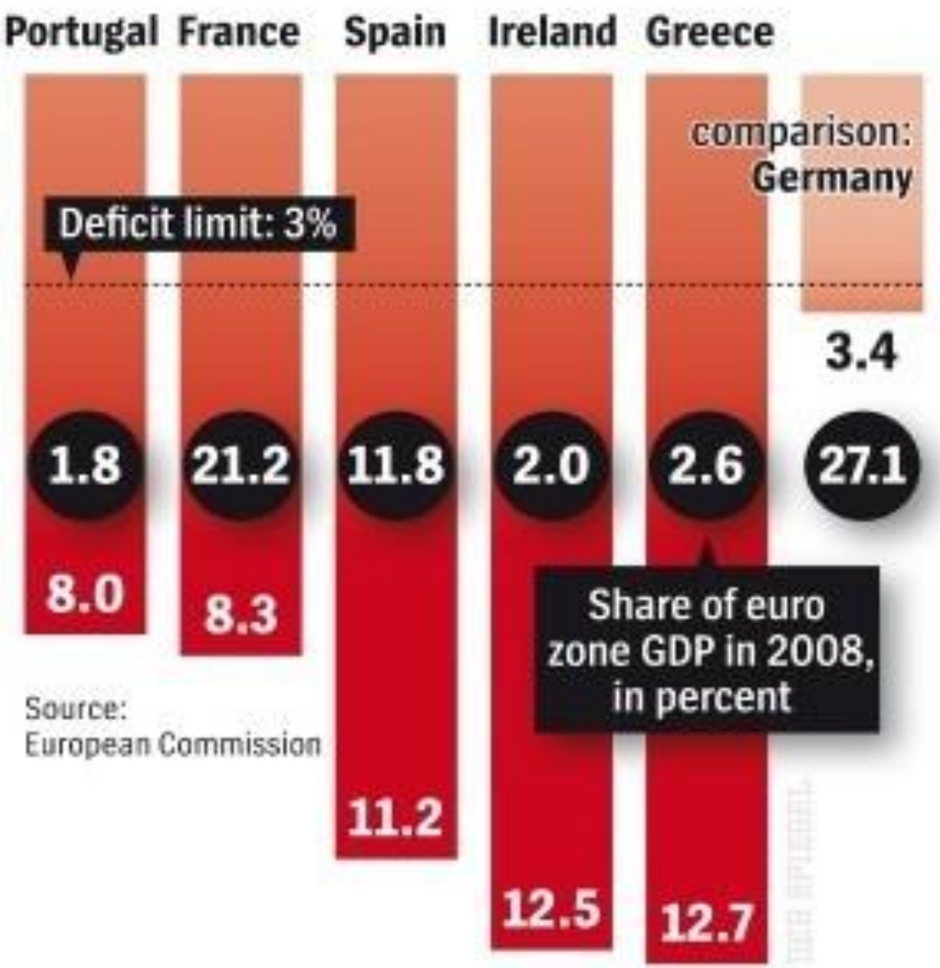
- A set of elements that are individually possible viewed *in isolation* and can be combined in a single possible world in a given spatio-temporal matrix are compossible in this regard (e.g., actually co-existing, relatively durable VoCs)
- A set of such elements that can't be combined in a single possible world in a given spatio-temporal matrix are *incompossible* in this regard (but might co-exist in other circs)
- Some compossible sets comprise mainly complementary elements and are stable/adaptive; others include major contradictory elements that are destabilizing in long run
- Such pathological compossibility may lead sooner or later to latent incompossibility manifested in economic and political crises or breakdown (political crisis is especially important)

