CHAPTER 1

Causes and Consequences of Crisis in the Eurozone Periphery

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Abstract This volume considers the political economy dynamics that both caused and were precipitated by the Eurozone crisis in four of the hardest-hit so-called periphery country cases—Ireland, Spain, Portugal and Greece. This introduction focuses on the broader structures that underpinned the Eurozone crisis, whereas the chapters that follow zoom in on domestic cases. It argues that a single currency designed in accordance with neoliberal 'efficient market' ideas was at the heart of the crisis, exacerbating dangerous economic divergences between a so-called core of creditor states and periphery of debtor states. Responses to the crisis were, it is suggested, premised on the very same neoliberal ideas and made matters worse for a struggling 'periphery'. More effective responses exist in theory, but are politically difficult in practice.

Keywords Eurozone crisis • Core–periphery • Asymmetries • Austerity • Neoliberalism

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A separation or divergence exists in the Eurozone between those member states—generally 'creditor' or 'surplus' states—that have weathered the financial and economic crisis since the late 2000s relatively well, and those states—generally 'debtor' or 'deficit' states—that have experienced the most upheaval economically, socially and politically in the context of that crisis. The imbalances between debtor and creditor states predate the crisis, as we will show in this chapter. However, the crisis has cast the relationship between the two categories of state in a new light that renders the 'core–periphery' concept increasingly pertinent.

First deployed by various post-Marxist development theorists, the concept denotes not only an imbalance but also a power relationship within global capitalism between an economically and politically dominant wealthy core—often led by a large hegemonic power—and a largely poor, dependent periphery (Wallerstein 1974, 1979). The use of the concept in relation to the European Union (EU) or Eurozone in the aftermath of the crisis can be understood as denoting a similar kind of dynamic, as we will discuss in what follows. A wealthy core led primarily by Germany has, according to such a narrative, guided the response to the crisis in ways that preserve or even exacerbate economic imbalances between a core and periphery, making the latter supplicant to the former. Such a narrative may be partially true, particularly in relation to certain periphery states that have found themselves forced into a harsh austerity politics in the course of the crisis. But it is probably to overstate the power of core states and understate the economic, political and social divisions *within* states on both sides of this divide. As we will suggest later—and as the authors elucidate in greater detail in the following chapters—important elite actors cutting across both the public–private and the core-periphery divide were collectively culpable in precipitating the crisis. And while those in the periphery countries certainly suffered the most, lower social classes in the core also encountered, and continue to encounter, significant hardship.

As the title of this book indicates, we focus here on the impact of the crisis in the 'Eurozone periphery' and, in particular, on those Eurozone states that have been most severely afflicted and received so-called bailouts of one form or another. In the chronological order in which they were first granted loans, the countries that we consider are Greece (2010), Ireland (2010), Portugal (2011) and Spain (2012). Proving that they were capable of producing even more pejorative terms than 'periphery' to denote this group of countries in economic distress, many working in the financial markets came to refer to them collectively by the moniker 'the PIGS' in the early 2010s. Slight modifications of the acronym were used, with Italy sometimes included in this group of 'problem states'; hence, PIIGS. We will, in contrast, purposefully use the abbreviation GIPS in what follows, to denote our four country cases.

The most obvious omission from the book, according to the logic by which these four countries were selected, is not Italy but Cyprus, as it was the fifth country to receive a bailout in 2012. A much smaller member state than those considered (with a population of little over one million), it nevertheless shared certain vulnerabilities with the other four (Trimikliniotis 2013; Michaelides and Orphanides 2016). Italy, as mentioned above, is the other notable omission. Also widely regarded as part of the so-called periphery given its status as a debtor state, it has struggled significantly throughout the crisis, particularly—like GIPS—in terms of refinancing its debt in the years after 2010. Moreover, ongoing weaknesses in its political and banking systems were a pressing concern at the time of writing in 2017. That said, unlike GIPS, Italy had not received a bailout as of that date.

Finally, we should acknowledge that there is another periphery beyond the Eurozone itself (Bohle and Greskovits 2012; Ryner and Cafruny 2017: 137–166). Although not all members of the common currency, a number of Central and Eastern European EU member states were hard-hit by the broader global financial crisis (GFC) and associated 'credit crunch'. In particular, Hungary and the Baltic states had particularly high and rapidly increasing levels of mortgage debt that led to significant economic crises and recessions in the late 2000s and, in the cases of Hungary (2008) and Latvia (2009), to International Monetary Fund (IMF)–EU bailouts.

In offering a close analysis in this book of four important countries at the heart of the so-called periphery, we are particularly keen to explore the domestic dynamics of crisis. The chapters highlight the interconnected economic, political and social dynamics within these states that made them particularly vulnerable to crisis and that guided responses to that crisis. The chapters also document the very real social and political effects of crisis. We should certainly not understate the agency of state-level private and public actors in fostering conditions that made these states particularly vulnerable to the crisis, even if that agency would later become constrained in important ways as a consequence of collective responses to that crisis. At the same time, in considering GIPS together as part of a 'Eurozone periphery' that stands in contradistinction to a 'core', we are also suggesting that there are important structural factors that underpinned similar developmental trajectories. In particular, these states' collective imbrication in the EU and its common currency zone on similar terms were crucial. While the chapters will focus on the domestic particularities of the individual cases in some detail, this introductory chapter will focus largely on the similarities and the broader structural context of European and, in particular, economic and monetary integration.

