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Sebastiano Fadda, & Pasquale Tridico, (edt.), *The Economic Crisis in Social and Institutional Context*, Routledge, 2015, 378 pp. $150 Hardcover.

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1. Introduction

Fadda and Tridico's edited volume is a book with two layers: it is, first, an applied book about the European economic and financial crisis. But it is also a book about the competition of ideasin economic research more generally. In times where theEuropean crisis is first and foremost interpreted as a crisis of exhausted public budgets and an imperfect monetary union, the purpose of this book is no less than to present a totally different set of ideas and understandings of the world, leading to contrary interpretations of the crisis and policy implications. To do so, Fadda and Tridicomarshal diverse heterodox approaches interpreting the origins of the current European crisis (part I of the book) and discussing exit perspectives and political strategies (part II). Having put these pieces together in a volume, this book is both a forceful critique of (mainstream) economics as a discipline and of European crisis policies over the last years.

2. Competing ideas about the origins of the European crisis

Against this background, I find it highly appropriate and helpful to start with John Groenewegen's chapter about the role of ideas, models and representations of the world in economics and how these shape interpretations of crisis phenomena. Groenewegen chooses to contrast neoclassical and new institutional economics on the one hand and original institutional economics on the other, discussing their representations and understandings of the economy and of economic crises. While it is not quite clear to me what motivated this choice (except of course that Groenewegen is a renowned expert of original institutional economics), it is a helpful exercise for what follows, as it motivates the reader to reflect upon the ontological and epistemological basis of economic research and policy recommendations.

The following five chapters challenge dominant interpretations of the origins of the European financial and economic crisis, presenting different ideas and interpretations from a diverse range of angles. Philip Arestis and Elias Karakitsos discuss financial liberalisation and increasing inequality. Malcolm Sawyer addresses financialization and the lack of sustainable investment, somewhat similar to Wolfram Elsner, who emphasizes the chasing of impossibly high profit rates in financial capitalism. Brigitte Young discusses the role of ideas in a literal sense,

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investigating how the prevalence of ordoliberalism in German economic (public) thinking has shaped German and European politics vis-à-vis the crisis. Finally, Pasquale Tridico uses the example of Italy to show how deregulation and flexibilization of the labour market and privatization in the run-up to the crisis have made the Italian economy highly crisis-prone and susceptible to risk while at the same time making the European crisis management with its emphasis on austerity policies particularly fatal.

All these chapters emphasize, from different angles, that “the current crisis is the final step of a much longer decline which started [in the 1990s]” (Tridico’s chapter, p. 114). While the authors differ in the particular factors they put emphasis on, they agree on one point: The origin of the European crisis is not (primarily) a sovereign debt issue. Rather, the European reality of our times – as in all times – is “multi-dimensional, complex, full of interdependencies, feedback loops, different groups of actors with different motivations, interests, power and values” (Groenewegen’s chapter, p. 9). Thus it is no contradictory but a strongly complementary analysis that the authors provide in the different chapters of the book’s first part.

Arestis and Karakitsos posit that the economic crisis was caused by three main factors: inequality, financial liberalization and financial innovation. They provide ample statistical evidence of the rise of inequality, without however explaining how exactly this contributed to the crisis, and it is striking that distribution is not addressed explicitly in their policy implications anymore. On the other hand, their discussion of the financial sector and proposals for its regulation in the US and the UK is insightful. Following just after Groenewegen’s chapter, the authors may have been more explicit about their theoretical foundations.

Malcolm Sawyer emphasizes the role of the financial system, too, albeit discussing some more fundamental concerns. As he explains, financial sector growth is commonly assumed topush economic growth, which is commonly seen as desirable. But this is not uncontroversial: In fact, it seems that financial sector growth is beneficial for economic growth only up to a certain threshold, after which it actually harms growth. Sawyer entertainingly points out that in this sense, financialization may be good for the environment: Recessions stemming from financial crises lower future levels of output and may tend to diminish carbon emissions. Joking aside, he argues that investment must be directed towards sustainable activities and that economic growth must not only be slower but also of the ‘right type’. Such developments may be stimulated by financial transaction taxes, green development banks and guided lending.

Wolfram Elsner adds a Marxian account of why the unlimited mobility of speculative capital is highly detrimental to our economies and societies. Since the 1970s, he argues, possible profits rates to be achieved with capital investments have decreased considerably, pushing capital to move into speculation and to create ever-bigger bubbles. The rising gap between real and financial (speculative) investment and of their respective profit rates can remain undetected for a while, but unfolds its detrimental potential once a bubble explodes. As a perverse effect, the political reaction to the resulting crises consists of redistributive measures, typically bailouts and austerity politics, which are represented as without alternatives.