Aspects of Incompossibility - I



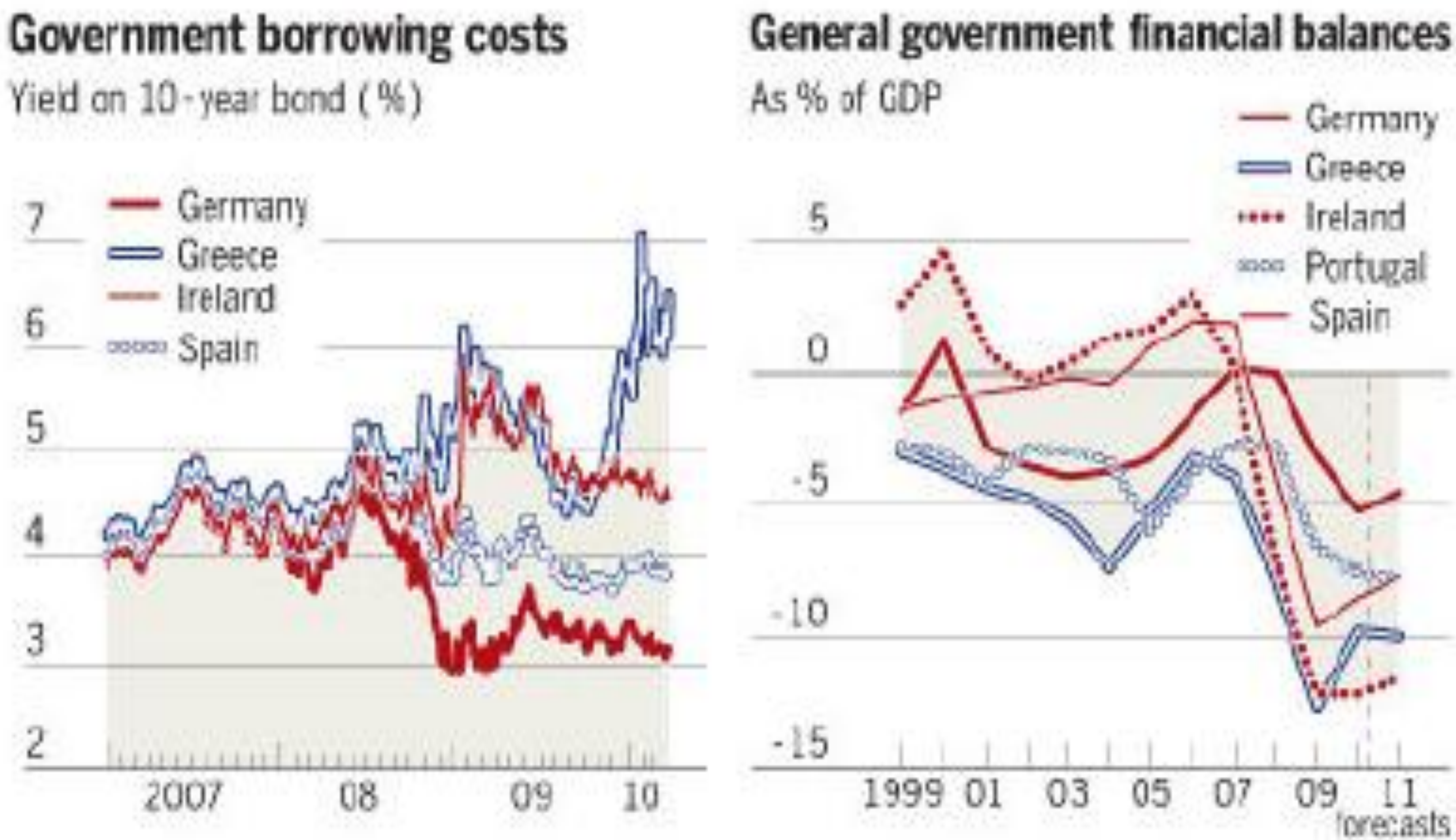
Derived from McKinsey Report 2010

Aspects of Incompossibility - II



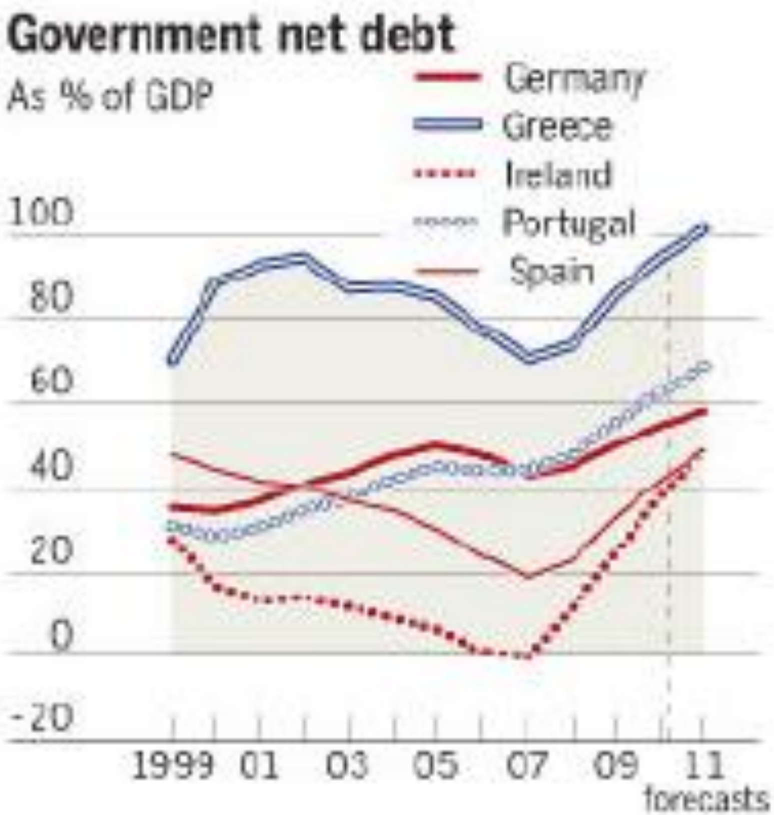
2008 comparison of the deficits and Eurozone GDP of Portugal, Ireland, Greece, Spain, France and Germany – Source: Der Spiegel / European Commission, 02/2010