The chapter proceeds in five steps. In a first, we consider the underlying causes of the crisis in the periphery, highlighting the central importance of growing levels of debt within the Eurozone and the growth in imbalances between (debtor) periphery and (creditor) core. We concur with an emerging political economy literature that the emergence of a 'sovereign debt crisis' from 2010 needs to be understood against a much broader historical backdrop (see, among many others, Matthijs and Blyth 2015; Ryner and Cafruny 2017). In a second step, we consider the particular structural importance of the single currency and the design flaws in the euro that precipitated the asymmetries at the heart of the crisis. We argue that a euro modelled on neoliberal 'efficient market' principles in a broader context of so-called financialization was always destined to be vulnerable. Third, we outline the responses of the EU to the crisis, which consisted largely of the imposition of austerity on increasingly dependent periphery states. We argue that such responses failed to deal with the underlying issues enunciated in the previous sections and, indeed, exacerbated the crisis, particularly for the periphery (such consequences are considered in greater detail in the chapters that follow). Fourth, we consider possible ways forward and the political difficulties inherent in achieving the far more radical reforms that might underpin a functional single currency and overcome the divisions (and social hardship) that growing economic asymmetries have fostered. Having offered this account of the political economy of the Eurozone crisis, in a fifth step, we offer an overview of the chapters that follow. As noted, in contrast to this introduction, the chapters that follow focus on the interconnected political and economic domestic factors have been key and will continue to be key in dictating how the structures described in this chapter are mediated in GIPS.

Growing Asymmetries Between Core and Periphery

While it was widely supported, including in France and Germany, European Monetary Union (EMU) imposed a single currency on what were distinct varieties of capitalism. Crudely, coordinated market economies in the core of Europe with strong traditions of wage coordination (and, crucially, wage restraint), vocational training, research and development and high productivity had long pursued export-led growth strategies (Hall and Soskice 2001). Southern periphery mixed market economies (as well as some liberal market economies—notably, for current purposes, Ireland) with weak wage bargaining structures, and lower skilled workforces had pursued demand-led growth strategies based on, inter alia, macroeconomic stimulus policies and job creation in non-traded sectors such as service and public sectors. These countries had been prone to inflation as a consequence of such strategies and before EMU had used exchange rate policies—devaluations of the currency—to offset the effects of this inflation on trade balances (Hall 2014; Regan 2013). France has oscillated between these models and in general shows elements of both, with wage restraint—based on statist interventionism rather than social partner involvement—and at the same time a large non-traded sector (Johnston and Regan 2016: 324).

EMU worked well for the core countries, allowing them to continue export-led growth rooted in wage repression, in a context where their major trading partners could no longer devalue their currencies. In the periphery, EMU seemed like it would require a shift away from demand-led growth strategies in the absence of currency devaluation as a policy tool and of a *national* central bank able to target inflation (and *real* exchange rates). But the much lower interest rates and greater capital mobility that the euro delivered for these countries offered an apparent way out of this difficulty (Johnston and Regan 2016: 321). Surpluses from the core were borrowed in the periphery, meaning that demand remained strong even in the absence of expansionary fiscal policy. Demand-led growth became underpinned by debt.

Thus, these two models were increasingly intertwined by virtue of monetary union (Regan 2013). Increasingly large capital flows from core countries—particularly Germany but also France, the Netherlands and others—moved to Eurozone periphery countries. While overall the Eurozone current account is more or less in balance—meaning that capital inflows are roughly the size of outflows with the rest of the world—Fig. 1.1

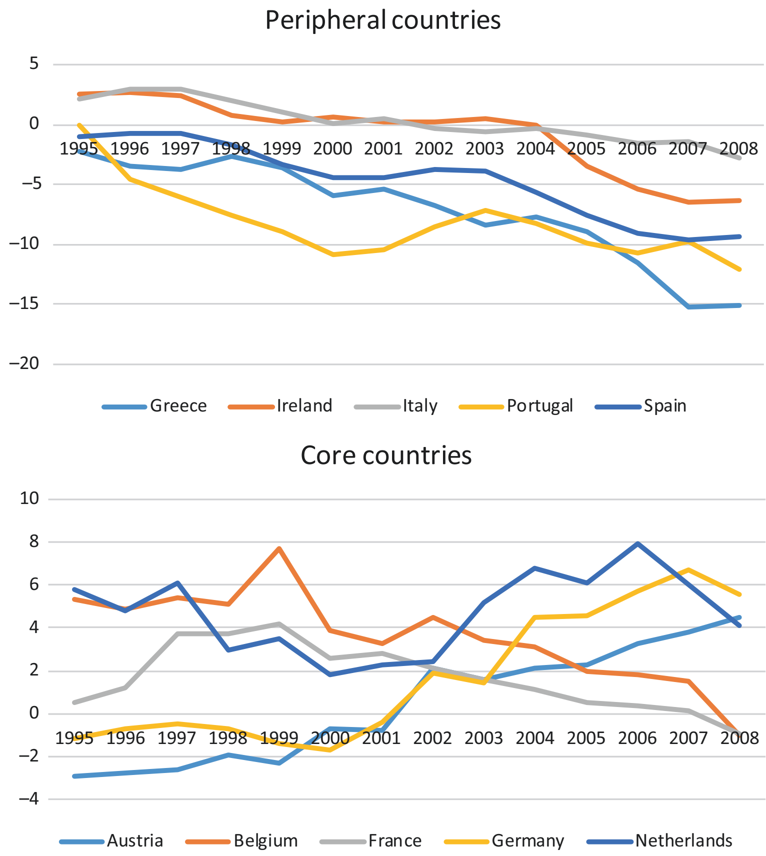

Fig. 1.1 Current accounts as percentage of GDP (Source: IMF-WO, with thanks to Luis Buendia for compiling)

shows that the divergence of flows between countries in the Eurozone is stark. Notably, all of the periphery GIPS ran substantial current account deficits, reflecting their net borrowing from those countries in the core running surpluses. We see that Spain was by far the largest net borrower and Germany the largest net lender. As noted, these capital flows reflected high rates of saving in the core and high rates of borrowing in the periphery.