To sum up, the contributions concur that the political and societal focus on high economic growth rates, coming along with the acceptance of high sought-for profit-rates of firms and beliefs in the benefit of ever-higher degrees of (speculative) financialization is not only problematic in terms of environmental and societal stability, but has ultimately compromised economic stability. As these developments occurred at the same time as labour markets were increasingly deregulated and social systems retrenched, the economies and their purchasing power were hit very hard at a moment in time where their own recovery power was quite low.

Of course, such understandings and interpretations of the crisis are not commonplace among European economists and populations, and much less so in the Northern European countries. This is so, as Brigitte Young's chapter discusses, because they run counter the idea and belief system of ordoliberalism, which prevails in German academic and public discourse and has been able to dominate over Post-Keynesian and other understandings. I remember that during the EAEPE Summer School 2013, from which this book originates and of which I was a participant, Young's argument was quite unknown to most of us. Since then, however, whenever I am confronted with arguments of politicians or newspaper articles on the topic, I realize how crucial these underlying ideas are for understanding the dynamics in the European crisis interpretation.

3. Competing ideas about where to go from here

Given this interpretation of the crisis origins, it is no surprise that for the authors, austerity politics cannot be the remedy: They do not tackle financialization nor the search for high profit rates nor bring about more sustainable economies. To the contrary, they make things worse: They increase socio-economic inequality and depress aggregate demand, thus perpetuating – according to the authors – the very origins of the crisis. Yet austerity is the prevailing answer to the crisis among European politicians and economists – because, again, the prevalent interpretation of the crisis through the lenses of ordoliberalism is a totally different one. The second part of the book discusses the effects of austerity and possible other routes the European union should take in order to overcome the current crisis. Proposals and topics include the role of the welfare state, the European currency union, household credits and common labour market policies.

Sebastiano Fadda's chapter on austerity politics and retrenchments of the welfare state introduces the second part. He first addresses three commonplace critiques of welfare states that citizens of all European countries should have heard too often over the last years: budget unsustainability, negative implications of large welfare states for global competitiveness, and inefficiencies in terms of resource allocation and cost-effectiveness. He discards these criticisms as not being to the point: first, unsustainability critiques are based upon arbitrary definitions of limits of social spending as expenditure to GNP. Second, global competitiveness is not necessarily compromised by strong welfare states, but may as well benefit from them. Countries only gain in competitiveness if they engage in social dumping compared to others, but not if all countries cut their social spending. Third, it may actually be more efficient and competitive to guarantee social cohesion, social and human capital and political stability through welfare states. While acknowledging that reforms are in order in many places and that European welfare states could certainly reduce their costs and work more efficiently, he convincingly warns against throwing out the baby with the bathwater.

What other options and remedies are at our disposition then? Vincent Duwicquet, Jacques Mazier, Pascal Petit and Jamel Saadaoui discuss policy options for overcoming the financial crisis of the European currency union. Given that exchange rate adjustments among members of the currency union are impossible and common fiscal policies have been politically sensitive, the authors argue, the Eurozone has taken a dangerous road: relative wage and price flexibility have partly been able to do the job of exchange rate adjustments, however at the price of lower growth, higher unemployment and heterogeneous effects across countries.

Also this policy has not alleviated the problem of huge intra-European imbalances: the currency is too weak for Northern Europe and too strong for Southern Europe. This situation amounts to implicit transfers from the South to the North, making the overall situation worse.

Having read the introduction to this chapter, I was left with the desire that this issue had been devoted more attention in the first part of the book already. Given that the European public understands this crisis, besides the public deficit issue, as a currency union issue, why did the editors not decide to present their perspective on this important issue in the first part of the book? Given that important parts of the general public in Northern European countries tend to interpret the weak performances of Southern European countries as signs of economic incompetence and laziness, a discussion about the currency union and the crucial role of macroeconomic heterogeneities between countries would have deserved a much more prominent place in the first part of the book, too.

Duwicquet et al. are very clear about their policy recommendation, which is as much logical as it is politically explosive: Based upon the premise that macroeconomic heterogeneity problems can only be solved through a much stronger integration, they advocate that transfers and debt restructuration within the European Union are paramount. More concretely, they see two scenarios that, in their view, would permit the European union to survive. One is fiscal federalism: They propose a federal budget, financed through taxes on savings, capital incomes and financial transaction. This proposal thus builds a bridge to several of the othercrisis origins discussed earlier. The authors are well aware that the major obstacle to this solution is not of technical, but of political nature, and are actually quite pessimistic: “The European people does not exist and there is a very limited solidarity between the different members of the union” (Duwicquetet al., p. 147).