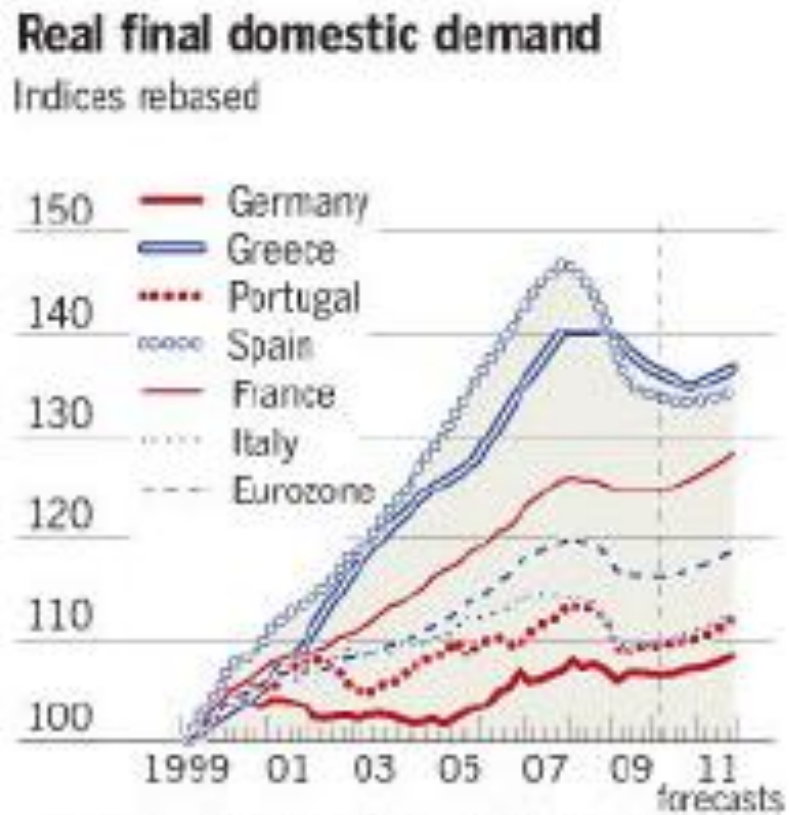
Aspects of Incompossibility - III



Source: These and next 3 slides come from Martin Wolf in Financial Times

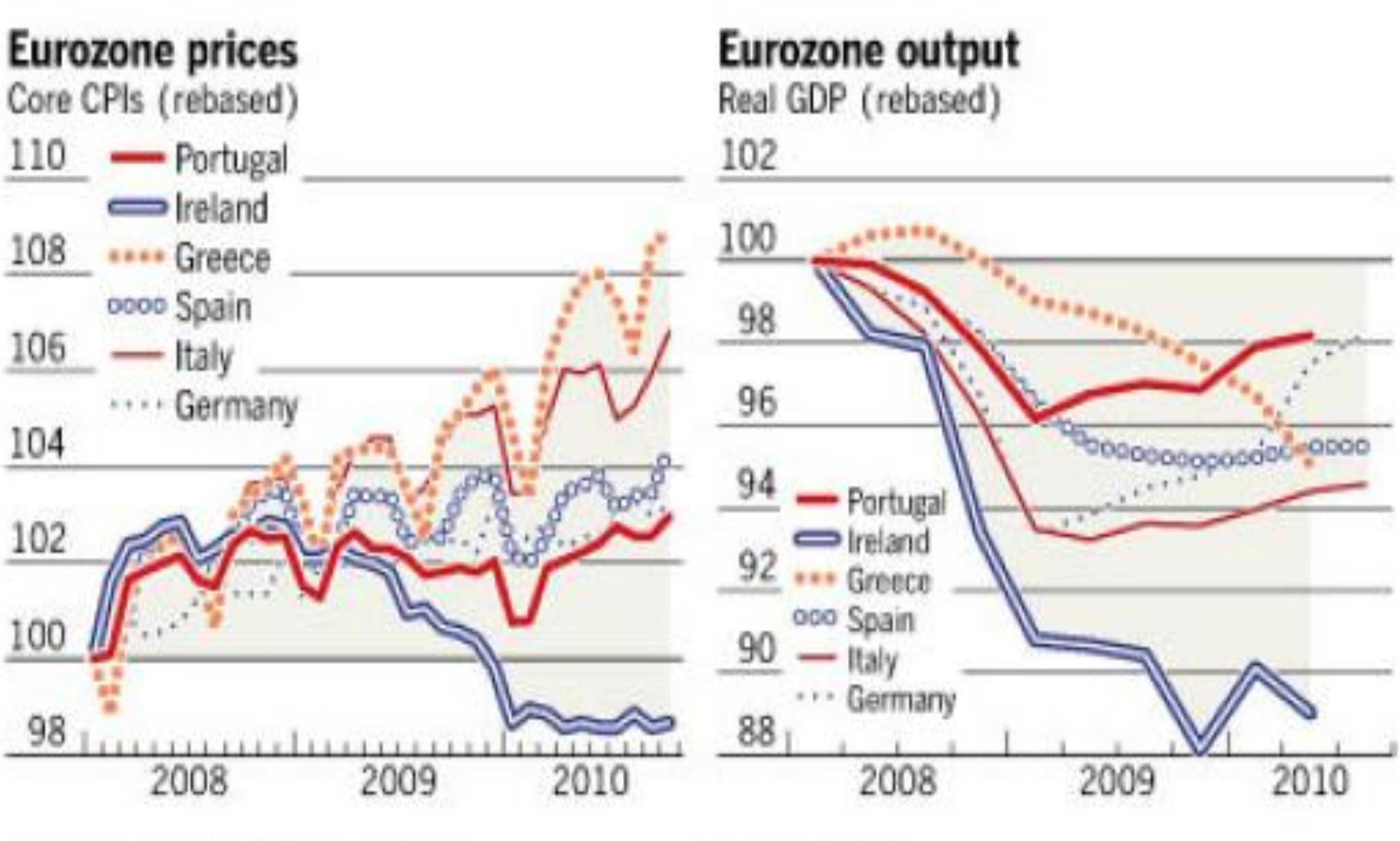
Aspects of Incompossibility - IV



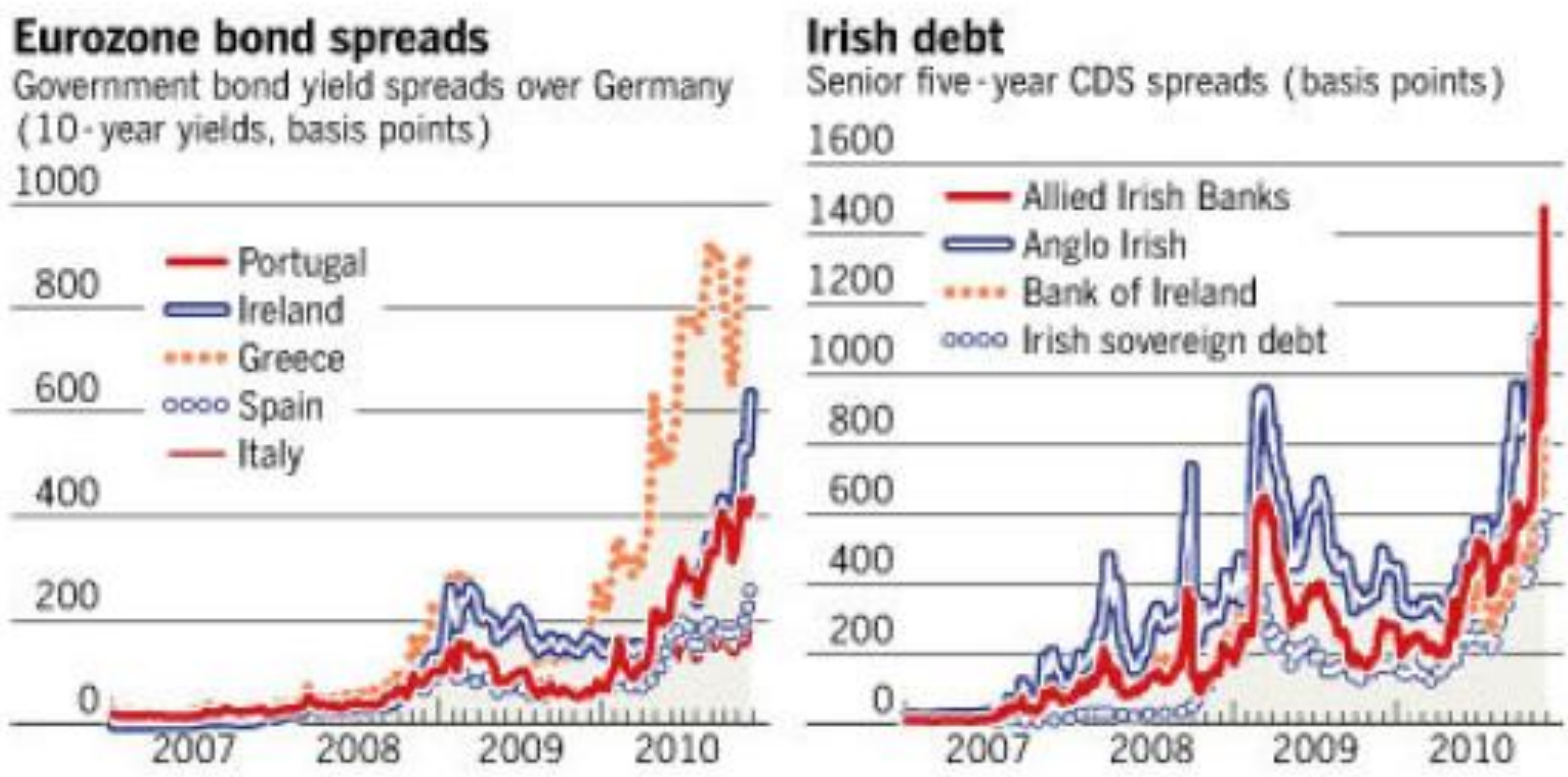


Sources: Thomson Reuters Datastream: OECD

Aspects of Incompossibility - V

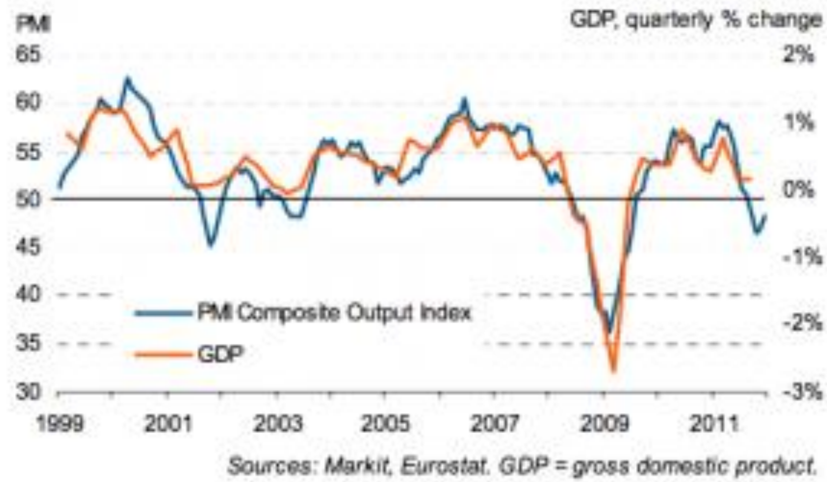


Aspects of Incompossibility - VI



Sources: Thomson Reuters Datastream; Markit

Markit Eurozone PMI and GDP



Employment indices by nation

Output indices by nation

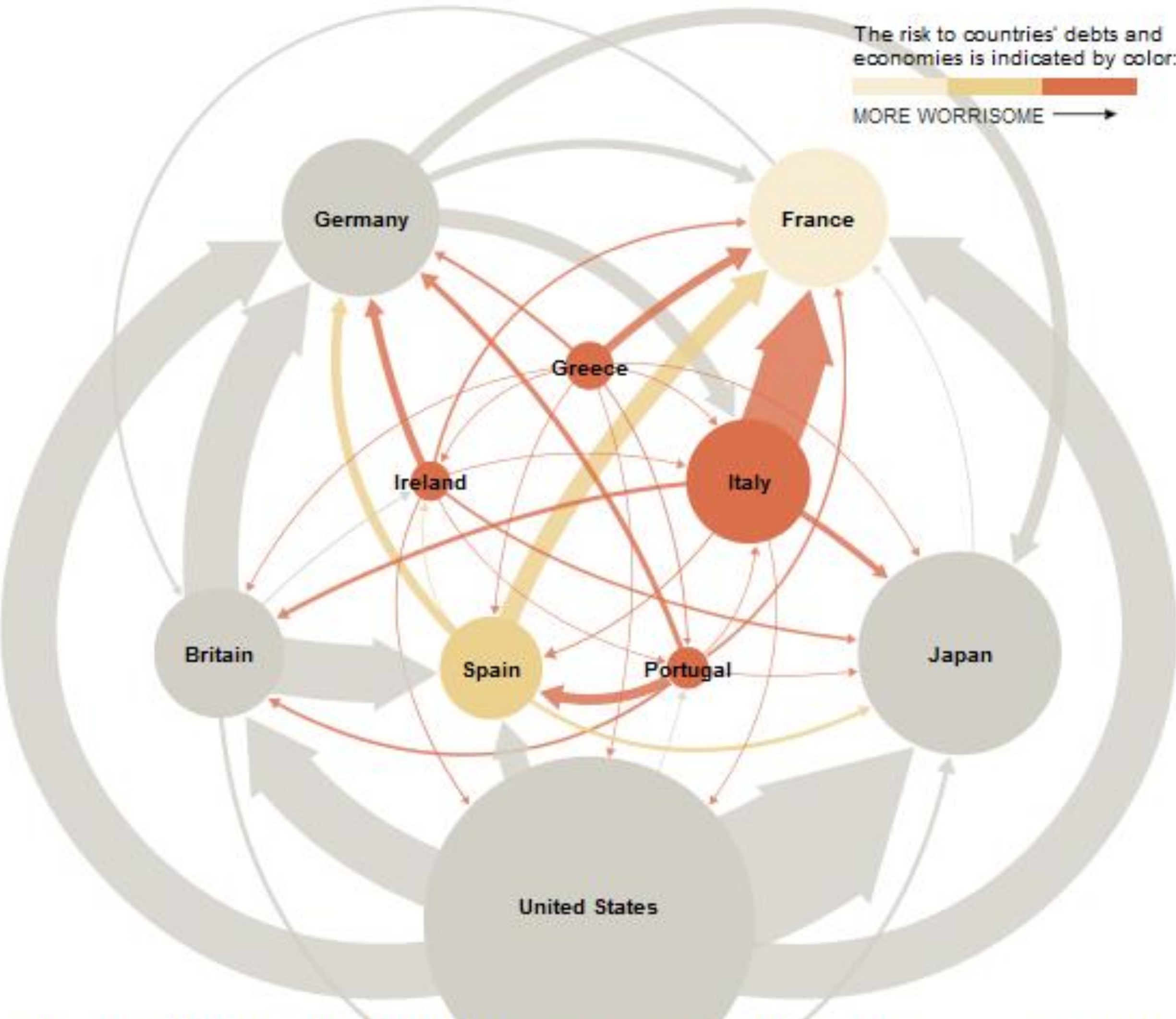
Aspects of Incompossibility - VII

Alternative Interpretations

- Data *indicate* growing pathological compossibility of VoCs in variegated Eurozone and wider European region
- They do not *explain* origins of credit and competitiveness crisis nor its interaction with global (and EU) financial crisis and its repercussions on EU's "real economy"
- Examine specific economic and political features of local, regional, national, and transnational spaces, their ties to flows and networks that link these spaces, and their integration into a variegated, multi-scalar world market
- Pathological compossibility of Eurozone aggravated by European crisis, global financial crisis, rise of BRICs, etc