Many economists did not see the emerging imbalances in the European economy as a significant issue in the early 2000s; they felt that the capital flows were part of a broader pattern of economic convergence, whereby money pouring into the periphery would drive the economic development of poorer economies (Blanchard and Giavazzi 2002; Ryner and Cafruny 2017: 94–99). Crucially, however, against a backdrop of financial deregulation, much of the borrowed money in the periphery did not find its way into the productive economy, but into non-productive consumption and investment that did little to stimulate the export capacities of the periphery. Such intensified deregulation or financialization was a global phenomenon throughout the period, but one that was certainly facilitated by private and public actors including in domestic contexts in GIPS, as the chapters explore in greater detail.

Around the turn of the millennium, domestic demand and export competitiveness started to de-link in both the periphery and the core. In other words, money flooded into the periphery and boosted demand, but it had no impact on exports and the development of a productive economy. In fact, as the authors explore with reference to particular cases in the following chapters, this 'hot' money may even have had a negative impact on export growth to the extent that potentially productive investment was channelled into supposedly quick-win financial assets. Indeed, in many of the country cases under consideration, inflows stimulated domestic demand for both goods exported from the core and for property at home, which created financial bubbles that would eventually burst. Moreover, such hot money meant inflation—including high wages in non-tradable or non-export sectors such as service and public sectors (Johnston and Regan 2016: 324; Hopkin 2015)—in the periphery, which further undermined export competitiveness. This was particularly the case because, despite its export success, Germany kept wages and therefore its own domestic demand low. Indeed, demand and exports diverged in the opposite direction, with the former declining precipitously while the latter gradually rose.

Notably, while in the early 2000s, many were pointing to economic achievements in countries with high debt-led growth—there was, for instance, talk of 'a Spanish miracle' and Ireland was dubbed the 'Celtic tiger' (Ryner and Cafruny 2017: 92)—Germany was described as the 'sick man of Europe'. However, while speculative domestic demand and economic bubbles drove rapid growth in periphery countries such as Spain, apparently anaemic growth in Germany was driven by exports in a context of very weak domestic demand. Thus, even in the early years of the common currency, major structural imbalances were exacerbated by the growing asymmetry between core and periphery. The underlying European growth model was comprised then of both debt-led growth in the periphery economies that permitted excessive spending—though, as the chapters will describe, without in most cases significantly addressing underlying inequalities or substantially developing social models—and low-wage export-led growth in the core, the proceeds of which were saved rather than spent.

In practice, then, capital movements into the periphery did little to address overall balance of payments imbalances as the aforementioned optimistic prognoses of the early 2000s had suggested they would. On the contrary, the asymmetries grew larger in the run up to the crisis. The Eurozone was characterized by a combination of a wage-cutting low-inflation core that actively enhanced its competitiveness and a periphery where demand was boosted by cheap money. As noted, this asymmetry was facilitated by financialization. In other words, by a transnational banking sector—and increasingly liberalized capital market—that fed core surpluses and savings to the periphery via increasingly deregulated and highly leveraged banks in both the core and periphery (Baldwin and Giavazzi 2015). In the crisis context, a broader neoliberal financialization model linked banks in the core to those in the periphery, with important implications for the response to the crisis. In turn, the economic fate of sovereign governments was fatally linked to this highly leveraged and indebted financial sector in both core and periphery as the crisis would reveal and as we discuss below.

Politically, both core and periphery states were content to overlook these imbalances as long as there was growth in the Eurozone. As we have suggested, Germany's dominant manufacturers essentially pursued a neo-mercantilist strategy based on wage repression that enabled the country to support and develop its export sectors. Such a strategy is perhaps unsurprising given the broader context of the costs of German reunification in the 1990s and ongoing efforts in the 2000s to reinvigorate export-led growth. Governments in the periphery states were content before the crisis hit, as long as debt-led economic growth continued to sustain (often weak) social compacts and the various asset prices upon which the tax-take became increasingly reliant. However, the imbalances ultimately proved unsustainable and, when crisis hit, irresolvable.

The underlying causes of such imbalances were, as noted, in large part, the processes of neoliberal financialization (Stokhammer 2016): a deregulation of finance and an associated shifting of capital into financial speculation (at the expense of productive sectors). Such processes had been underway in Europe as in other developed parts of the world (and led by the USA) since at least the 1980s and intensified, first with the preparations for, and later with the realization of, EMU (Ryner and Cafruny 2017: 91–92; Jones 2015). Debt levels that we can associate with financialization ballooned in the period between the start of the single currency and the crisis. In the context of the GFC that started in 2007, such financialization was a direct cause. US mortgage defaults took place in a context of the 'securitization' (a form of financialization) of 'sub-prime' mortgage assets, which led to systemic banking failure in large global banks and prompted a global credit squeeze (the infamous 'credit crunch') and recession. In the context of the Eurozone crisis, the proximate cause appeared to be sovereign debt, but due to the aforementioned interlinked fate of financial institutions (banks) and sovereigns, we would argue that the underlying cause was, as in the USA, this broader financialization and associated indebtedness. Such indebtedness was itself dependent upon wage shares falling from the 1970s as part of a broader neoliberal turn (Bengtsson and Ryner 2015).

Regarding the first trigger for the Eurozone crisis, it was indeed the revelation in 2009 by the incoming Greek government that its predecessors had been concealing the true size of the country's budget deficit. As Chaps. 5 and 9 recount, cronyism and systems of public sector patronage were important factors in the particular Greek case that had seen a long-term increase in public debt and deficits. In light of these revelations, widespread concerns that its public debt might become unsustainable led the financial (specifically, sovereign bond) markets to offload Greek government debt and substantially push up Greece's borrowing costs, ultimately to unsustainable levels. Despite some reluctance and following substantial procrastination, Eurozone states and, crucially, Germany ultimately decided that the potential systemic effects to the euro of allowing a default were too great and stepped in with substantial financial support in 2010. This was not enough, however, to allay the fears of bond markets. Cutting a much longer story short, the spread on Greek government bonds (the cost of refinancing its debts) continued to rise, and the contagion effects meant that other states, particularly the most vulnerable ones in the Eurozone chain, began to feel the effects.

