Street Politics in the Age of Austerity
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The Financial Crisis and Its Victims

George Ross

The first major economic crisis of the 21st century is comparable to the ‘Great Depression’ after 1929. Like its 20th century predecessor, the epicenter has been the US and Wall Street. The 2008 collapse of Lehman Brothers is its symbolic core, with the City of London not far away. The major differences with 1929 are the dense web of financial globalization and new technologies. The disaster has had two distinct phases. The first involved the collapse of major Anglo-American financial institutions that led to a credit crisis and a crippling of the ‘real economy’. The second began with contagion from the US-UK crisis to the Eurozone, the group of EU members belonging to Economic and Monetary Union (EMU), which wrought havoc on EMU’s poorer members, the EMU itself, and the EU more broadly. The origins of both phases are now well understood, as are the public policies proposed to restore economic health. The results are less clear, however. Recovery from both crises has been halting, and their consequences will take many years to be clear.

Large financial crises change social structures, disrupt lives, and shatter shared understandings of the world, leaving millions confused, uncertain, and forced to cope with disrupted lives. Most people submit and improvise solutions on their own, for better or worse. Large crises can also, however, produce unpredictable anger, collective mobilization, protest, and large political changes. The distribution of protest responses depends on both social and political variables and the creativity of protest actors. The years after 1929 provide many, sometimes unpleasant illustrations. There was rapid contagion of fascist movements practically everywhere, for example, threatening fragile democracies and incorporating intolerance, violence, and, in time, militarism. The Great Depression devastated working classes but eventually stimulated new workplace militancy, changed trade unions, and spawned innovative approaches to social reform. Looking back on all this from the post-1945 years, the cornucopia of social protest that occurred fed brutal warfare but also helped recast politics, economics, and social structures in more positive ways.

Epochal capitalist crises have usually begun in financial sectors and spread throughout economies and societies. As this happens, ‘real
economies’ collapse, often because credit and investment capital dry up, production and consumption decline, stock markets implode, and transnational contagion often follows. One of the central tasks of governments is to prevent such processes, and if they cannot do so, to try and stop things from getting worse. This chapter will first review the American crisis that began in 2007-2008, providing an overview of what happened and the economic and social damages that it caused. We will then do the same for the Eurozone-EMU crisis. We will also be looking at seriously hurt social groups from whom, according to some theories, protest might be likely to come. It is important to be clear, however, that social protest does not automatically follow from structural changes. Groups that are devastatingly hurt are as likely not to protest as to do so. Explaining protest and the forms that it assumes are difficult matters that cannot be answered by consulting the map of crisis-induced social disruption that we will provide. The hard work of answering questions such as ‘Why do protesters protest?’ and ‘Why do they protest in the ways they do?’ is the task of colleagues in the rest of this volume.

Wall Street to Our Street

Big economic crises have many causes. The ‘Great Recession’ began when an out-of-control American housing bubble burst (Chinn and Frieden 2011; Blinder 2013). Home ownership has been an important part of the ‘American dream’ for a very long time, and even if the excesses of housing markets have been the source of several crises, the payoffs of encouraging wider home ownership have been difficult for politicians to resist. In the 1990s, Bill Clinton rewrote national legislation and instructed Fannie Mae and Freddie Mac, two huge government-supported providers of mortgage funding, to loosen their lending standards. Home ownership grew significantly thereafter. The Clinton administration, whose financial leaders were high-level Wall Streeters, also furthered the deregulation that had begun in the later 1970s by repealing central parts of the New Deal Glass-Steagall Act to allow greater overlap between banks, investment houses, insurance companies, and other financial institutions. Clinton was also a powerful promoter of American globalization strategies, facilitating the international diffusion of Anglo-American financial practices that would later help spread the crisis (Panitch and Gindin 2012). Clinton’s policies set the table for what would follow.

The crisis culprit most often named is Alan Greenspan, neoliberal financial guru and Chairman of the US Federal Reserve from 1987 to 2006.
One high point of his Fed leadership, seen at the time as financial policy genius, was lowering interest rates to 1 percent in the early 2000s to prop up the US economy after 9/11 and the collapse of the dotcom boom – and to keep them low for several years thereafter. This dropped borrowing costs on everything, including housing, and stimulated a gold rush in housing loans. Greenspan was also an important supporter of the view, shared by financiers and economists alike at the time, that self-regulating, self-correcting markets priced products accurately, that financial market innovations spurred broader economic success, and that American capitalism in the early 21st century had achieved a miraculous ‘Great Moderation’ of steady, robust growth without inflation. Rising interest rates to rein in the Greenspan bubble coupled with a housing market downturn that followed almost immediately after Greenspan left the Fed were the factors that caused the US housing market to collapse.

Some analysts also accuse a foreign culprit. China, in the full bloom of emerging market growth, manipulated exchange rates to increase its exports and to accumulate vast reserves. These policies were subsequently blamed for creating an international ‘savings glut’ and accentuating dangerous imbalances in globalization. China benefited because these policies increased exports, growth, and rapid industrialization. The US also benefited because it could draw on the savings of rapidly growing export-oriented countries like China to help finance American consumption. Put another way, the Chinese invested their collective savings in US financial markets in ways that allowed Americans to live well beyond their means, supported by the US’s unique position as an international financial haven, in particular by consuming imported Chinese goods on credit and by floating the housing bubble (Eichengreen 2010a; Streeck 2011; Pettis 2012). The availability of cheap imported goods and vast consumer credit also masked the dangers of an American development strategy that pushed income and other inequalities to levels not seen since 1929. These conditions also created a vast increase in financial sector profits, allowing the financial sector to gain even greater influence over US economic governance.

