Chapter 19

Comparing the Crises in Europe and Latin America: Causes, Management, Impact and Consequences

Andrea Ribeiro Hoffmann and Bettina De Souza Guilherme

Abstract This chapter summarizes the findings of the theoretical and analytical chapters, and comparatively assesses the causes of the crises, the crisis management strategies, and their impact in a selection of case studies from the national level – Greece, Portugal and Italy in Europe; and Argentina, Mexico, Brazil and Venezuela in Latin America; and the regional level – the European Union, and regional organizations and regional governance structures in Latin America such as CELAC, Unasur, Mercosur and Alba.

Introduction

This edited volume analyzes the crises in Europe and Latin America, starting from the debt crisis in the 1980s in Latin America and its lost decade, covering the 2008 global financial crisis impact on the European Union (EU), and the resulting lost decade for Europe, and the current crisis in Latin America, which started by 2012. At the theoretical and analytical level, it aimed to understand the causes of these crises, to what extent we can find common systemic causes, and to what extent each region faced (additional) particular processes derived from their local socio-economic specificities and the way they managed the crises both at the

A. Ribeiro Hoffmann (✉)

Pontifical Catholic University of Rio de Janeiro (PUC-Rio), Rio de Janeiro, Brazil

Coordinator of the second phase of the Jean Monnet Network “Crisis-Equity-Democracy for Europe and Latin America”, Rio de Janeiro, Brazil

e-mail: a_ribeiro_hoffmann@puc-rio.br

B. De Souza Guilherme

Founder and Co-coordinator of the Jean Monnet Network “Crisis-Equity-Democracy for Europe and Latin America”, IRELAC, Rio de Janeiro, Brazil

European Parliament, Brussels, Belgium

e-mail: bettina.desouza@europarl.europa.eu

regional and domestic/country levels. Another objective was to address the impact and consequences of the crises, both in their economic and political aspects. In particular, we aimed to understand the relation between the financial crisis and the democratic backlash with the rise of populism and extreme-right movements and parties in Europe and Latin America.

This chapter summarizes the findings of the theoretical and analytical chapters, and comparatively assesses the causes of the crises, the crisis management strategies and their impact in a selection of case studies from the national level (Greece, Portugal and Italy in Europe; and Argentina, Mexico, Brazil and Venezuela in Latin America) and the regional level: the European Union, and regional organizations and regional governance structures in Latin America such as CELAC, Unasur, Mercosur and Alba.

The following chapters draw on these findings and advance policy recommendations about possible ways out of the crises, focusing on measures at the regional level, and political cooperation between the EU and Latin America at the interregional level, especially the EU–CELAC dialogue.

Financial Crises in Global Historical Context: Exploring the Common Systemic Causes of the Current Situation

The authors of this edited volume have come to share the understanding that the financial crises in Europe and Latin America have common systemic causes, even if each region and each country had additional particular local economic and political dynamics. Schulmeister (Chap. 2) and Ghymers (Chap. 3) analyze the systemic causes of the crises in detail. Schulmeister contextualizes historically the current global financial governance structures and traces the origins of the asymmetries and imbalances to the end of the Bretton Woods system and the processes of deregulation in the 1970s/1980s. He argues that this unregulated system has caused a sequence of “bull and bear” markets which led to the global financial crisis of the 1970s, 1980s, the end of 1990s, early 2000s and, in a more radical way, 2008. He also shows that the successions of bull and bear markets shape commodity price dynamics, especially over the past 15 years, when financial investors became increasingly active in commodities’ derivatives trading, and that this has created high levels of volatility. By differentiating between “real capitalism” and “finance capitalism”, and between the US and European models of capitalism, Schulmeister traces the conditions under which financial crises burst and diffuse around the globe.

Ghymers also argues that the current global macroeconomic crisis, the weakening of democracy and, in addition, climate change are all expressions of the incoherence of the present global economic system, which operates on the basis of biased relative prices, relative returns for financial activities which are too high with respect to productive activities, prices for safe assets in the US dollar which are too high, and costs for carbon emissions which are too low. In particular, the use of one

national currency (US dollar) as the main vehicle of international payments (Triffin dilemma) created distortions in the capital flows, with the US economy absorbing the net world savings in a way which impedes the huge resource transfers necessary for financing the energy transition in emerging and developing countries committed in the Paris Agreement.