All Eurozone states were, following the effects of the GFC, running government budget deficits. But it was notably the sovereign bonds of peripheral states that had borrowed substantially from abroad (those with the large *current account* deficits described above, namely, GIPS plus Italy) that were rapidly offloaded, pushing their borrowing costs to unsustainable levels. The market fears in all cases related to the sustainability of public financing, either because of high public debt levels or because of the fragility of domestic financial institutions that were likely to require government support. As discussed in greater detail in the individual chapters on GIPS, each of these countries would ultimately receive bailouts from a combination of the IMF, EU and European Central Bank (ECB)—the 'troika'—with significant strings attached and big political implications and effects.

Ultimately, the bailouts were not enough to allay concerns that the possibility of sovereign default was (despite a clause in the Maastricht treaty explicitly proscribing it) becoming ever more real. The second Greek bailout in 2011 included a write-down of debt by private investors that turned a fear of losses into actual losses and caused further market panic. In early 2012 both France and Belgium—notably, countries whose broader current accounts (see Fig. 1.1) saw them moving from surplus to deficit (or from core to periphery by that measure) in the late 2000s—began to experience the contagion effects when a Franco-Belgian bank, Dexia, was nationalized by the Belgian authorities. And in the same period Cyprus—whose banking sector was heavily tied to Greece—requested a bailout. It was interventions by the ECB that ultimately afforded some breathing space and, in particular, President Mario Draghi's now infamous declaration in July 2012 that, 'the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough'. Markets did indeed believe Draghi and sovereign bond yields in the Eurozone saw a significant convergence. The role of the ECB as an active policy entrepreneur, in the face of apparent reluctance by other major EU actors, was thus confirmed.

The Euro

The most obvious common thread connecting the periphery countries under consideration is their participation in EMU. The designers of EMU had chosen not to focus on the aforementioned differences in the varieties of capitalism in the Eurozone that underpinned the asymmetries that predated the single currency. Against the aforementioned backdrop of increasingly unregulated finance and liberalized capital markets, the design arguably exacerbated the imbalances that lay at the heart of the crisis and meant that periphery countries were particularly hard-hit. It was EMU that locked-in German competitive advantages vis-à-vis the periphery, established an environment that made borrowing and growing indebtedness easier in the periphery, and (as noted above) facilitated the intensification of an already liberalized capital mobility from core to periphery.

The design of EMU was based on the prevailing economic ideas of the 1990s. These broadly neoliberal ideas were unsympathetic to active fiscal policy (demand management), promoted a monetary policy focused on controlling inflation (sound money) and pushed supply-side economics—wage cuts, flexibilization of labour markets and promotion of human capital—as the appropriate tool for increasing competitiveness and investment (McNamara 1998, 2006; Ryner and Cafruny 2017: 94–99). In accordance with these ideas, the key plank of EMU was a ECB whose mandate was solely devoted to sound money and a system of economic governance based on maintaining debt and deficit levels within certain limits (the Stability and Growth Pact). It was anticipated that states within the Eurozone would converge economically via the pursuit of broadly supply-side economic policies or so-called structural reforms, an approach that the later Lisbon agenda (2000) would broadly endorse. Indeed, for some, monetary union would 'discipline' states into making such reforms (for a critique of such ambitions, see Gill 1998). Such features of economic governance would, so it was thought, provide the credibility upon which the aforementioned liberalized and heavily diversified financial markets would efficiently allocate capital to the areas where it might accrue the greatest returns (Ryner and Cafruny 2017: 95–96). However, as noted above, capital in fact poured in to highly speculative rather than productive ventures in the periphery; indeed, a broader misallocation of investments by a finance sector with problematically short-term time horizons lay at the heart of the global crisis.

Certainly in hindsight, it seems clear that there should have been some serious doubts about these neoliberal ideas. In the event of growing divergences and asymmetries—and in particular sudden 'asymmetric shocks' (a boom or bust in different parts of a currency area)—it is politically inconceivable that difficult and socially deleterious supply-side policies could underpin economic adjustments. But in the context of a single currency and the absence of control of national exchange rate policy—currency devaluation is no longer an option—there is no alternative to turn to for national governments. EMU was politically popular for GIPS countries (and others) even though participation in the single currency may have been economically deleterious. They would thus commit to meeting the Maastricht criteria and strive for membership regardless of the medium-term effects that participation may have had on their ability to compete with core Eurozone states. The absence of binding mechanisms committing both the core and periphery to sustainable measures assuring *real* economic convergence compounded the problem.

As the economist Paul Krugman (2012) and others (Feldstein 2008, 2012) have convincingly argued, the theory of Optimal Currency Areas (OCA, see Mundell 1961; Kenen 1969) ought to have provided a warning for the designers of EMU.[1] The OCA theory argues that asymmetries in a currency union can be offset by high factor mobility—particularly mobility of labour—or by fiscal integration permitting fiscal transfers. While the EU facilitates some labour mobility—and there has been significant periphery to core movement of labour in the context of the crisis—human mobility is sticky for a variety of rather obvious reasons: people in general do not want to move, and they encounter barriers (linguistic, cultural, no social networks) when they do. As to fiscal transfers, as noted above, this was not an option that was seriously considered; in part because it did not fit with the aforementioned orthodoxy in economic thinking and in part because it did not fit with the preferences of key states, particularly Germany. From this perspective, fiscal integration would have potentially undermined the disciplinary aspect of EMU, discouraging structural reform geared towards austerity and (supposedly) increased competitiveness.