The deeper mechanisms behind the imminent disaster of crisis lay in the risky practices of the financial sector. First, the real estate and mortgage

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1 This argument underplays one of the rationales for Chinese practices. The 1997 South Asian crisis involved overnight outflows of Western investment (‘hot money’) that then obliged affected countries to implement tough restructuring reforms. The Chinese concluded that they should always have sufficient reserves to prevent this from happening again. These reserves had to be put in a safe place, thus constituting much of the ‘savings glut’.
finance industries reconfigured business plans in ways that verged on white-collar gangsterism, using ‘sub-prime’ mortgages and other misleading marketing techniques to target new customers whose low incomes and dubious credit backgrounds were disregarded. Next, the financial sector purchased and repackaged these mortgages into derivative products (CDOs, collateralized debt obligations) that were structured into tranches that disguised the risks they contained. Then, to hedge their investments, buyers of CDOs purchased CDSs (credit default swaps) from a booming risk-insuring business. The incentives of eased standards, cheap money, and new financial techniques opened the prospect of vast profits and fortunes. Real estate agents and brokers made more by selling more houses, and the construction industry made more by building more houses. The banks and mortgage companies made big money from selling risky mortgages and could then wash their hands of risk and responsibility for their dubious marketing practices by handing off loans immediately to huge financial firms, including the country’s largest banks and Wall Street investment houses. Financial firms in turn came to dominate the financial side of the mortgage market, making more fees the more mortgages they could convert into derivatives and sell off, with loyal help from ratings agencies that they hired who provided misleadingly high ratings. Finally, the more CDSs that were contracted to hedge these new derivatives, the more insurance companies profited and grew. The pace became frantic because the quicker things could be sold rather than held as collateral, the greater the profits, leading the financial sector to leverage itself well beyond what was prudent (Fligstein and Shin 2007). Once these processes were set in motion, they compelled everyone – whatever they felt about risk or morality – to follow or lose out (Fligstein and Goldstein 2011).

The most misleading underlying process in the bubble was that as the real estate market grew hotter, house values climbed, leading homeowners to feel wealthier and tempting them to take on ever more debt. When the bubble began bursting in 2006-2007, house values declined. Mortgage holders who were in over their heads were then threatened by foreclosure, and many who had borrowed against their houses went ‘underwater’, owing more than their houses were worth. Another result was that the questionable value of mortgage-based CDOs led CDS holders to invoke their insurance. It was not long before over-leveraged financial institutions and the vast, unregulated ‘shadow banking’ system were endangered. The first epochal financial crisis of neoliberal capitalism in the era of globalization was beginning.

The signs of impending doom first appeared in mid-2007, when Bear Stearns hedge funds failed, Citigroup wrote down assets, the UK’s Northern
Rock was bailed out in an emergency government move, two large BNP Paribas hedge funds closed, and Dexia bank in Belgium came under pressure from lenders, stockholders, and ratings agencies. Central Banks – the US Fed, the Bank of England, and the European Central Bank – quickly opened international swap lines to ensure that credit did not freeze. Then, in spring 2008, the Fed saved Bear Stearns by subsidizing a bargain-basement acquisition by JPMorgan and helped Bank of America acquire Merrill Lynch. There were both political and financial limits to these responses, however. When the US Treasury and Fed failed to find a buyer in September to prevent Lehman Brothers from failing, generalized panic followed. A day later AIG, a huge insurance company loaded with CDS contracts, received $85 billion to stay afloat from the same sources. In a few months, the stock market lost more than half of its value and the critically important overnight credit supply of commercial paper froze.

With financial markets in free fall and credit blocked, the ‘real economy’ stalled, growth stopped, consumption dropped, pensions and savings shrunk, companies went bankrupt, real estate loan operations collapsed when mortgage-holders could not longer pay, unemployment shot up, government revenue streams diminished, and public debt rose as a depressionary spiral began. One result, which might otherwise not have happened, was that Barack Obama was elected. The experts, including Bernanke, the Bush and Obama Treasury teams, and most economists, converged on short-term ‘neo-Keynesianism’ to limit the damage and stop the downward spiral by huge Fed interventions – several trillions of dollars – to re-open credit markets with newly printed money (Irwin 2013). Massive emergency legislation passed under Bush (the 2008 TARP – Trouble Assets Relief Program) and Obama (the 2009 ARRA – American Recovery and Reinvestment Act). TARP, meant to isolate ‘toxic assets’, was used instead to bail out banks. ARRA financed stimulus plans to subsidize threatened industries (automobiles, in the first instance) and job-creating public works (Blinder 2013; Burtless and Gordon 2011). The financial ‘fire-fighting’ did not stop at US borders either. The spread of the crisis from Wall Street and the City of London to other places demonstrated global financial sector interconnections, as did international public policy responses to limit the damage.2