Guilherme (Chap. 4) and Lins (Chap. 11) discuss further the differences in the position of Europe and Latin America in the global finance system, the interconnections between both regions and the similarities of the patterns of the 2008 crisis with those of the 1980s and 1990s. Lins highlights that the 1980s' Latin American foreign debt crisis reflected the priority of military dictatorships to maintain high levels of growth despite rising inflation in several countries of the region. High liquidity in international financial markets in the wake of the oil crisis ("petro dollars") granted these countries access to credit at initially low—though floating—interest rates, allowing them to postpone necessary reforms and preserve growth. As Schulmeister argues, the effect of the depreciation of the dollar with the oil crisis also raised the attractiveness of debts denominated in dollar. The enlargement of the EC/EU to the Southern countries, Greece, Spain and Portugal, and their rapid membership to the Economic and Monetary Union had been a political decision to stabilize their economies and democracies after coming out of dictatorships. Their economic development, however, was not sufficient to form an Optimum Currency Union, and as a consequence, they became a source of internal imbalances within the European Monetary Union (EMU). Being part of EMU and sharing the Euro directed the inflow of liquidity to Europe's periphery and created major (housing) bubbles. Greece, in particular, was demonstrating growth rates twice the EU average, and for this reason, the EU showed more leniency with its current account deficits and public debts. This boom was (mistakenly) perceived as a sound process of convergence and took from them the pressure to undertake necessary reforms to increase competitiveness and real convergence.

The trigger for the eurocrisis was the announcement of the actual dimension of the public deficit by the Greek Prime Minister Giorgos Papandreou in late 2009. The bursting of housing bubbles, in particular in Spain, the disparity of interest rates and the escape of financial funds to the safe havens such as Germany and the USA, together with the lack of solidarity of the other EMU member-states, deepened the eurocrisis. At the same time, financial funds flew to emerging economies including in Latin America, which supported, together with the countercyclical policies, a jump in their growth rates. The global financial crisis of 2008 supported the rise of the emerging countries with the creation of the BRICS and the G20, which demanded for reforms of the Bretton Woods institutions to represent them more proportionally. The influence of the European Union at the international level diminished correspondingly. The EU was busy with its own problems, and in particular, EMU showed neither unity nor solidarity and struggled with several simultaneous crises at the same time (eurocrisis, foreign political crisis with the Ukraine and the refugee crisis).

Additionally, the fact that the EMU followed the same path and recipes of the Washington Consensus and integrated the International Monetary Fund (IMF)

within its TROIKA, benefiting from its ample experience in crisis management (much of it with little success and high social costs in Latin America), led to the loss of attraction of the EU as a model of regional integration and its social model. Indeed, the EMU crisis countries found themselves in a similar situation as Latin America, without any control over the currency in which their debt had been denominated and suddenly affected by the increase of interest rates which made their debts unsustainable. Additionally, the fiscal framework and its reinforcement and the adjustment programs proved to be largely pro-cyclical, suppressing investment and growth and constraining the functioning of the automatic stabilizers leading to a deepening and prolongation of the crisis with dramatic social and employment consequences in some of the crisis countries. The Eurogroup invited the IMF for its experiences, however, not its experiences and usual praxis of debt restructuring, but mainly its focus on adjustment programs in line with policies of the Washington Consensus. Latin America, likewise, did not receive support on debt restructuring in the 1980s' crisis. The European Social Model was not protected and did not make any difference to the design of the policies which had been implemented in the Latin America, partly under military regimes and partly under political forces supporting neoliberalism. Interestingly, as highlighted by former ECB President Draghi in his farewell speech, the USA did not apply the same kind of Washington Consensus austerity policies after the global financial crisis, but engaged into countercyclical fiscal policies which allowed a quicker recovery and return to price stability than Europe.

Regional and Country-Based Causes and Management of the Crisis

A key difference between the reaction and management of the crisis in Europe and Latin America was the role that regional-level institutions played. Despite all the problems and lack of democratic accountability, which were discussed in several chapters, the European Union had the Eurogroup, an informal intergovernmental coordination body which was actually strengthened during the crisis, and established new mechanisms such as the Banking Union, still ongoing, while most regional organizations in Latin America did not develop any relevant collective mechanism to deal with financial crisis.