A third important policy tool for dealing with crises in monetary unions is a so-called lender of last resort function. In the context of most currency unions the central bank assumes this role, underpinning the solvency of both banking sectors and sovereigns (de Grauwe 2013). This usually ensures systemic market confidence and militates against market panic of the sort witnessed in the early 2010s. The design of EMU left the lender of last resort function in the hands of national central banks, but, as de Grauwe (2012) has noted, they cannot adequately perform this function given that they are not really 'central' at all in the context of a shared currency; they do not have control of the common currency and so cannot guarantee the solvency of their respective sovereigns (or, by extension, the banks that would be bailed out by them).

It has been convincingly claimed that the absence of political authority attached to the euro renders it distinct from—in Polanyian terms, more socially 'disembedded' than—any previously successful currency union (McNamara 2015). The absence of the political tools required for managing the economic effects of both long-term imbalances and financial crises within EMU was clearly not lost on the financial markets as the broader GFC that hit in 2008 spread to Europe. Indeed, at key moments in the early stages of the Eurozone crisis, both the ECB and Germany explicitly pointed to the absence of such tools in the EU treaties (Matthijs and Blyth 2015: 7). It was to a large extent then the realization that sovereign insolvency may be a possibility within the Eurozone that led to the crisis in the periphery, and it was their significant borrowing (private and public) from abroad—and particularly from banks in the core—that made them particularly vulnerable.

In many ways, the later responses to the crisis enunciated in the previous section can be understood as attempts to address these arguably fundamental shortcomings in the design of EMU. Fiscal transfers were substituted by bailouts (which, unlike transfers, had tough conditionality attached to them as discussed below). And the ECB declaration in 2012 represented a willingness to in fact play the role of a lender of last resort (albeit it denied that this was the case given that to do so would be to controversially expand its legal mandate—see, Schmidt 2016). However, while they averted a disorganized and potentially catastrophic dissolution of the single currency, these responses were both belated and could yet prove insufficient (Cohen 2012; Schmidt 2011; Dyson 2013). The consequences of this mismanagement for the periphery states, both in socio-economic and political terms, have been profound and are proving long-lasting, as the following chapters discuss in some detail.

Austerity

The official EU (and most frequently presented) diagnosis of the crisis tended to seriously simplify, if not refute, the story of imbalance, financialization and the faulty design of the single currency enunciated above. This represented an unwillingness to acknowledge the deeper failures of the neoliberal ideas of efficient markets that underpinned the design of the single currency: '[t]he problem was not the policies pursued, but that they were not pursued far enough' (Ryner and Cafruny 2017: 97). Emphasis was placed on the sovereign debt crisis at the expense of a broader reckoning with both the design of the single currency and finance-driven imbalances. But it is notable that of GIPS, only Greece and Portugal had significant levels of sovereign debt prior to the crisis and the latter was recovering economically before the markets pushed its borrowing costs to unsustainable levels (Fishman 2011).[2] For Spain and Ireland, the root of the problem was private (and especially housing) debt that became public debt only once their banking sectors required rescuing. However, the discourse of sovereign debt effectively permitted the socialization of private sector banking debts, which were paid for through cuts in government spending: in short, austerity (Matthijs and Blyth 2015: 8; Blyth 2013).

Indeed, the bailout packages mentioned above came with significant strings attached. Under various mechanisms[3] 'the troika' agreed memoranda of understanding (MoUs) with GIPS. These agreements differed from state to state. For instance in the case of Spain the agreement focused solely on reform of its banking and financial sector. The terms imposed on the other three varied from country to country, partially taking into account their different problems. Yet what they all included (and, in the case of Greece, still included at the time of writing) was the imposition of austerity measures geared towards the shrinking of the public sector, the imposition of cuts in public services and the flexibilization of labour markets. Periodic monitoring of performance by troika representatives on site made strict conditionality increasingly unpopular in all countries concerned and contributed to the increasing frustration with the EU in general and Eurozone membership in particular.

GIPS have fared very differently in terms of their ability to meet this conditionality, however. Ireland exited its programme at the end of 2013 and Portugal and Spain in 2014. By contrast, Greece almost failed to agree to a new agreement in 2015, and its travails were ongoing in 2017. That said, even those countries that have exited their programmes remain subject to rather intense 'post-programme surveillance' until they have repaid 75 per cent of the financial assistance received. Moreover, under broader reforms to the economic governance of the Eurozone and the EU (Bauer and Becker 2014), such surveillance and monitoring will be continuous within the context of the so-called European Semester. In particular, such monitoring focuses on adherence to EMU rules on budget deficits, public debt and macro-economic imbalances. Its effectiveness, and especially its ability to ensure macro-economic policy coordination and rules' implementation, is far from assured (see Darvas and Leandro 2015).

While the emphasis on macro-economic imbalance is surely welcome in the context of the argument that we present here—which emphasizes the significance of such imbalances—it is important to consider how these can be realistically addressed alongside the imposition of austerity. According to the EU institutions and the prevailing approach to economic governance, such austerity will drive the competitiveness of deficit countries in the periphery, facilitating the development of their productive economies and the expansion of exports to address deficits. But the very notion that austerity could foster such competitiveness and economic growth is incoherent; it serves only to deflate already struggling economies, endangering the very survival of the Eurozone (Blyth 2013; Stockhammer 2016). Such a system of economic governance also fails to address the social plight of workers and citizens in these already struggling countries (Parker and Pye 2017) and exacerbates political instability associated with that plight.

The evidence suggests that such policies have in fact exacerbated imbalances between core and periphery. Rather than increasing, industrial production has in fact collapsed in the periphery, and this has led to the further intensification of industrial activity in Germany (Lavery 2017). Moreover, the asymmetrical emphasis on the problematic nature of deficits (which need to be below 4 per cent to avoid the triggering of the so-called excessive imbalance procedure) and surpluses (which need to be below 6 per cent to avoid triggering the same procedure) serves to ingrain rather than ameliorate imbalances (Bibow 2013). In short, while macro-economic imbalance is now acknowledged as a key concern of the EU, its broader policy agenda works against effectively addressing that very concern.