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2 Internationally, some countries had ‘better’ crises than others. Canada escaped the worst, despite connections between its large financial sector and Wall Street, because its real estate industry and banks were better regulated. Germany, the Netherlands, Austria, and other Northern Europeans fared better because of superior international competitive and budgetary
These efforts were largely successful in moderating the Great Recession and stopping the spiral towards depression. Six years after the first signs of crisis, however, the US economy’s recovery has been slow, patchy, and unequal. US growth became negative in the last quarter of 2007, dropped to -4 percent in 2009 but returned to low positive levels in 2010, since then hovering around 2 percent. The recovery has been relatively jobless, however, and unemployment, which had risen from 5 percent in 2008 to 10 percent by the end of 2009, only dropped below 8 percent in 2013, while new claims for unemployment insurance have barely returned to pre-recession levels. 8.5 million jobs were lost, with the construction and manufacturing sectors (and male workers, minorities, the lower skilled, and immigrants) hardest hit. Unemployment episodes have remained very long – a median of 20 weeks since 2008 – and the long-term unemployed face a grim future. One estimate in mid-2013 was that 14.3 percent of the workforce was unemployed, underemployed, or out of the workforce altogether (CBPP 2013: 8). Labor force participation has declined (from 67+ percent in 2000 to 63.5 percent in 2013). The US’s Gini coefficient – a commonly used measure of income inequality – which had been 0.38 in 2008 is now at the ‘bad’ end of OECD numbers next to Turkey and Mexico (OECD 2012).

Some had hoped that the ‘neo-Keynesianism’ triggered by the financial crisis would be the start of a new Keynesian era. This was not to be: the bailouts, stimulus plans, and Fed’s massive ‘quantitative easing’ are all nearly over.3 The sectarian turn of American Republicans, engaged in political trench warfare about fiscal policy to starve federal government to minimalist dimensions, also ensures that it will not happen anytime in the near future. In addition, despite some regulatory reform, crisis politics has re-installed Wall Street and ‘too big to fail’ banks back at the core of the American economy in hypertrophied form, explainable by the need to re-stabilize the American financial system rapidly and by the political influence of the financial sector. The status quo ante has been restored, at the cost of an estimated 14+ trillion US dollars (Atkinson et al. 2013)!

Which, if any, American groups might have been tempted to protest because of the crisis? The most visible mobilization came from the radical

situations and because of their labor market flexibility. Poland was the only European country to avoid a recession.

3 Marc Blyth, in his brilliant essay on austerity in economic theory, ironically labels the European version of this ‘twelve month’ Keynesianism (Blyth 2013).
populist right, embodied in the Tea Party. The Tea Party emerged primarily from the South and the Middle West, where American populism has been recurrent historically. The south has been anti-Washington and against the Eastern elite since the Civil War, usually on racist grounds, and its indignation was rekindled by the Democratic Party’s promotion of civil rights laws in the 1960s and 1970s. The Middle West has been de-industrialized by technological change and globalization, which decimated its large industries and diminished ‘middle class’ unionized manufacturing work. In both regions, Washington’s neo-Keynesian responses to crisis were received as statist mistakes produced by corrupt collusion between politicians, experts from the Eastern elite, big financial interests, and the mega-rich. Tea Party mobilization quickly found a home inside the Republican Party, explainable by the ways in which crisis issues meshed with older, hard-right Republican frames of religious and moral fundamentalism, anti-statism, and opposition to social transfers to racial minorities, immigrants, and youth. Financial support for the movement has also flowed from wealthy American right-wingers taking advantage of the recent liberalization in campaign finance law and seeking to manipulate the Republican Party further rightwards. The Tea Party example may suggest that the important far-right movements find it easier to move into ‘conventional’ party politics than ‘progressive’ mobilizations. A similar movement from protest mobilization to party form is found all across Europe, strongly fed by anti-immigrant xenophobia, the effects of the crisis, and burgeoning hostility to the European Union.

This volume is interested primarily in left-leaning ‘progressive’ movements. They have been omnipresent throughout US history, in fact, and particularly significant since the protest cycle beginning in the civil rights and anti-Vietnam war movements in the 1960s. Such movements have often taken on the forms of decentralized, rank-and-file mobilizations that – once they are well-organized around specific ‘social justice’ issues – tend to lobby parties indirectly rather than taking on party form, particularly because the majoritarian US system makes it difficult for ‘third parties’ to succeed. Many such mobilizing and lobbying strategies have actually succeeded to a degree, despite the recent rightward movement in American politics. Equality-related matters have been the stock-in-trade of most of these ‘progressive’ movements, even if the concept of equality has been redefined away from older focuses on class-economic inequality. Older frames returned, however, taken up by movements, left-wing intellectuals,
and progressive publications after the crisis hit. The Occupy movements, coined by a non-profit, anti-consumerist Canadian organization and partly inspired by the Arab spring and European protests, provides the best example.