Guilherme (Chap. 4), Katsikas (Chap. 5) and Schulmeister (Chap. 6) analyze several aspects of the EU reaction and attempt to manage the crisis. Schulmeister shows how instruments such as the financial transactions tax (FTT), which could have contributed to buffer the negative impact, ended up being rejected by the Commission, which was captured by the interests of big financial players and surplus countries, mainly Germany and France. Katsikas argues that the European EMU was actually the biggest victim of the 2008 global financial crisis given its incomplete nature and lack of supranational mechanism, which led to the creation

of ad hoc intergovernmental political handling of the crisis with the creation of further treaties (Fiscal Compact) and intergovernmental institutions (ESM) outside of the legal framework of the EU and as a consequence, not accountable to EU citizens. The intergovernmental crisis management style favored the rise of the hegemons and the division of Europe in creditor and debtor countries, instead of a strong solidary reaction to the eurocrisis, which could have put the speculation on hold. The lack of solidarity and joint risk-sharing in an EMU, in which member-states have given up their tradition tools to smoothen asymmetric shocks, weakened Europe, the euro and EMU. Additionally, the publically exposed animosity stirred nationalism and populism which will make future solutions to jointly counteract any eurocrisis much more difficult. It legitimized attitudes of an extreme right-wing party which in the past would not have been considered politically acceptable. The rise of this party (the “Alternative für Detschland”, AfD) put a stress on the political predictability of German’s politics. The strategies adopted by the EU ended up leaving the costs of the adjustment to the crisis-hit countries, which had to implement individual bailout programs. The strategy was not anti-cyclical and accentuated the crises especially in countries such as Greece and Italy. Germany prevented an early involvement of the IMF and with it the usual debt restructuring which would have affected their own banking sector but insisted in its involvement once the private (financial market) debts had already been rolled over to the public debts in Greece. Worst, Ghymers (Chap. 22) reminds that the eurosystem then was the only monetary area of the world operating without a Lender-of-Last-Resort (LOLR), giving so to financial markets the power to precipitate non-necessary liquidity crisis in a one-bet speculation in case of doubts on sovereign debts.

Guilherme (Chap. 4) discusses in details what she calls the “double democratic deficit” of the EMU, and how it failed to protect the EU and its citizens from the financial crisis and to manage the crisis in a credible, equitable and democratic way. She argues that a key underlying cause of this failure is the monetarist and neoliberal/ordoliberal approach of the project agreed at Maastricht and vis-a-vis the alternative Werner Plan which had Keynesian and federal elements, such as pointed out by Schulmeister (Chap. 2) when he discusses the design of the global financial system. Guilherme argues that the Maastricht Treaty deliberately eliminated fundamental building stones from the Werner blueprint which would have made EMU more crisis resistant, resilient and allowed a more efficient, equitable and democratic crisis management. The omissions include regulation and supervision of financial markets, monitoring and counteracting of internal imbalances, including policies to support the competitiveness of the weaker economies and regions, stabilization functions such as a euro area budget and a European Monetary Fund and political decision taking institutions which are fully democratically accountable and within the EU legal framework. She shows how the ordo/neoliberal and intergovernmental design of the EMU led to choices made during the crisis by creditor countries, especially Germany, which favored the banks and not crisis-hit countries and EU citizens. Furthermore, the austerity bias of its approach—especially but not only in crisis-hit countries—had negative effects on overall EU growth and a deflationary impact on the rest of the world. On the other hand, there were positive

collective responses at the EU level, such as via EFSI, better known as the Juncker Plan, aimed at stimulating investment in EU countries via an expansion of the role of the European Investment Bank (Griffith-Jones, Chap. 21).

Latin America did not have regional governance institutions to deal with macro-economic and financial matters equivalent to the EU, despite the shortcomings of the latter. Lins and Ribeiro Hoffmann (Chap. 7) show that most Latin American countries dealt with the crisis individually; very few collective initiatives were attempted, such as via the Development Bank of Latin America (CAF) and the Latin American Fund of Reserves (FLAR). Regional integration organizations such as Unasur, Mercosur or ALBA did not have mechanisms to deal with the crisis, and at the multilateral level, the Inter-American Development Bank (IADB) provided important support too.

