



## Erik Jones

Erik Jones is Director of the Bologna Institute for Policy Research and Professor of European Studies ...



## **No four-leaf clover for Europe**

December 2011

The economic crisis is now well into its fourth phase. It started with banking losses coming out of securitized home mortgages and no-longer-so-exotic derivatives like credit default swaps. This spread into financial markets more generally to trigger a sharp slow-down in the real economy of output and employment. Then the costs of bank-bailouts and economic stimulus packages crippled confidence in sovereign debt markets.

These first three phases of the crisis remained entangled throughout as the economic slowdown and falling sovereign bond prices chipped away at banking capital, which further tightened lending and drew down on government resources. As a consequence, politicians had a hard time agreeing on which aspect of the crisis to tackle first – banking solvency, growth and employment, or fiscal consolidation. Even when politicians could set priorities, this only revealed how little they could agree on how to solve any of the underlying problems – let alone the tightly interwoven package of all three.

The fourth phase of the crisis is the political expression of this overlapping disagreement about priority and treatment. This fourth phase started quietly as politicians arrayed competing groups of experts to go toe-to-toe in limited circulation specialist newspapers like the Wall Street Journal and the Financial Times. But it could not be contained within the policy community for long. Soon the mass circulation papers began to form their own positions, pulling the broader public along with them. Wherever politicians failed to make a compelling argument about the priority for action or the best method for proceeding, populists and pundits stepped in to make the case themselves.

The manifestations of public uncertainty and apprehension can be found in the Tea Party movement and the Occupy Wall Street protests. They show up as strikes in Athens and Lisbon or demonstrations in Rome. They lie behind the electoral successes of the Dutch Freedom Party, the Swedish Democrats, and the True Finns. But

they express themselves equally when right wing populists are thrown out of office by the voters in Denmark.



“I’m afraid things have got to get worse before they can get even worse.”

What these things have in common is a plea for clarity and a demand for action. What they reject is the very real prospect that policymakers are both powerless and clueless, that events are spiraling out of control, and that political leaders are hopelessly out of touch.

This fourth phase of the crisis will play out much the same as the three that preceded and run alongside it. The combination of strikes, protests, and electoral contests is going to lead not to catharsis but to paralysis. The indecisiveness will not be purged from the system just because the crowd vents its anger or one or another set of bums gets thrown out. On the contrary, those who come to power in such a context are more likely than ever to hold firm to their convictions, to resist accommodation or compromise, and so to bring decision-making to a halt.

The result will be to amplify controversies even when the choices seem straightforward – as when the US Congress struggled over whether to raise the debt ceiling or when the Slovak parliament balked at ratifying the second Greek bailout.

In turn this fourth phase of the crisis will fold back around and reinforce the problems that emerged in each preceding phase. It will sap confidence from the banking system, create uncertainty around investment prospects, and lower the creditworthiness of sovereign borrowers even further. Indeed, that appears to be where we are now.

The question is how this will evolve. What is certain is that the solution will not present itself. The situation will

not progress to a point where politicians and policymakers suddenly recognize only one way forward that they can agree upon as self-evident. There will not be some overwhelming victory of one-side over another in the debate either. The situation is simply too complex and multifaceted to permit either scenario. That means someone will have to build an effective coalition around a single program out of many possible alternatives in order to create some new sense of order. Others will have to agree to follow that vision as well.

Leadership is obviously crucial to Europe's future. But leaders without followers are just a recipe for more trouble. That is the lesson of the fourth phase of this crisis. It is not enough to have a good technical solution. There is no sense standing on conviction as a point of pride. And there is no use simply waiting for Europe's luck to turn around. Europeans are going to have to work together both internationally and within the member states themselves. There is little evidence this is likely to happen soon. The fourth phase of this crisis still has some way to run.

Erik Jones is Professor of European Studies at the SAIS Bologna Center of the Johns Hopkins University. He specializes in economic and monetary issues.