Eurozone Crisis Revisited

- Eurozone crisis is not just another Minsky-induced recession nor another crisis of competitiveness in individual economies – for both, there are routine crisis-management responses: design flaws in Eurozone weaken or block these routines
- Crisis has evolved into epic recession, based on financial and consumption fragility, leading to a debt-default-deflation trap (already advanced in Eire and intensifying in Greece). This is aggravating competitiveness and credit crises in EU and crisis responses have created sovereign debt problems too
- Rigidities of EU and Eurozone plus strong interdependencies create pathologically compossible variegation, impossible choices, and threaten to turn EU into an incompossible dream

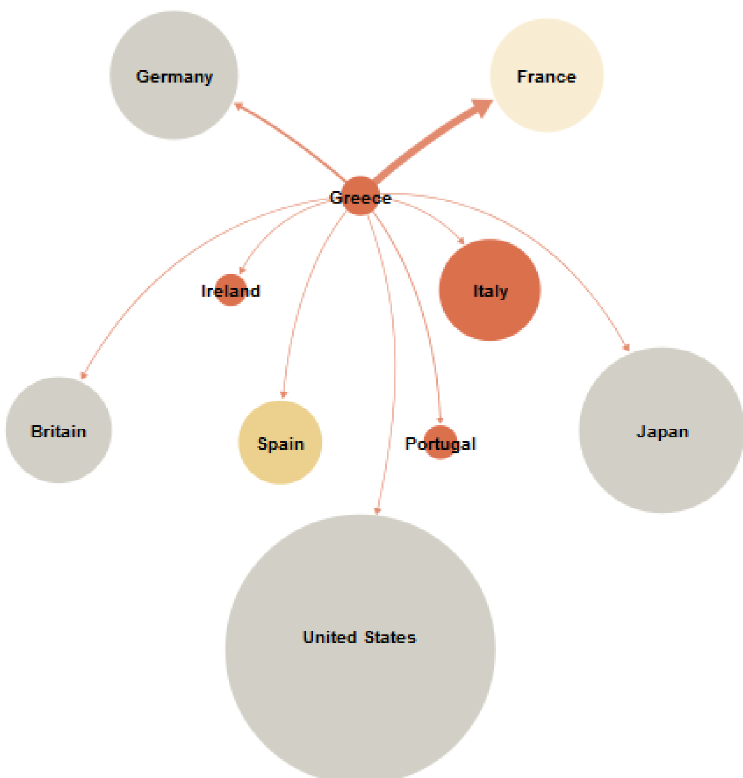


Arrows show imbalances of debt exposure between borrowers in one country and banks in another; arrows point from debtors to their bank creditors. Arrow widths are proportional to the balance of money owed. For example, French borrowers owe Italian banks $50.6 billion; Italian borrowers owe French banks $416.4 billion. The difference — their imbalance — shows France's banking system more exposed to Italian debtors by about $365.8 billion.