Continued Deadlock?

In light of this argument, two key reforms present themselves. First, as a range of more critical and (neo)-Keynesian positions have suggested (among others, De Grauwe 2013; Stockhammer 2016), a much stronger focus on Germany's surplus—and its deflationary effect on the Eurozone economy through, in particular, its low-wage policies—will be required in order to begin to genuinely tackle the aforementioned imbalances. This would effectively mean permitting or fostering an increase in long-depressed wages (and inflation) in Germany, and thereby creating the means for increased domestic consumption. Calls for such a change are pretty common (see Watt 2013) but have until now fallen on deaf ears. In a context where demand in the periphery has collapsed following the crisis, it needs to emerge elsewhere if the Eurozone is to avoid a deflationary downward cycle, whereby falling prices lead to a potentially indefinite diminishment of economic activity (Feldstein 2012; Moravcsik 2012;

Schwartz 2012; Lavery 2017). It is precisely those fears that have underpinned ECB activism in recent years; but the consequences of this activism in fuelling asset prices and exacerbating inequalities point to the need for positive action on the part of member states such as Germany.

Second, in accordance with the aforementioned and increasingly acknowledged deficiencies in the design of the single currency, much more serious consideration of some form of intensified economic integration (beyond common rules) will need to be considered. 'Eurobonds'—effectively the collectivization of Eurozone sovereign debt—would be an important step towards such integration inasmuch as they would remove the focus of the sovereign bond markets from any one sovereign state when a crisis hits (Begg 2011). Moreover, a substantive fiscal or transfer union that does not simply further indebt already heavily indebted countries as the current bailout mechanisms do, may be required to genuinely tackle such imbalances. It would do so by, inter alia, directing investment and funds from wealthier to poorer regions in a scaled-up version of regional and cohesion funds (Marsh 2013: 117–119).

The politics of achieving either of these is, and will continue to be, incredibly difficult (on which, see Marsh 2013). In particular, the EU looks destined to continue to have a highly limited fiscal capacity given the extent of change that would be required to achieve a strong transfer union. While the EU has a budget that amounts to around 1 per cent of EU GDP, European state budgets available for fiscal policy can be as much as one third of national GDP (Ryner and Cafruny 2017: 141). The political shifts that would be required to establish a substantive fiscal union are therefore enormous. While such radical solutions may be popular for some in the periphery, at the current juncture this is certainly not the case for a clear-cut majority of key actors. This is true in GIPS and also in Italy and France, where internal political and ideological divergences remain significant. Moreover, it is certainly not the case in the core and, most critically, in Germany, or in the key European institutions (ECB and Commission). Indeed, a broad transnational elite consensus (part of a broader class politics) cuts across the core–periphery divide and remains wedded to the neoliberal efficient markets ideas critiqued in the foregoing.

The economic, social and political consequences of the crisis and the austerity policies that have followed in its wake have been extreme in GIPS (as laid out in the chapters that follow). The appetite for substantial change is therefore certainly significant in these countries. Structurally the status quo is one in which monetary union has meant a significant loss of national (particularly monetary) sovereignty. Eurobonds would appear to be a sellable policy in GIPS and perhaps also Italy and France. However, many in these contexts would baulk at the idea that a loss of monetary sovereignty could or should be offset with deeper political and fiscal integration at European level. For increasing numbers supporting an array of anti-establishment and anti-European or anti-Euro parties, the solution lies, rather, in disintegration of the single currency and/or the euro. That said, survey data show that the majority in these countries continue to show at least tepid support for both the EU and monetary union (Otero-Iglesias 2017) even as they may oppose substantive deeper integration. The upshot for those in a growing periphery (that, as noted, increasingly looks like it includes France) is the status quo of a potentially deflationary 'internal devaluation'—wage cutting—and other 'structural reform' measures. In summary, at the time of writing in 2017 there was something of a political impasse even within the periphery. There was no clear-cut support for measures that would assist in overcoming the problematic pathologies and imbalances within the Eurozone, or for measures that would see its disintegration.

In Germany and other core countries the obstacles to achieving substantive reforms are even greater. To date the German government has been the leader in terms of crisis response despite significant and growing concerns within Germany. Such concerns at a popular level relate to the misguided perception that a virtuous and economically responsible Germany has had to rescue an irresponsible and spendthrift periphery. At a policy level, the German Constitutional Court and an important group of economists and central bankers have expressed concern with respect to aspects of both crisis management and long-term reforms emerging from the Eurozone crisis. The Court has, for instance, suggested that significant increases in German government liabilities in the context of the bailout mechanisms would require parliamentary oversight (Spiegel International 2012). Moreover, the Bundesbank and German representatives in the ECB have consistently opposed unorthodox moves by the ECB of the sort described above (Thompson 2015). According to this line of reasoning, the German government has acquiesced in and led domestically unpopular policy moves in order to preserve the single currency. It has, in short, acted as a 'reluctant' hegemon (Paterson 2011; Bulmer and Paterson 2013).

However, others emphasize that, notwithstanding German discourses framing the crisis as the product of foreign irresponsibility, in fact it was in German (and 'core') interests to ensure the bailouts of periphery countries given substantial exposure of German banks to periphery debt (Thompson 2015; Bibow 2013). This accords with the current account figures highlighted above, which draw attention to the interdependencies and imbalances at the heart of the crisis. More specifically, it is notable that German banks (among others) substantially reduced their exposure in Greece following the first bailout (which, notably, did not include private sector involvement). Moreover, it was the very same unorthodox ECB policies so widely criticized by German central bankers that allowed German private banks to offload periphery assets (Thompson 2015). From this perspective Germany can be conceived as more of a 'self-interested' than 'reluctant' hegemon.