Later chapters in this volume will explore the connections between movements like Occupy Wall Street and social groups hurt by crisis. Canvassing some possibilities may help, however. Income stagnation in the US, excepting vast increases for the top 1 percent (and a small fraction even of this group), the decline of ‘middle class’ manufacturing jobs, and growing employment insecurity have been salient issues for some time in the United States. Such changes have recently taken on specific forms for youth. Upward mobility through higher education, the ideal life course in recent interpretations of the American Dream, is no longer what it once may have been (Corak 2012). Finding good jobs for non-technically-specialized university graduates had become harder for some time. The wage premium going to university graduates still exists but in diminished forms, and education costs, especially for private universities, have skyrocketed along with student debt. The crisis considerably strengthened these processes. Entering the labor market has become much more difficult, obliging many to accept work beneath their expectations and straining families. ‘Young people’ have always been likely protesters, but crisis circumstances – with US youth unemployment twice the national average – have made the likelihood greater.

More broadly, persistent unemployment, underemployment, and unemployment-induced long-term labor market exits have touched millions. The decline in American trade unionism over recent decades – membership, at 11 percent, is one-third what it was in the 1970s – caused by globalization, technological change, labor market dualization, and neoliberal anti-union crusades may help explain the relative paucity of strikes, labor demonstrations, and strong political lobbying around employment issues in the US. On another level, millions have lost their homes to foreclosures, which have risen to 6-7 times their pre-crisis level (roughly 3 million annually), in ways that also disproportionately hurt minorities. This may have fueled deep resentment against banks and pre-crisis housing market shenanigans, but private debt and bankruptcy issues in American culture tend to become more a matter of individual shame than a spark to collective protest. Finally, US opinion polls point to serious problems of political legitimacy. Very few Americans believe that the US Congress is functional, for example, let alone responsive to citizen needs. Manichaean partisan conflict, in which both parties seek
possible electoral support with huge energy and resources, may mean that crisis-generated anger finds its way more quickly into conventional politics than into protest (Kenworthy and Owens 2011).

Contagion: The Eurozone Crisis

Europeans first hoped to escape the crisis because they were better regulated and armed with more automatic stabilizers than the US. The collapse of the global financial sector in 2008 obliged Europe to acknowledge the spread of dubious American financial practices to their banking systems, however. The first responses to the crisis went smoothly. The European Central Bank (ECB) provided liquidity to keep credit flowing and closely coordinated its actions with other central banks (Trichet 2010; Quaglia et al. 2009: 74-75), while EU member states agreed to common policy objectives (Bastasin 2012). National authorities in the EU retained most fiscal prerogatives, implying ad hoc coordination to general objectives rather than common EU policies (Bastasin 2012; Quaglia et al. 2009: 76-77; European Commission 2009). Bailouts came first, with banks sometimes recapitalized or semi-nationalized; deposits were guaranteed; and private banks consolidated and merged. Then came stimulus packages, again organized around coordinated general objectives and different national paths, which, together with automatic stabilizers, amounted to between 3.3 and 4 percent of EU GDP, with special plans for newer central and eastern European members. Financial sector regulatory reform was urgent, and a ‘High Level Group on financial supervision’ recommended imposing higher capital requirements, reforming credit-rating agencies, and introducing new asset valuation and accounting techniques. The High Level Group also concluded that those parts of the financial system with systemic importance needed new regulation and supervision plus core regulatory

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5 Coordination went beyond the EU’s borders. The G-7 rapidly convened the G-20, enlarging discussions beyond the rich North. The November 2008 G20 meeting in Washington concluded that members should use fiscal stimulation to avoid collapse and initiated an avalanche of good international intentions replicating both US and EU outlooks.

6 New EU members faced projections of a 15.8 per cent GDP decline through 2009 (Darvas 2009), despite great differences and varying national responses. Poland, the Czech Republic, Slovakia, and Slovenia weathered the initial storm well; less developed Baltic and Balkan countries had larger deficits and debts; and Hungary faced bankruptcy and needed IMF help. Many CEECs also had dangerous Euro-denominated, EU-15-originated consumer debts (often mortgages), necessitating special public-private deals. Different exchange rate regimes created different dilemmas.
and supervisory standards within a new EU crisis management framework (Pisani-Ferry and Sapir 2009; Véron 2010).

These responses helped to stem financial sector collapse and to limit real economy damage (Ross 2011). But a much larger drama for the EU’s Economic and Monetary Union (the Euro and its institutions) began in later 2009 after a new government announced that Greek statistics had been manipulated and that Greece’s budget deficit was higher than anyone had suspected. The bond markets, sensing that Greece might default, then raised interest rate spreads between Greece and Germany. International credit rating agencies downgraded Greece. Greece was the poster child for exploiting the flaws in Eurozone economic governance. EMU’s one-size-fits-all interest rates provided a windfall to poorer EMU countries and had also allowed them to gain much easier access to transnational capital flows, encouraging Greece and others to grow by overborrowing (Fernandez-Villaverde and Santos 2013; Aglietta and Brand 2013; Blyth 2013). The EU’s responses to the crisis after 2007-08 then contributed to larger national deficits and debts, and crisis-changed economic conditions began to lower growth and government revenues while also pushing up government spending (Mitsopolous and Pelagadis 2012; Jones 2012). The main EMU rules from the 1993 Maastricht Treaty – the 3 percent annual deficit and 60 percent cumulated debt ceiling – were arbitrary, narrowly focused on public debt, and pro-cyclical, and the treaty itself had provided few effective mechanisms for enforcing them (Eichengreen 2012). In addition, there were few emergency provisions, no plans for a country to default and leave, and the treaty ruled out financial solidarity among EMU members.

Institutions Make Policies!