Variegated world market in crisis. The integration of the world market generalizes capital's contradictions

Source: this and next five slides come from an *NYT interactive graphic*, 22.10.2011

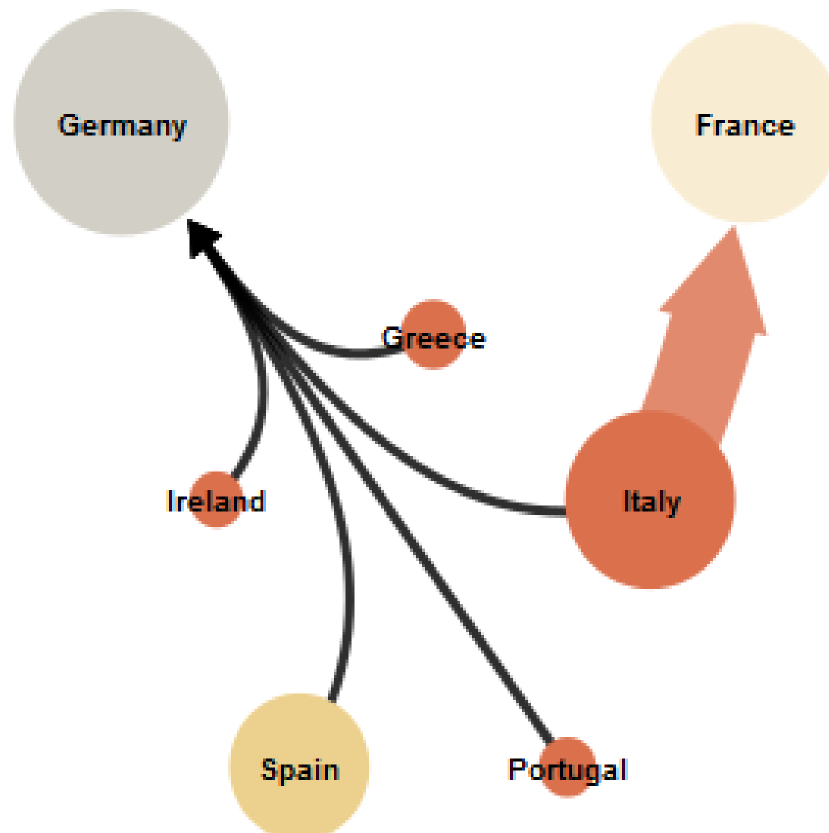
The Immediate Trouble



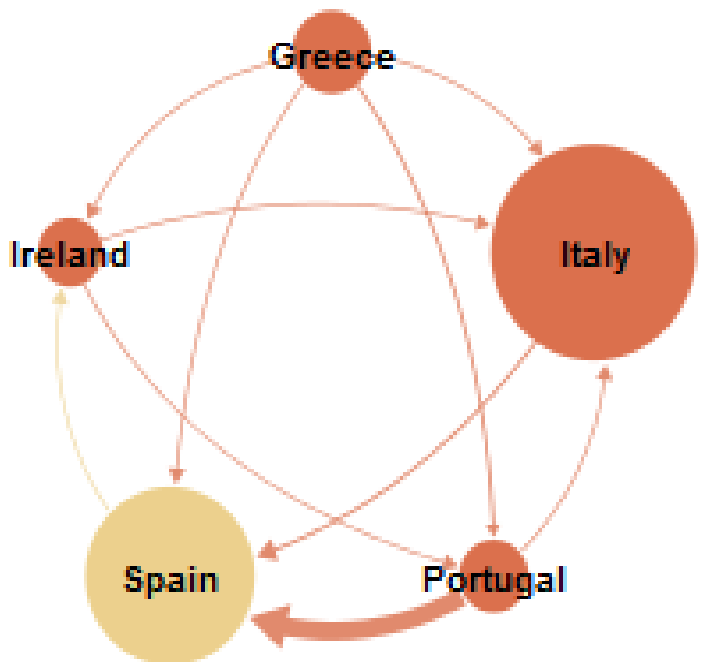
- Greece amassed a huge debt that it has little chance of repaying. A chaotic Greek default could hurt all European banks and pension funds that have extended Greece credit and cause wider bank panic. A financial firewall might halt contagion by backstopping other PIIGS

Risk of Contagion

- If there is no firewall, or if it is inadequate, it would be easy to imagine a run on banks. Single currency makes it easy to shift money across borders from risky economies to safer ones. Lack of central banks in each Eurozone country makes it "the ultimate contagion machine"



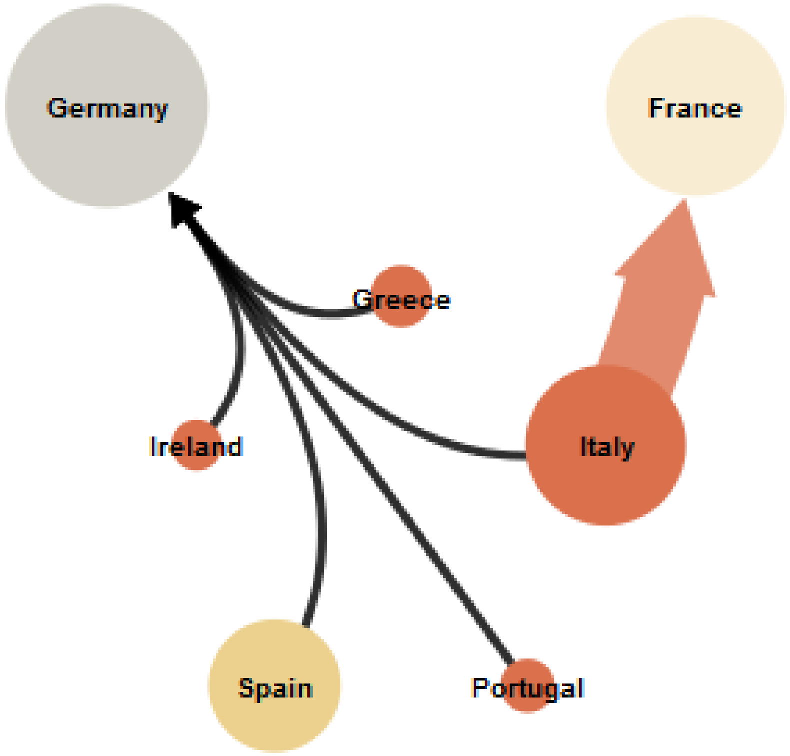
A Possible Scenario



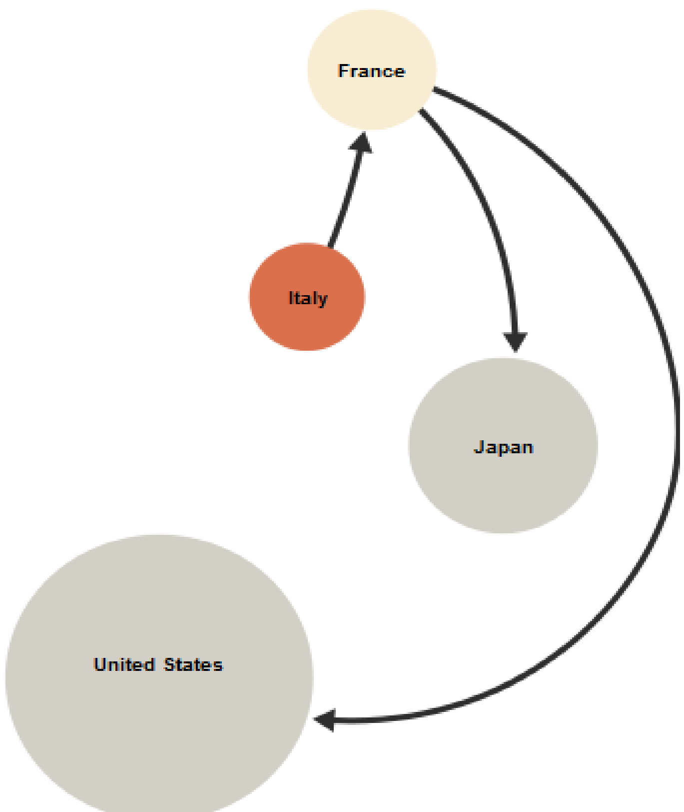
Without preventative measures, a chain like this could unfold. Investors become worried about exposure to the other PIIGS. Borrowing costs rise for Ireland, Italy, Portugal, and Spain, adding to their debt loads.