Both narratives contain some element of truth; German actors were variously both reluctant—from a domestic politics perspective—and self-interested—from an economic or materialist perspective—in the course of the crisis. An emphasis on the former position probably suggests a more optimistic prognosis in terms of Germany's ability to support future reform efforts of the sort enunciated above. From this perspective, Merkel's famous declaration—'if the euro fails, Europe fails' (Der Spiegel, 2011)—can be understood as a sincere warning to a reticent but overwhelmingly pro-European domestic audience. However, even from this perspective, there are clear domestic limits on Germany's pro-Europeanism as reflected throughout the course of the crisis in the ways discussed and in the emergence of an explicitly anti-euro political party in the AfD (Alternative for Germany).

From a more materialist perspective, the prospects of substantive reform look even bleaker. Given that Germany's economic exposure to the periphery is far less than it was in 2010, it may be that the material economic incentives to further expand its reform efforts are dwindling. Moreover, in terms of global political-economic structures, it has been convincingly argued that German surpluses permit the accumulation of foreign exchange reserves in ways that have protected Germany to some extent from the vagaries of US-led global finance. From this perspective, Germany is unlikely to do anything that might undermine its current surpluses and the economic model on which they are based (Ryner and Cafruny 2017: 109–111). As Marsh (2013: 115) has put it, for Germany, '[t]he two objectives of domestic and European stabilization, which used to run in parallel, are [now] proceeding along divergent lines'.

Indeed, from whichever perspective we understand Germany's position throughout the crisis, it seems unlikely that it will substantially reform its growth model by stimulating domestic demand and permitting wage inflation. The *raison d'être* of German monetary policy before and since EMU has been price stability, and it seems difficult to envisage substantive moves away from such a deeply ingrained philosophy, which became synonymous with the country's economic miracle in the post-war era and its strong economic performance in more recent years. It is also difficult to foresee German agreement to increased risk sharing in the Eurozone, whether through the establishment of Eurobonds or through the even more radical establishment of a substantive fiscal union (notwithstanding the advocacy of important German public intellectuals such as Jürgen Habermas). The notion that a Banking Union could be developed to ensure risk sharing in the European banking system has also been viewed with suspicion in Germany. More substantive reforms to finance therefore look unlikely in this context. More generally, concerns around so-called moral hazard—the notion that burden sharing of various kinds will remove incentives for the economically irresponsible to become more 'responsible'—are, while in many respects built on misconceptions, acutely felt and effectively instrumentalized by opinion-makers in Germany (Newman 2015).

At the time of writing in mid-2017, the status quo looked politically unsustainable even as it at once looked politically unmovable. The imbalances that lay at the heart of the crisis and the core–periphery political and economic divisions it unleashed remained significant. In early 2017 Greece's economic woes continued and it remained an MoU country monitored by the 'troika' and with little to show by way of a sustainable economic recovery. Ireland, Spain and Portugal had all exited their programmes, and each had showed some signs of economic recovery from around 2015–2016. However, given the absence of broader structural changes in European policy it was difficult to see how these 'recoveries' might be sustainable. As a number of the authors of the chapters that follow argue, such upturns were based largely on the revival of, rather than reinvention of, the dysfunctional growth models that had proved so fragile when the crisis hit in 2009–2010. Moreover, it is important to emphasize that economic growth alone does not capture the hugely destructive distributional consequences that the crisis and austerity responses had embedded; consequences that only serve to reinforce internal political domestic divisions (Hopkin 2015).

As implied in the foregoing, other countries such as France and Italy were struggling economically in 2017, suggesting that the geographical scope and population size of what we here describe as the European 'periphery' was increasing vis-à-vis the 'core' at the time of writing. Such economic dynamics had domestic political implications throughout the periphery with the rise of new political parties including anti-European and far-right parties. Indeed, if the reduction of national monetary (and political) autonomy wrought by EMU had forced a convergence of pro-EU/euro mainstream parties in the political centre, then the crisis precipitated the filling of the 'void' that such convergence had established (Mair 2013). At the transnational level, political rifts were developing or intensifying not only between the core and GIPS, but also between Germany and France, with the re-emergence of longstanding tensions on the nature of economic governance. In relation to Greece, rifts were also emerging within the 'troika', with the IMF increasingly critiquing the EU's intransigence on the possibility of debt relief, while simultaneously calling for yet more cuts in public spending to make public finances sustainable in the absence of such relief.

At the same time, governments and populations in both core and periphery continued to offer at least some support to both the euro (Otero-Iglesias 2017) and the EU. And this support was reinforced in some national contexts as a consequence of first the Brexit vote and then Trump's election in 2016. European institutions such as the Commission showed signs of leniency in terms of the enforcement of austerity rules (Schmidt 2016; Parker and Pye 2017). And the election of Macron as French President in May 2017 increased the likelihood of the restoration of greater political unity between France and Germany, notwithstanding their divergent economic trajectories. In summary, at the time of writing (mid-2017) things were in considerable flux. It was extremely hard to predict whether the direction of travel would be one of 'muddling along' with the current status quo, disintegration or further integration (Borriello and Crespy 2016). Indeed, as the EU celebrated 60 years since the Rome Treaty in 2017, the ongoing effects of the Eurozone crisis fed a broader existential crisis that was yet to be resolved.

Chapter Overview

The first section of the book traces the origins of the economic crisis in GIPS and discusses the country-specific responses to it adopted by their governments. It allows for cross-country comparisons that reveal the commonalities as well as differences in the set of challenges faced in these contexts since the onset of the crisis as well as before it.