First responders in the American crisis included a strong central government, a single national jurisdiction, and a powerful central bank with flexible mandates. EMU, in stark contrast, was a single currency without a central government, with multiple national jurisdictions, and a European Central Bank (ECB) with a legal mandate restricted to fighting inflation. The result was that the Eurozone’s crisis responses had to be negotiated among many countries and decisions had to be made in either the Eurogroup (the leaders of EMU member states) or the European Council (national

7 Responsibilities also lay with the Euro-zone’s richer members who had profited from EMU’s perverse incentives by exporting goods and capital to poorer countries in ways that increased divergence within the Euro-zone (Dullien and Schwartzer 2009; Eichengreen 2010, 2012).
leaders of the broader EU), both intergovernmental. Past experience with intergovernmental processes indicated that they took a significant amount of time, let to incremental decision-making, and often produced suboptimal compromises. The differences in size and economic power between EMU countries meant in addition that decisions would probably be biased towards the preferences of the most powerful members. It followed that the institutional arrangements for responding to a crisis could matter as much as actual policies themselves.

It took six months for new Eurozone policies to begin to be decided, allowing crisis contagion towards Ireland (which had a worse housing-banking bubble than the US) and Portugal (whose debt issues flowed from its relative poverty). Eurozone leaders, faced with threats from the stock market, finally agreed in May 2010 to set up a temporary €750 billion European Financial Stability Facility (EFSF) that would provide conditional loans to menaced Eurozone countries at ‘non-concessional’ interest rates that would quickly prove to be too high. The Greek government then signed a ‘memorandum of understanding’ (MOU) to borrow €110 billion. The MOU, tailored to specific national conditions, as were those that later engaged Ireland, Portugal, and Cyprus, involved tough quarterly reviews by the European Commission, the ECB, and the IMF (known as the Troika). The terms of Greece’s first-quarter MOU (through June 2010) obliged the Greeks to begin reducing their deficit to 3 percent by 2014 (an utterly unrealistic demand), cap public sector pay for three years, reduce the public sector wage bill, eliminate public sector bonuses, increase VAT and other taxes, reduce high pensions, eliminate pension bonuses, freeze all pensions, reform the labor market by decentralizing negotiations, reduce public investment, undertake tax reforms, reform bank governance, rebuild local administration, enhance competition by installing a new competition authority and breaking the power of a wide range of private professional monopolies, make it easier to

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8 As in any EU crisis – and this was the greatest in EU history – there were secondary actors. The bond markets, whose eruptions pushed bargaining forward, were the most important. The supranational ECB stretched its legal mandate to limit the crisis and influence member responses. The European Commission was present mainly because it alone could propose legislation following the European Council’s strategic leadership, and because of its administrative charges. Finally, the IMF helped provide and structure bailout loans.

9 The Commission proposed loans without the IMF, and France suggested European bonds. IMF participation was opposed by the ECB and Commission, but Germany insisted on its presence, believing that IMF conditionality would strengthen pressure on Greece to change and that IMF loans would lower fire-fighting costs (Bastasin 158). Merkel opposed ‘Eurobonds’ out of moral hazard fears and worries about Germany’s credit rating, plus anticipation that the German Constitutional Court would find them unconstitutional.
start businesses, and more (European Commission 2010). The conditions, which were parsed in three-month assignments until the end of the loan period, threatened a huge number of Greek social groups. Many of these received the conditions as invitations to protest, which they then did, in manifold ways. MOUs for other EMU members that later had to take loans were similarly harsh, similarly monitored, and also led to protest.

Lying behind Eurozone hesitations were differences between Germany and France, the leaders of EMU (Marsh 2010; Dyson 2013; Krotz and Schild 2013). The French, worried about EMU banks, wanted more ‘economic government’ and a quick Greek bailout. Germany’s initial response was that Greeks had caused their own problems and should fix them themselves. Germany, far more powerful economically, maintained its ordoliberal economic orthodoxies, but its reunification had opened space for German leaders to assert themselves. This led to the resolve not to serve as EU checkwriter of last resort, removing the classic EU solution of German-subsidized bailouts from the table. Shorter-term domestic politics, public opinion, and German Chancellor Angela Merkel’s thinking supported this course (ECFR 2011; Gros and Roth 2011). The French were much weaker because the French economy was vulnerable. An imminent presidential election, which Sarkozy would lose in 2012, led him to posture about co-leadership (causing the term ‘Merkozy’ to be coined) for domestic consumption rather than challenging German power. The Germans and Merkel would thereafter shape most crisis responses.