Impact and Consequences of the Crisis at the Domestic and Regional Levels: Challenges to Equity, Democracy and Regionalism

The impact and consequences of the crisis at the domestic level were analyzed in selected case studies in Europe (Greece, Portugal and Italy) and in Latin America (Brazil, Venezuela, Argentina and Mexico). Katzikas and Bazoti (Chap. 8) analyze the main traits of the Greek politico-economic system and argue that the EU policy program failed to take into account these characteristics and therefore accentuated the negative impact of the crisis on the Greek people. He argues that even if the fiscal balance had been restored, and some progress was done in public administration and regulations, structural problems remain unresolved, and the population still suffers from the decline of GDP and increase of poverty levels. These have fed left- and right-wing populism and anti-EU feelings. Romano (Chap. 10) also explores the domestic structural problems of Italian economic and political system and shows how they have contributed to the lack of resilience when the crisis hit the country following the Greek crisis and the lack of appropriated response at the EU level to that crisis and the risk of contagion. He analyzes the economic and political legacy of the crisis and shows that not only were the social and economic structural problems, such as unemployment, low productivity and high public debt, not resolved, but they also paved the way for populism.

Sandrin (Chap. 14) and Poli (Chap. 15) focus on the political impact of the crisis in Europe and show how most countries saw a surge in polarization, populism and extreme-right movements and parties during this period. Sandrin argues that economic crisis and the “left behind” are not enough to explain the current democratic crisis, and explores the role of identity and effects, and how they have been mobilized by the extreme right against various “others”. Poli discusses the concept sovereignty to make sense of the right-wing populist parties in Europe. She differentiates this concept from nationalism or fascism given the lack of a deep ideological

backing and the vertical collusive relationship between “the people” and “the elite”, instead of focusing only on the external others and/or anti-pluralism. Therefore, sovranist parties such as Golden Dawn in Greece (even though it has remained comparatively small), Alternative for Germany, Brexit Party in the UK, Lega Nord in Italy and Vox in Spain do not develop coherent policies and are normally led by charismatic leaders. Portugal followed different trends as argued by Lehmann (Chap. 9); despite being hit hard by the crisis, populism did not thrive and had a relatively successful economic recovery due to particularities and the capacity of the country’s domestic society to avoid political rupture and a broad informal alliance of the center-left and left, pursuing Keynesian policies.

Despite the differences in timing and the role of the regional level, the impact of the crisis in countries such as Brazil and Venezuela was as drastic as in Europe, especially when considering the political impact. Venezuela has a different trajectory as the country was in crisis for some years before the financial crisis hit the region. As Briceno-Ruiz and Lehmann (Chap. 13) discuss, the problematic economic policies of former President Chavez and his successor Maduro (after Chavez’s death in 2013) increased the vulnerability of the country to external shocks, especially given the overreliance on oil exports. Moreover, their anti-US and anti-Western geopolitical foreign policy led to the rejection of traditional institutions such as the IMF support to handle the crisis. Instead, Venezuela increased cooperation with Russia and China, a country which owns most of its external debt. The socio-economic situation in Venezuela is dramatic with levels of poverty and mass emigration unseen in the region, defined as a humanitarian crisis by the UN Refugee Agency. The political situation is even worse as political repression and lack of an effective opposition have progressively isolated the country.

Brazil has gone through radical changes since 2012–2013. Lins (Chap. 11) analyzes how the government deals with the financial crisis; she shows that by 2008 the Brazilian economy was undergoing a prosperous phase and adopted an expansionary policy under the governments of the Workers’ Party (Partido dos Trabalhadores—PT), to stimulate domestic consumption and investment. When the crisis hit, it continued this approach, and the countercyclical policies were initially successful. By 2011, however, the policy adopted in the USA and Europe reduced capital flows to emerging economies, and in addition, demand for primary goods decreased, as the world economy slowed down. Brazil used taxes to control capital outflows, but by 2013, the political crisis evolved and mass protests hit the streets, and culminated with the impeachment of President Dilma in 2016, as analyzed in detail by Guilherme and Ribeiro Hoffmann (Chap. 12). Former Vice-President Temer assumed the presidency, enforced a neoliberal U-turn in economic policy, initiating the dismantlement of social policies created under the PT governments, which has led to a fast increase of unemployment and poverty. The following elections were marked by polarization and fake news, and led to the election of right-wing President Bolsonaro. The challenges to democracy of his government are explored by Salgado and Sandrin (Chap. 17). They contextualize the Brazilian crisis in the waves of populism in Latin America and argue that the frustration and discontent with the pink-tide governments such as Chavez/Maduro in Venezuela and Lula/Dilma in

Brazil led to increased opposition and popular manifestations and a turn to neoliberal and right-wing governments in most countries. As seen above, Venezuela and Brazil had particularities, Venezuela for the continuity of the radical left government which became increasingly more repressive, and Brazil for the “impeachment” of the more socio-democratic PT governments by initially a neoliberal coalition which paved the way for the election of the extreme-right President Bolsonaro, and what they call the “politics of social antagonism”. In both cases, Venezuela and Brazil exhibit a clear trend of militarization of politics, and the political system is ongoing, with Brazilian government leading in the proportional number of military as Ministers.