Continental Contagion

- Italy may not be able to protect its banks if there is a loss of confidence. French banks, burdened with all manner of Italian debt, could totter. Money could flee very quickly to safer countries like Germany

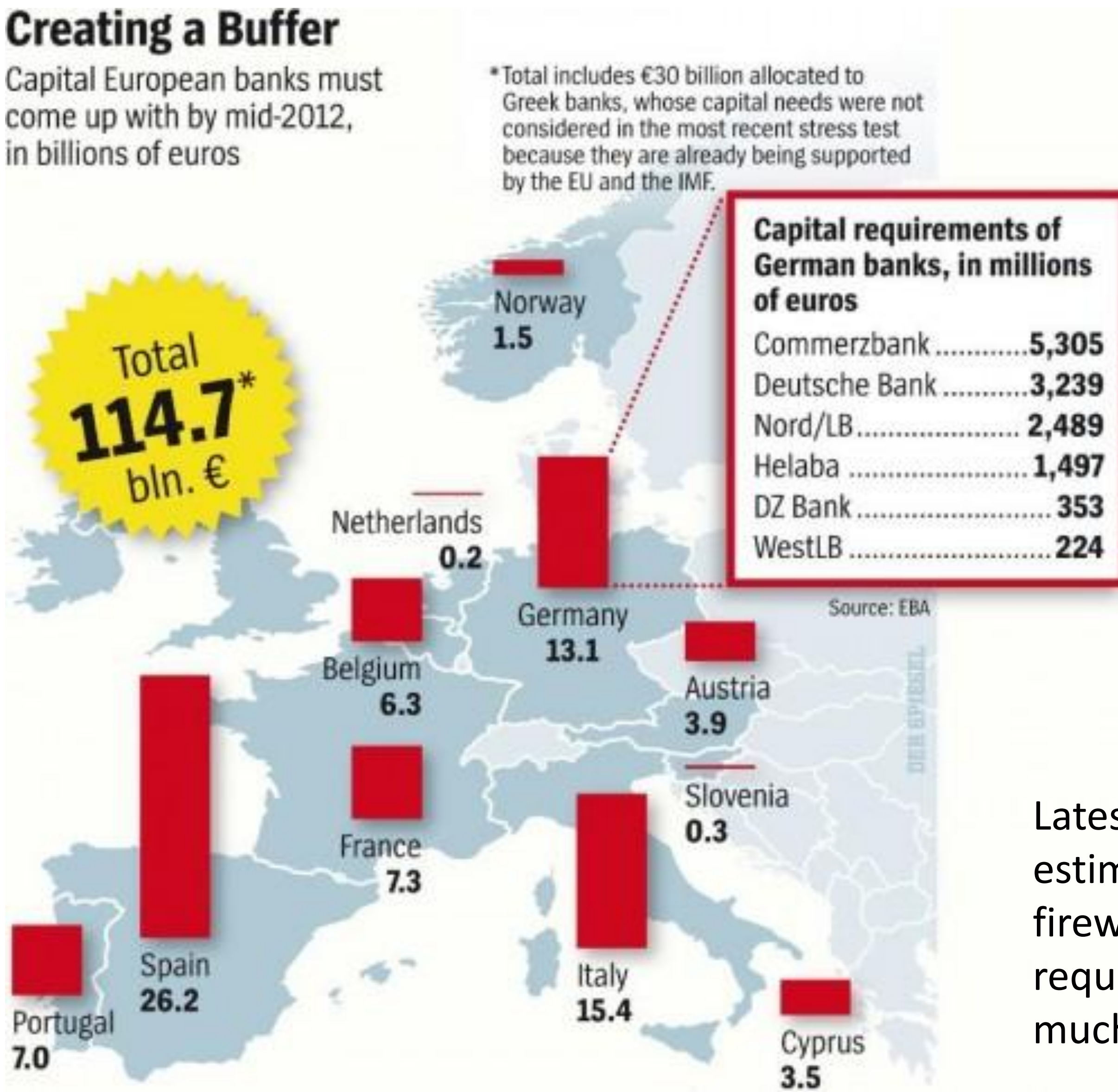


Global Reverberations

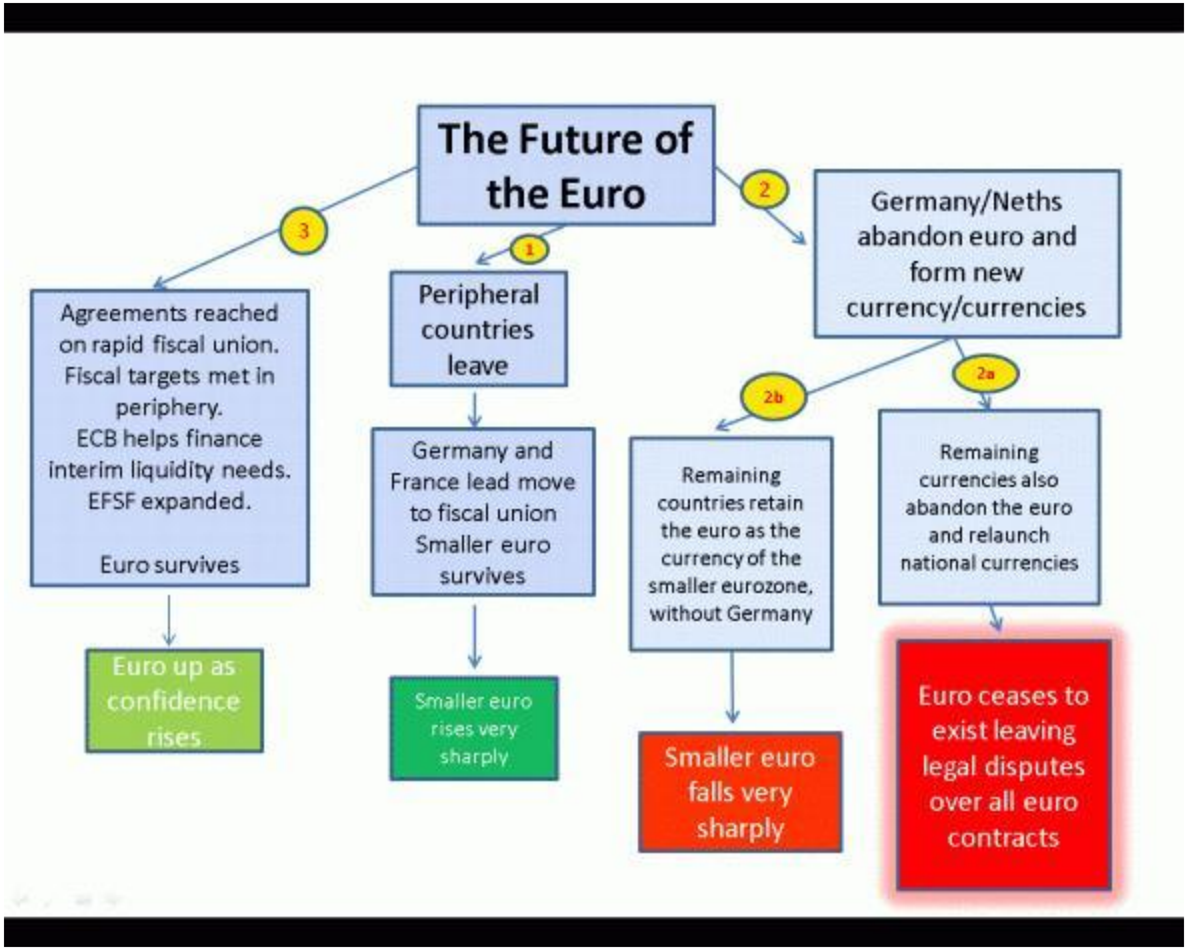


- Losses could extend to US banks, which have large exposures to debt in Fr and It. US exports to EU (in aggregate, US biggest export market) could suffer if crisis slows growth in Europe and causes Euro to fall relative to USD. Exposure to French banks could lead to other global losses.

http://www.nytimes.com/interactive/2011/10/23/sunday-review/an-overview-of-the-euro-crisis.html http://cdn.creditwritedowns.com/wp-content/uploads/2011/12/european-banks-capital-call.jpg



Latest estimates of firewall required are much higher



http://cdn1.creditwritedowns.com/wp-content/uploads/2011/11/Future-of-euro.jpg

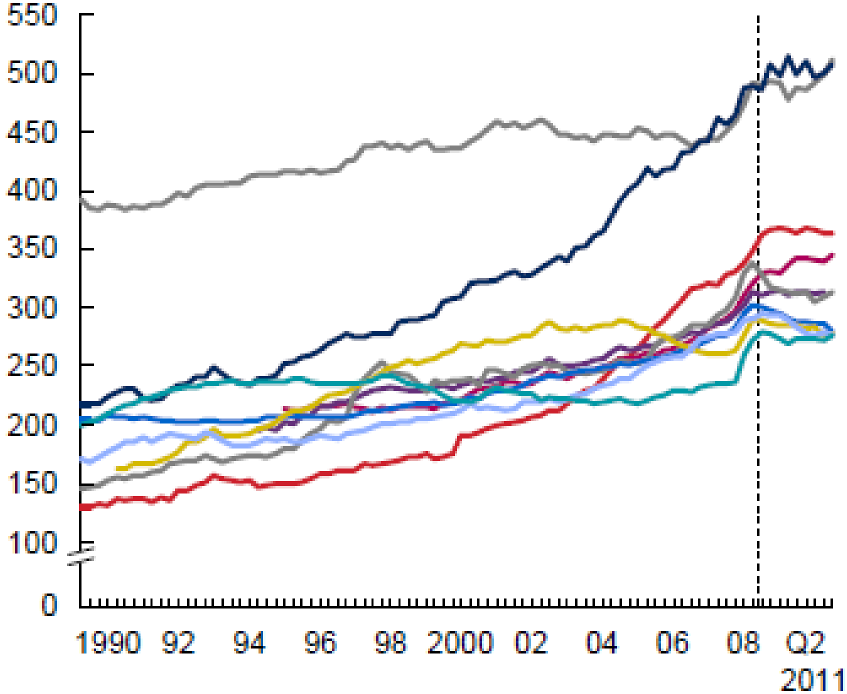
Deleveraging has only just begun in the ten largest developed economies

Total debt,[1] 1990–Q2 2011

% of GDP

▲ Significant increase in leverage[2]

▼ Deleveraging



Change
Percentage points

	2000–08	2008–Q2 2011[3]	
Japan	37	39	▲
United Kingdom	177	20	
Spain	145	26	▲
France	89	35	▲
Italy	68	12	
South Korea	91	-16	▼
United States	75	-16	▼
Germany	7	1	
Australia	77	-14	▼
Canada	39	17	

1 Includes all loans and fixed-income securities of households, corporations, financial institutions, and government.
2 Defined as an increase of 25 percentage points or more.
3 Or latest available.

SOURCE: Haver Analytics; national central banks; McKinsey Global Institute

Source: http://www.mckinsey.com/Insights/MGI/Research/Financial_Markets/Uneven_progress_on_the_path_to_growth (2012)

Preparing for the Worst

Preparing for the Worst

Central banks across Europe are studying ways to cope with a potential euro-zone breakup.

EURO-ZONE CENTRAL BANKS

Ireland Mulling whether it needs additional bank note-printing capacity in case of euro-zone exit

Montenegro* Evaluating options for a new national currency if euro zone breaks up

Greece Has its own bank note-printing facility; officials say they're not looking for extra capacity

*Montenegro isn't officially in the euro zone, but it uses the euro as its currency.

OTHER EUROPEAN CENTRAL BANKS

Switzerland Eyeing replacements for euro as reference point for Swiss franc

England Some officials worried about heightened demand for printing presses

Latvia Exploring national currencies to serve as peg for the lat if euro zone breaks up