The May 2010 decision revealed new German flexibility. If EMU was to continue, flaws in Maastricht’s EMU architecture had to be fixed (Aglietta and Brand 2013). An annual ‘European Semester’ was thus inaugurated in which member states submitted budget plans for peer scrutiny before budgets were voted. There were also a ‘six pack’ and ‘two pack’ of directives and regulations for stronger and more sophisticated monitoring of national fiscal policies plus new, more automatic sanctions for bad behavior. New monitoring procedures and financial sector regulation were based on the 2010 Delarosière committee report (Batastin 2012; Jouyet 2012). There were problems obtaining financial backing for most of these reforms, however, usually because Germany sought to limit its exposure. Germany, backed by France, also urged new ‘treaties’

10 Ordo-liberalism structured the successful reconstruction of the post-war German economy. At its center were constitutional rules for a ‘social market economy’ that involved collaboration among producer groups and social programs. A politically independent Bundesbank devoted to price stability had the power to compel private and civil society actors to moderate egoistic interests. Ordo-liberalism provided the matrix for both the Maastricht EMU bargain and the 1997 Stability and Growth Pact (see Blyth 2013: 138-147).
by coalitions of the willing. A 2011 ‘Euro Plus Pact’, signed by all Eurozone
countries plus eight other EU members, pledged controls on wage growth,
raising retirement ages, reducing payroll taxes on labor, and new EU debt
and deficit rules with stiff penalties for non-compliance. The 2012 ‘Treaty
on Stability, Coordination and Governance’ obliged signatories to commit
to balancing their national budgets (Fitoussi 2013). More recent reforms that
have emerged include the commitment to a ‘Banking Union’ to establish
ECB supervision over EMU banks, a new European ‘resolution’ authority to
restructure or close failing banks, and an EMU deposit insurance system.

Decisions were repeatedly sold to the public as far-seeing solutions to
crisis but often included genuine mistakes that made things worse. The
interest rates of the original 2010 Greek bailout were too high and repayment
schedules too rapid, worsening Greece’s debt problems, upsetting bond
markets, and hastening a second Greek loan in 2012.11 Next, while preparing
the October 2010 European Council, Germany proposed ‘private sector
participation’ (i.e. making bondholders pay their share in bailouts), which
deeply upset the ECB and produced new market agitation (Bastasin 2012).
Later in 2011, discussions about the second Greek loan, including haircuts,
went on for months, upsetting bond markets again and precipitating con-
tagion to Italy and Spain (Financial Times 2011a, 2011b, 2011c; Boone and
Johnson 2011). The October 2011 European Council sought to calm things
with empty promises, causing renewed market agitation. It took more
ECB ‘non-standard’ actions (quantitative easing) and Mario Draghi’s 2012
public promise to ‘do what it takes’ plus a calming in global markets to keep
things under control (Dyson 2013: 211-218).12 In November 2011, ‘Merkozy’
engineered the back-to-back removal of first Greek Prime Minister George
Papandreou (who had proposed a referendum on the second Greek loan)

11 These judgments are underlined in an extraordinary IMF internal review that followed
an earlier IMF re-evaluation of the austerity multiplier effects of Euro-zone loans. The report,
a useful overview of the first Greek loan, strongly criticized the workings of the Troika (IMF,
Commission, ECB: 31-32) because the EC’s reform focus was “more on compliance with EU
norms than on growth impact [...] and [...] was not able to contribute much to identifying growth
enhancing structural reforms” (p.31).
12 Despite repeated German criticism, the ECB used ‘non-standard’ methods of buying
members’ national debt instruments from bond markets and injecting new, low-interest-rate
liquidity into Euro-zone economies, partly in the hope that member states would devise more
effective sanctions for bad fiscal behavior. Beginning in 2010, the ECB also lowered collateral
requirements to purchase the bonds of those EMU members that were hardest hit (the Securities
Markets Programme) and in 2011 started low-interest loaning to banks in ‘long-term financing
operations’ (LTROs) and in 2012 ‘Outright Monetary Transactions’ (OMT – market purchases
of bonds from member states that had requested EFSF/ESM aid).
and then Italian Premier Silvio Berlusconi (who was stalling on promised reforms). They were both replaced by ‘technocrats’ with deep Brussels connections. This did little to help Greece and Italy economically but further angered Greek and Italian citizens. Then in 2013, EU leaders made another bad move: in bailing out Cyprus, they called for deep haircuts that would have decimated small depositors before market threats caused them to beat a hasty retreat (Rachman 2013; Wolf 2013). Finally, hesitations about moving to a banking union in 2012-2013 – again because of German unhappiness at Eurozone collective risk-sharing – unsettled the situation once more.

Policies and Pain

Repeated crisis policy choices consistently imposed the views of other EMU governments, particularly Germany, on countries in need of help. It has been the actual crisis fire-fighting policies that have hurt the most, however. To avoid bankruptcy, four endangered Eurozone members – Greece, Ireland, Portugal, and Cyprus – had to accept conditional loans that looked an awful lot like IMF Structural Adjustment Programs, while the banking systems of two more countries – Spain and Italy – were kept afloat by loans, bearing their own conditions, from the ECB. Borrowers were kept to a draconian schedule for reducing debts and deficits, cutting back extensive budgetary and social programs, decentralizing the labor market, reducing public employment, and privatizing government-owned property and businesses. Such policies combined a German ordoliberal backbone with European-ized Anglo-American neoliberalism from the Commission’s economics directorate, and, in the case of sovereign debt, traditional IMF loan rules. The economic mantra behind these approaches was that a rapidly applied, harsh dose of austerity would lower unit labor costs, abolish rent-seeking, and establish starting points for virtuous growth. Beyond this ‘austerianism’, reforms to EMU’s architecture brought new invasions into national economic policy sovereignty through technocratic mechanisms lodged in the European Commission that lacked clear democratic mandates.

The consequences have been dramatic. There has been negative economic growth since 2008 in the Eurozone as a whole, as seen in Chart 2.1. The worst of this was in the Great Recession period, with a brief recovery until 2011-12, and then a second recessionary dip until late 2013, followed by a slight uptick.