The cases of Brazil and Venezuela are complemented by a discussion of Argentina and Mexico by Lins. She argues that such as in the crises of the 1980s and 1990s, the IMF was the main multilateral institution involved in the financial crisis management in Latin America, especially Argentina, but differently from the previous crisis, domestic political choices prevailed over international pressures on crisis management and policy making. Lins’ analyses contribute to the reflection about the different location of Europe and Latin America in the global financial system, and about the similarities of the Latin American crisis in the 1980s and 1990s and the Euro crisis and their interconnections.

Finally, Katsikas (Chap. 16) and Briceño-Ruiz and Ribeiro Hoffmann (Chap. 18) analyze the impact of the crisis and of the way how the regional governance institutions reacted to the crisis on these institutions themselves. Verney and Katsikas (Chap. 16) show how the EU has been criticized for the lack of efficiency and democratic accountability, and how their role was questioned by political parties and the public in general. EU’s image, and trust in the EU, especially in crisis-hit periphery countries decreased dramatically by 2012, and even though they recovered since then, they have remained at lower levels than before the crisis. They raise the risk that future policy failures might undermine the viability of the system as a whole, therefore calling the EU to positive action. And, as pointed out by Sandrin and Poli, the damage to democracy at the national level is not yet reversed.

Briceño-Ruiz and Ribeiro Hoffmann (Chap. 18) discuss the crisis of regionalism and the disintegration of the region, with the abandonment or formal renunciation of the founding treaties of organizations such as Unasur by several countries, and CELAC by Brazil. Countries which have played leadership role fostering regionalism such as Brazil and Venezuela became inward looking since then and adopted more nationalist foreign policies.

Final Remarks

The chapters of this edited volume show that despite the common systemic causes, the timing and nature of the crises in Europe and Latin America following the 2008 financial crash in the USA were and are very different. The Euro crisis hit Europe in 2010, and the existence of the European Union and the Euro made regional level

actors, especially the Eurogroup, the key actors in managing the crisis, despite the legitimacy problems.

Latin America faced severe debt crisis already in the 1980s, following a continuous number of crises prior and since. However, by 2010 most countries were enjoying stability and growth led by among others, external investments and Chinese demand for primary goods; the impact of the crisis began to be felt by 2012–2013. These developments coincided with the decline of commodity and in particular oil prices, and the price pressure from fracking, which had major consequences for the oil-exporting countries. The economic slowdown and rise of inequalities led to discontent, which were expressed in mass protests and the rise of new social movements.

Local specificities at the regional and country level explain the differences of the impact of the financial crisis in Europe and Latin America, including their place in the global financial system, and local social, cultural and political characteristics. Despite these differences, the consequences for European and Latin American societies were equally dramatic, challenging social cohesion and democracy, and contributing to political polarization and the election of populist and extreme-right parties in several countries.

The USA and the UK were not analyzed in this volume, but the election of Donald Trump and of Boris Johnson, implying not just Brexit but likely a hard Brexit, have also to be assessed in light of the management of the 2008 crisis and strengthens the argument of the Jean Monnet Network Crisis-Equity-Democracy for Europe and Latin America that these phenomena are interrelated and have reinforced each other given their common systemic sources, and transnational and inter-regional relations.

Recent events, especially in Chile with its so-called “social explosion” but also in other Latin American and even European countries, show that even in economically successful and politically stable countries, challenges such as a slowdown of growth and an increasingly unequal distribution of income as well as of wealth can produce major tensions in societies. They might lead to significant violence, which can potentially undermine future economic development and contribute to political polarization and instability. Only with more progressive policies, such as those which mitigate inequality—via increased social spending in key sectors such as health and education, as well as increased pensions and salaries for the poorer segments of society, funded by increased taxation on the wealthy, as well as policies that will encourage more dynamic, sustainable and inclusive growth—can such “social explosions” be followed by positive economic and political developments that improve both social coherence as well as democratic legitimacy.

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