Bosnia and Herzegovina Exploring currencies to serve as peg for the convertible mark if euro zone breaks up

Wall Street Journal
8.12.2011

Economic and Political Crisis

- Do not explain economic crises purely in economic terms: economies are embedded in wider sets of social relations
- Economic crises are also crises in social relations: it is essential to explore mediation of structural causes through variegated institutional arrangements (economic, legal, political, etc) and changing balance of social forces (especially class relations as refracted across different institutional spheres but also role of social movements, populist and nationalist sentiments, etc.)
- Economic crises are often manageable, especially as crisis is a normal steering mechanism of capitalist uneven development
- Problems arise when there are blockages, rooted in and beyond market forces, to the normal purgative effect of crises

EU as a State in Process of Formation

- Different stages in formation of the EU have been associated with different types of state or political regime (reflected in successive debates about the European Union)
  - liberal intergovernmentalism vs supranationalism,
  - positive integration vs negative integration
  - multi-level government vs network state
  - modes of governmentality vs any kind of state arrangement
  - Open Method of Coordination vs emerging Union Method
- Problem facing EU in current crisis is one of finding a form of state (or governance more generally) capable of multi-spatial meta-governance of a variegated capitalism in crisis that is evolving in shadow of neo-mercantilism (EU) and neo-liberalism (world) and with major divisions within and among transnational and national economic and political ‘elites’

A Crisis of Crisis-Management

- Economic crises are recurrent events at all sites and scales of the world market and each relatively stable accumulation regime and its mode of regulation has more or less accepted routines to deal with them, displace them, or defer them
- Problems arise when old routines no longer work, usually because institutional and spatio-temporal fixes are weakened by economic and political changes (e.g., internationalization of national economies that also limits state crisis routines)
- Such crises open space for economic and political conflicts over the construal and treatment of crises and indicates need for policy paradigm shifts, institutional innovation, new accumulation strategies, new state projects, hegemonic visions, etc., leading to struggles over content, costs, timing …

Design Failures or Designed to Fail?