Growth in those Eurozone countries that were the objects of conditional loans and obliged to undergo ‘internal devaluations’ has been much worse, however. With the beginning of 2008 as a starting point, Greek GDP declined
by 4 percent in the Great Recession, but then dropped to a low of -9 percent in 2011, the low point of its crisis, before it slowly climbed to -2.5 percent in early 2014. The Irish economy performed somewhat better, dropping to -7.8 percent at its low point in 2009-10, then slowly recovering to +2 percent by 2012 before dropping back into recession and then recovering in 2013-2014. Portugal dropped to -4 percent in 2009, then grew by +1.8 percent in 2010, dropping back to -4 percent in 2013 before moving into positive territory recently. Spain and Italy, whose banks were helped out by the ECB, did better but still suffered much lost growth.

Unemployment across the Eurozone shot up in the crisis and remains very high, as Chart 2.2 shows.

The hardest-hit Eurozone crisis countries vary on the unemployment front. None have done well, but economic differences have created different employment profiles. Greek unemployment rose steadily from 6 percent to 28 percent from 2008 to the beginning of 2014. Ireland was at 4 percent in 2008 and is now at 12 percent. Portugal began at 7.6 percent, rose to 17.7 percent in early 2013 and dropped to 15.3 percent in 2014. Spain was at 9.6 percent in 2008 and was nearly at 27 percent in 2013. Italy rose slightly from 9 to 12+ percent in 2013, the Eurozone average.

Youth unemployment is particularly significant if, as we suspect, young people are more protest-prone than their elders. The numbers in Chart 2.3 are striking enough for the Eurozone as a whole, and much worse for the countries hardest hit by the crisis.

These numbers do not take into account young people who are otherwise out of the labor force for non-labor market reasons, but they obviously

![Chart 2.1 Euro Area (18) GDP Growth Rate](source: Eurostat – code: tec00115 (27 March 2015))
show youth unemployment rapidly rising. For the most part, the Eurozone crisis countries are well above the general Euro area. From 2008 to early 2014, Greece’s youth unemployment rose from 21 percent to 60 percent; Ireland’s from 10 percent to 25 percent; Portugal’s from 20 percent to 36 percent; Spain’s from 20 percent to 58 percent; and Italy’s from 21 percent to 47 percent.

Reducing long-term unemployment had been one of the most important goals of the European Union. The Eurozone crisis wiped out any progress made in this area, however, as Chart 2.4 shows.

‘Internal devaluations’ leave citizens of poorer EMU countries in conditions of austerity that will persist for years. New growth, even where it
exists, is low and relatively jobless. Even the best-educated young people in stricken countries, and some other European places, face grim employment prospects, placing new strains on their families, delaying entry into the labor force, and leaving those affected in life-course limbo. Poverty and social exclusion have shot up, especially in these most afflicted countries (Eurostat 2014; EU Commission 2013a, 2013b). Migration to better-off EU countries is possible, and there is some evidence that it has grown, especially among the young, but mobility within the EU has always been limited by the difficulty of coping with another culture, language, and place where better jobs are reserved for the locals. Those who stay face rising long-term unemployment as technologies and work processes change rapidly, implying permanent exits from the labor force, new poverty, and individual and family disaster. Social science knows much too little about how much and what kind of social cohesion is needed to keep developed societies from fraying, but these numbers – and others we might have highlighted – imply future problems. As we have earlier noted, there has been a punitive ‘cold shower’ logic to economic governance throughout the EU crisis. Countries in deep trouble, as well as others with precarious economic situations that have yet to make themselves dependent on outside help, are now told (and often constrained) to stand under cold water long enough to rid themselves of the results of their alleged bad economic habits. Those who prescribe the cold showers assert that only then will these countries be able to begin climbing upwards economically. The ‘cold shower’ approach is a bet against a very uncertain future. Many think that it is unlikely to pay off, or at least not in the ways that ‘austerians’ claim that it will. One way or the other, there will be a significant number of European citizens standing under cold water for some time to come.
Polling has shown how many of these citizens have come to understand all this. The crisis has worsened the EU’s chronic legitimacy problems in ways threatening to the EU. Eurobarometer surveys show favorable opinions of the EU rapidly declining, with these trends stronger in the southern member states. Pessimism about the future is widespread, again more pronounced in those countries more affected by the crisis, where doubts about the EU’s anti-crisis policies are profound (Debomy 2013; Walton and Zielonka 2013). The Pew Global Survey conducted in the spring of 2013 reported declining support for the European project – only 28 percent believe that European integration has helped their economies, with the loss of confidence particularly strong among younger people (Pew Research 2013). If we reflect on the recent shift of far-right European parties toward supplementing anti-immigrant xenophobia with anti-EU nationalism, as well as the trend of harder-left parties that have emerged to the left of social democrats advocating a return to closed-border statist and embracing Euroskepticism, it is clear that the EU has become a veritable target of protest. Indeed, Euroskeptical attitudes and political currents have rapidly spread almost everywhere (Torreblanca et al. 2013).