In Chap. 2, Seán Ó Riain analyses the case of Ireland and dispels the myth of the Irish economic miracle, both with respect to the pre-crisis period and in the context of the country's recent economic recovery and exit from its programme. Stressing the replacement of Ireland's earlier 'activist' liberalism with a post-2000 'aggressive' liberalism, he points to the inherent contradictions of Irish political economy that left it vulnerable to an abrupt slowdown and full-blown crisis by the time of the GFC. He argues that the 'Irish model' remains vulnerable, and the celebratory tones recently adopted by EU and Irish officials may yet prove to be premature (see also, Ó Riain, 2014).

Luis Buendia shows a similar logic at play in Spain. In Chap. 3, he argues that the much-praised 'Spanish miracle' was structurally linked to the country's place in the European division of labour, sustaining and reinforcing the core–periphery dichotomy ingrained in the Eurozone's setup discussed above. At the same time, Buendia points to the important role of agency, namely of Spanish political and economic elites, whose policy choices exacerbated the crisis and worsened the economic predicament of labouring classes in particular.

In Chap. 4, Neil Dooley highlights that, as in our other case studies, the vulnerability of the Portuguese economy predates the outbreak of the crisis. He traces the origins of Portugal's crisis and subsequent bailouts to the adoption of 'structural reforms' in the 1980s, which were facilitated by, if not a direct consequence of, its EU membership. Dooley points to the perverse effect of those reforms: a debt-led growth model was adopted over the next two decades and, combined with global economic pressures, led to the paradox of overheating *without* an acceleration of GDP growth.

Greece, the Eurozone's most vulnerable member, and the only one still subject to a bailout programme at the time of writing in 2017, is the focus of Chap. 5. Pavlos Gkasis pointedly spells out the inherent weaknesses of Greece's political economy, which fostered a problematic growth and development trajectory even before EU and Eurozone accession. At the same time, he draws our attention to the inadequacies and contradictions of the bailout programmes chosen for Greece, and the systemic factors that have made internal devaluation a recipe for further economic misery since 2010.

The second section of the book discusses the politics of the crisis. It considers in each country case the ways in which the economic crisis was framed politically, traces the political (and social) effects of the crisis and reflects upon the deeper political cultures and histories that allow us to understand the particularities of those effects.

Chapter 6 by Nicholas Kiersey on Ireland explores the way in which austerity was, far from simply an external imposition, successfully legitimated by a problematic domestic discursive politics that emphasized that the country and its people had lived beyond their means and would consequently need to pay for their excesses. This was problematic to the extent that it neglected the role of broader structural factors (enunciated in this Introduction), among which the EU was key, not only in terms of the single currency, but also in terms of the liberalization of the financial sector associated with the single market project. He also suggests that such a discourse neglects or effaces the way in which particular right-wing elites have historically dominated the management of the Irish political economy. Finally, he demonstrates that the popular acceptability of this problematic narrative of self-blame has been eroded in recent years, as reflected in increasing public protest and the shifting fortunes of formerly marginal political parties.

Mònica Clua-Losada's contribution in Chap. 7 outlines the political fallout from the economic crisis in Spain, highlighting the rise of new social movements (particularly the so-called 15-M movement in 2011), the strengthening of the Catalan independence cause and a growing number of 'institutional assaults' on the status quo by new political formations at both local and national levels. This is framed not only in terms of the economic crisis, but also in the context of the (problematic) constitutional settlement that emerged in the 1970s following the Franco dictatorship. Preoccupied with stability, that settlement delimited the formal possibilities for political opposition and goes some way to explaining the informal and spontaneous nature of the political responses to the crisis in Spain.

In Chap. 8, Isabel David argues that the Portuguese case is distinct among GIPS for two principal reasons. On the one hand, the crisis resulted in the implementation of a new political experiment, whereby the Socialist Party governs in alliance with the Communists and the Left. She notes that there are signs of consistent attempts by the new government to redress some of the harsh austerity measures of its predecessors. On the other hand, David points out that the crisis has not led to any major realignment of party politics in the country, despite the fact that the Social Democratic Party (centre-right) has not shied away from adopting an explicit, pro-austerity discourse.

Finally, Chap. 9 by Alexandra Prodromidou focuses on Greece, revealing a sharp contrast with the Portuguese case. Greek politics has been transformed since 2010, not least in terms of the collapse of the erstwhile dominant Socialist Party (PASOK), the emergence of the far-right (Golden Dawn) and the meteoric rise of the left-wing SYRIZA as a governing party.

What remains uncertain, however, is the sustainability of this change, and the answer is largely dependent on the extent to which the country manages to exit the bailout programmes with a semblance of socio-economic stability. Populist and clientelist governance, Prodromidou asserts, is largely an inherent feature of the country's party political scene, making optimistic predictions difficult.

Finally, our conclusion draws some comparative lessons from the country cases. While in different ways and to different extents, the cases show that there is some margin for domestic resistance to the neoliberal status quo sketched in this chapter, we suggest that ultimately both domestic and European (and, indeed, international) reforms will also dictate the degree to which those resistance movements—formal or informal—are able to gain significant and enduring traction. Thus, collective action locally, nationally and at EU level will need to work in tandem if a genuinely progressive challenge that successfully preserves the European project is to be realized.

Notes

1. Others were pointing out, however, that over time a currency union would by itself create the conditions necessary for it to work successfully (Frankel and Rose 1997).
2. Indeed one could argue that only the Greek case is unquestionably one of ballooning public debt levels prior to the onset of the crisis.
3. As it became clear in late 2010 that Greece would not be the only effected state, the EU and IMF put together a larger support mechanism that had three components: the European Financial Stability Facility (EFSF), backed by member states, was authorized to raise €440 billion; the European Financial Stabilization Mechanism (EFSM), backed by the EU budget, was able to raise €60 billion; and the IMF was to provide a further €250 billion. In 2012 this was replaced by a permanent institution, the European Stability Mechanism (ESM), which was agreed by treaty with a lending capacity of up to €500 billion.

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