- Jean Monnet stated that ‘Europe will be forged in crises, and will be the sum of the solutions adopted for those crises’
- Is Eurozone crisis due to design failures or was it designed to fail – to trigger fisco-financial integration that would have been unacceptable in the 1990s?
- Design flaws: a detached ECB with mandate to secure price stability but not promote growth or jobs; no major contra-cyclical monetary capacity; no powers to buy sovereign debt or issue Eurobonds, no exit mechanism from EU, etc.
- Eurozone crisis is opportunity to shift economic competences up from national to EU level and for greater integration under centralized EU control – if crisis can be managed to preserve Euro, which, despite any political will, is structurally doubtful

Two Major Eurozone Design Flaws*

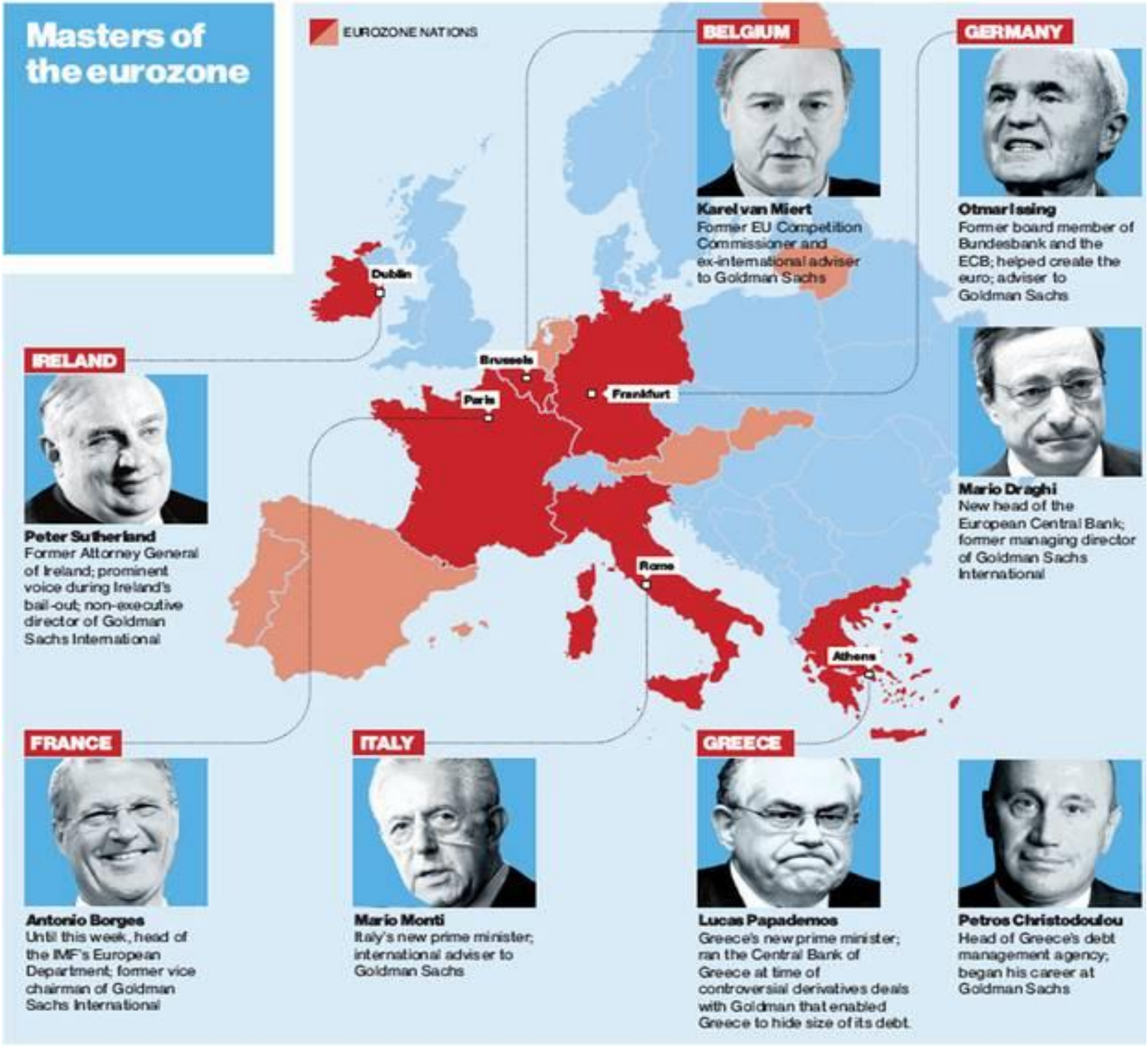
- Like Bretton Woods system, pressures to adapt fall unilaterally on debtor economies – aggravated in currency union because devaluation is not an option and bond markets (reinforced by hedge funds) can speculate against national government debt
- Eurozone has lender of last resort to manage liquidity crisis but no government banker (like BoE or Federal Reserve) to buy government debt. This reflects neoliberal period in which Eurozone was formed (plus Germany's fear of inflation and the deflationary bias of export-oriented Modell Deutschland).
- This limitation was intended to reduce state role, enable markets to discipline member-states. As Palley (2011) notes, this makes bond markets master of national governments.

Muddling Through or Government Sachs?

- Political paralysis in EU (and elsewhere) due to cognitive uncertainties, weak institutional capacities, economic and political conflicts on causes, blame, and responses, and resulting efforts to ‘kick the can down the road’
- Also due to latent incompossibility and gap between EU-wide scope of crises and mostly national crisis-management
- Politicization of crisis, rising nationalism/populism, and failure to explain THE CRISIS to electorates and social forces leads to efforts to by-pass democratic politics (even in weak EU form)
- Result is “states of economic emergency” based on more technocratic government justified by the need to placate the bond markets and loss of temporal sovereignty: technocrats are drawn from the financial world and ranks of economists

Goldman Sachs – Technocrats in Command in the Eurozone?

Caution: this does not mean GS is in charge – it does illustrate key role of transnational financial elites, who can also be "home-grown" in Europe and/or have ties to other banks, financial institutions, or leading economic policy bodies



http://www.independent.co.uk/news/business/analysis-and-features/what-price-the-new-democracy-goldman-sachs-conquers-europe-6264091.html, dateline 18.11.2011

Rapid Conclusions

- Global crisis *in* variegated capitalism in world market organized in shadow of neo-liberalism, with many variations that are remaking uneven development
- EU crisis *of* variegated capitalism organized in the shadow of *Modell Deutschland* (which is more Ordo- than neo-liberal) and dependent on global growth dynamic
- Pathological *compossibility* of Eurozone organized in shadow of neo-mercantilist German model and inside a non-adaptive EU regime leading in current crisis to *latent incompossibility*
- ECB can act as Lender of Last Resort but not as Government Banker for EU analogous to Bank of England or Federal Reserve (Palley 2011)

The ideas presented today are provisional and derive from a three-year research project that began on 1st April 2010 and that is financed by the Economic and Social Research Council in the United Kingdom.

Progress can be monitored at
http://www.lancs.ac.uk/cperc