These surveys correlate with election results. Since the beginning of the crisis, European voters have repeatedly removed the incumbent governments that had presided over crisis responses (excepting Germany). In Ireland, Fianna Fail electoral domination, which had seemed eternal, has ended – one consequence of a terribly mishandled and corrupt housing bubble, itself the product of American-style public policy mismanagement. Social democratic governments in Portugal, Spain (where the central issue has been another housing bubble created by bad public policy and banking cupidity), and Greece have all been replaced by right-wing regimes that themselves rapidly became precarious. The severe electoral defeats of Latin European social democracy – with France a possible future addition in the near future – has great significance. European social democratic parties, for a century the political hope for many on the left, have been slowly losing electoral support in recent years (Moschonas 2011). They can still win elections and lead governing coalitions, but their voting numbers – and, more significantly, credibility as carriers of popular grievances – have been declining. Europe’s south had been a particularly bright spot for social democracy because political parties there had been able to harness the promises of modernization from joining the EU. The Eurozone crisis may have ended this.13

13 There are deeper issues. Center-left parties have turned into electoral machines staffed by political professionals and policy wonks whose most important task is now to govern
The results of the 2013 Italian elections after the EU-imposed Monti-technocratic government’s time expired went well beyond firing incumbents. In a campaign saturated by EU and Eurozone issues, nearly 25 percent of the vote went to the Five Star Movement (35 percent of those between the ages of 18 and 34), a party led by a professional entertainer whose appeal was a refusal to play the Italian political game in traditional ways. At about the same moment, Greek elections saw Pasok decimated, the center-right returned to power, and Syriza – a left party whose indignation was clearer than its policy proposals – doing better than anyone else, sinning, in fact, in January 2015. In general, anti-establishment protest parties on the left and the right have prospered in the crisis, including openly fascist extremists in Greece. In France, a country that has avoided the worst but has teetered on the edge of serious economic problems, Nicolas Sarkozy lost to socialist François Hollande in 2012, and within a year Hollande had acquired the lowest popularity ratings in the history of the Fifth Republic.14

Other crisis results include accentuated divisions between the Eurozone’s north and south. Northerners, arrayed around Germany, have been the main contributors to bailouts and have insisted most forcefully on the ‘cold shower’ line for the stricken southerners who had hoped for greater solidarity and flexibility. On some occasions, particularly during election campaigns, this has translated into quasi-ethnic attacks directed at Germany. Prior to the crisis, EU southerners had been among the most positively ‘European’ member states, but many of them have since changed their minds. The crisis has also deepened the division between EMU ‘ins’ and ‘outs’, nourished Eurosceptics in the UK and other places, and laid foundations for an ever more complex and ‘geometrically variable’ EU.

Storms Past, Storms Still to Come?

The US crisis brought huge social costs, but the American context made it particularly difficult to anticipate protest beyond hard-right movements

market capitalist societies in a threatening Europeanized and globalized world. Their offers and concessions to progressive electoral constituencies can be real but limited by this priority. Many potential progressives, including protesters, may vote for them in the absence of alternatives, but social democrats are seen as reliable vehicles for the kinds of changes that are needed.

14 If one extended the list beyond the countries directly targeted by crisis but where incumbents were tossed out by the crisis, it would also include the UK, Belgium, the Netherlands, and Denmark, with more to come.
like the Tea Party and the progressive 2011-2012 Occupy movement. American crisis policies were more direct and effective than those in Europe, despite the US’ blocked federalism, because of its strong central bank and determined political elites who possessed the leverage to initiate anti-crisis policies, its single national jurisdiction and favorable international financial position. Recovery has been slow, however, and it remains to be seen whether this will stabilize a situation in which the ‘middle class’ is being hollowed out and an unchastened financial sector is re-installed in its luxurious Wall Street lodgings. Widespread suffering has drawn new attention to growing inequality, declining social mobility, rudimentary social policies, and the weakness of traditional protective organizations such as trade unions. Protest is a time-honored American reflex, but it coexists with a great reliance on individual resilience. US protests may or may not be aligned with major national partisan conflicts or with huge American lobbies, but one cannot help underlining that the US has been riven for decades by partisan mobilization about fundamental social choices between a neoliberal and culturally conservative new Republicanism and a defensive ‘liberalism’ around the Democrats. This great divide will continue to play an important role in shaping the form that protests take in the US and whether or not it corresponds to ‘conventional’ American politics.

Europe is different. Salvaging the Eurozone has involved clumsy intergovernmental decision-making that has led to an imposition of harsh policies by some on others. Indignados or Occupy-style ‘progressive’ protests have been important to varying degrees, particularly in 2011-2012, throughout crisis-stricken countries, even if the Arab Spring movement that inspired and, to a degree, guided these movements, has not always turned out happily. Analogous movements recur, as in Ukraine, and may help keep strategic and tactical memories fresh. Other types of protest have also occurred, including official and unofficial strikes, repeated student protests about educational policies and budgets, and strident mobilizations by specific threatened interests. Resentment levels among those hurt most by the crisis remain high. And beyond any debates about EMU and the EU, national governments, with a few exceptions, seem progressively less able to provide plausible policy solutions to citizens’ problems. It is possible that Europe may be in the midst of a massive crisis of politics in which citizens lose their sense that existing democratic processes can produce the desired results. To the degree to which these things are true, stormy weather – including a great deal of new protest – may lie ahead.
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