Their second proposal is probably less sensitive in political terms since it accommodates somehow the voices in Northern Europe opting for a separation of the Eurozone. A so-called ‘multi-speed Eurozone’ would reintroduce national currencies along with an ‘external Euro’, allowing for more flexible adjustments when imbalances within the Eurozone are detected. The latter proposal would offer an answer to macroeconomic imbalances without however tackling the sensitive issue of heterogeneous social models and their convergence or not.

The challenge of finding a balance between homogenous regulations and heterogeneous countries is as well the topic of Jacek Wallusch and BeataWoźniak-Jęchorek’s chapter on common labour market policies. Rather than addressing the crisis directly, they discuss future directions of labour market policies in Europe. They put emphasis on the difficulty of identifying a “one fits all” labour market approach, since levels of both regulations and policies and real wages differ strongly across countries. Because different labour markets need different types of regulations, the authors warn that “[i]mposing regulations at the EU level might be extremely difficult” (p. 195).

Two more contributions complete the second part of the book. The chapter by Maria Lissowska, which clearly discusses crisis origins rather than exit strategies, covers an interesting topic: the issue of household over-indebtedness. Lissowskadis cusses if consumption and private credit played a decisive role in the run-up to the crisis and/or if the promotion of household debts may actually be a means of recovery, stimulating purchasing power and demand in European countries. Not surprisingly, she argues that household credits cannot be a sustainable way of overcoming household difficulties to meet consumption needs.

Finally, there is a chapter by Ngai-Ling Sum, dealing with economic imaginaries and their role in time of crisis. She uses the case of the BRIC countries to show how narratives of highly dynamic high-growth countries were constructed in global public discourse. Although this is an interesting reading, the author does not make any straight connection to the European crisis. Still, the idea that “[i]n times of crisis, economic and political actors often search for and/or construct objects of ‘growth’, ‘hope’ and ‘strength’ that may secure recovery” (p. 200), and which the author discusses with respect to the BRICs, is easily transferable to the European crisis: Economic growth has indeed been emphasized by both politicians and academics as a way out of the crisis. Most authors in this volume have pronounced themselves in favour of high economic growth in order to stabilize labour markets, public budgets and so forth. But Malcolm Sawyer’s exposition of the link between economic growth, financialisation and sustainable development may have deserved stronger attention. Is it really necessary to foster strong economic growth for recovery? And, more importantly, is it possible? Unemployment, the rise of right-wing parties in several European countries and the threat of disintegration of the monetary union, if not the European Union itself, are all pressing problems. But we should not forget the important over the urgent matters: to create a sustainable future for the European and the global society, in accordance with our social and natural environments.

4. Quo vadis, Europe?

Closing the cover of this book, I feel I have been provided with a rich, multi-dimensional analysis of the factors that have contributed to the occurrence of the European economic and financial crisis, and with a discussion of policiesthat are no solutions. According to the authors, Europe should not cut the welfare states but take care of limiting social and economic inequalities in order to create stable and sustainable societies. For achieving this goal, countries should find ways to limit financial speculation but foster socially and environmentally sustainable investment instead. Countries should create incentives accordingly instead of allowing firms to endanger stability by chasing impossibly high profit rates.

Any discussion of crisis origins implies that such dynamics should be avoided in the future. Still, some crisis origins might call for clearer statements about what to do in the future. For instance, it is implicit in the book that financial markets deserve regulation and that the financial sector should serve the economy’s and society’s interests rather than developing an adventurous life of its own. How to achieve this will be a crucial issue of future academic and public debates, and this book has certainly made a major contribution into this direction.

Closing this book with its rich and multi-fold analyses, it is difficult to comprehend how European governments could have opted for a crisis strategy that is made up of a generalization of austerity programmes on the one hand and a renovation of the Eurozone according to which countries in financial distress are provided with funds on the other. After all, one can summarize the crisis management by stating that the Northern European governments were able to push through policies to their advantage and to the clear disadvantage of Southern European (and Northern European non-elite) populations (Duwicquetet al., p. 144). On the other hand, this is a little easier to understand from the perspective that different parts in the European Union “think differently”.

With this differentiated contribution, the book goes far beyond the economic realm: it goes to the very grain of the European integration project. Are Northern European governments and their populations willing to be part and to contribute to the formation of a European Union in which there is no competitive gap in comparison with the Southern European countries? Are they willing to withstand high public deficits in Southern Europe for the time these countries need to increase their non-price competitiveness through investments in education, infrastructure and technology, maybe transferring some of these debts to the supranational level? Will Southern European countries be able to convince the North of their trustworthiness in this regard? In times where Grexit and Brexit can by no means be excluded to happen in the near or medium future, this book proves highly timely and helpful to gain a broad and overarching perspective of what is actually going on in the Eurozone and European Union – and, not to be forgotten, in the economic discipline.