

CONCEPTUALISING COMPARATIVE POLITICS

MOMENTS OF TRUTH

The Politics of Financial Crises in
Comparative Perspective

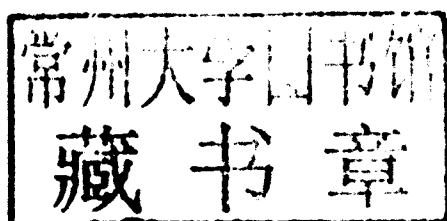
Edited by **Francisco Panizza** and **George Philip**



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“Trying to grasp the implications of financial upheavals since 2008, most commentators have drawn on a narrow range of European and American examples. *Moments of Truth* provides a crucial corrective by widening the range of comparisons. Contributors also offer insightful analyses of each, helping this book provide a much needed perspective not just on financial crises but also on their political and social implications.”

—Craig Calhoun, *Director of the London School of Economics and Political Science*

“Everywhere, politicians, activists and academics are striving to make sense of a global financial and economic crisis. In this empirically rich, methodologically sophisticated and theoretically innovative book, some of the finest international scholars take a step back and ask how we make sense of such crises in the ways we do, why and with what effects. Through a series of highly illuminating case-studies, the book explores the ideas, institutions and actors that define contexts, specify options and shape choices in what is, after all political economy. It is a welcome contribution to debates in international *political* economy, comparative politics and political sociology.”

—Alan Finlayson, *University of East Anglia*

Moments of Truth

The current financial and sovereign debt crisis of the European Union and the United States can be regarded as the most recent of a wave of financial and sovereign debt crises that have affected different regions of the world over the past quarter century. While there is a large and growing body of literature on the economic aspects of financial crises, their political elements remain surprisingly understudied.

Moments of Truth: The Politics of Financial Crises in Comparative Perspective fills this gap in the literature by looking at the political repercussions and policy implications of financial crises in comparative perspective, using case studies in Latin America, Korea, and Russia as well as the contemporary crises in the United States and in key European countries. Contributors to this volume look at the crises as critical junctures that generate high levels of uncertainty while calling for decisive action. The chapters emphasize structural or agency-based explanations and give relevance to the role of ideas, interests, and institutions in explaining different outcomes. The questions addressed by the case studies include how the crises were defined by key actors, the range of political and policy options available to deal with their impact, the role of ideas in policy shifts, how political and economic actors redefine their interests in contexts of uncertainty, how political institutions mediate reactions to the crises, what explains the choice of a certain option over other alternatives, and whether the crisis has (so far) resulted in significant political and policy changes or in incremental adjustments to the status quo.

The first book to comparatively analyze the political dimensions of financial crises across different global regions, *Moments of Truth* will be highly significant for any scholars interested in the contemporary debate on financial crises.

Francisco Panizza is Associate Professor in Latin American Politics at the London School of Economics and Political Science.

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Conceptualising Change in Comparative Politics: Politics, Peoples, and Markets

**Edited by Francisco Panizza (London School of Economics) and
Anthony Peter Spanakos (Montclair State University)**

Conceptualising Comparative Politics: People, Politics, and Markets seeks to bring a distinctive approach to comparative politics by rediscovering the discipline's rich conceptual tradition and inter-disciplinary foundations. It aims to fill out the conceptual framework on which the rest of the subfield draws but to which books only sporadically contribute, and to complement theoretical and conceptual analysis by applying it to deeply explored case studies. The series publishes books that make serious inquiry into fundamental concepts in comparative politics (crisis, legitimacy, credibility, representation, institutions, civil society, reconciliation) through theoretically engaging and empirical deep analysis.

1. Moments of Truth

The Politics of Financial Crises in Comparative Perspective

Edited by Francisco Panizza and George Philip

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Series Foreword

By Anthony Peter Spanakos

On the back cover of a book of cartoons about his travels in the United States, the British cartoonist, Simon Bond, depicted Uncle Sam reclining on a couch while a psychiatrist probing asks ‘So, how long have you thought yourself a Democracy?’ (Bond 1988). Some two and a half decades later, responding to an imminent drying up of US credit markets, Henry Paulson, then Secretary of the Treasury, proposed to the US Congress, in a three-page memorandum, extensive powers for his office, powers which would be insulated from practically any oversight. There was no alternative. But there was. Roughly one week and a half later, the US Congress passed the TARP rescue plan, which did empower the Secretary of the Treasury but through a more democratic process. The move may very well have staved off a financial collapse but, half a decade later, the US economy continues to trundle fairly aimlessly with no clear indication of being able to address the pressures brought on by the Great Recession. Bond’s psychiatrist could very well ask, ‘So, how long have you thought yourself a developed country?’

If crisis challenged democracy and development in the US, it did far more in Europe. Traditional analysis locates the origin of the crisis in the US in 2008 (what of the Chinese government’s lack of discretion in funding US deficits? Hot money fueling housing bubbles throughout the world? Incompatible monetary and fiscal architecture in Europe? Shifts in the creation, translation, and disappearance of jobs in various sectors across the world? Earlier shifts towards financialization of economic policies?), but since then, the European Union has faced tremendous challenges to its very constitutive features—including democracy and development—to say nothing of the common monetary unit, the Euro. The speed with which crisis transformed from something facing the US and its particular variety of capitalism into a problem of profligate ‘swine’ (the peripheral PIGS—Portugal, Ireland, Italy, Greece, and Spain) into a European Union-wide crisis (including even the UK, which opted out of the Euro) was remarkable. The lack of speed in resolution is similarly remarkable. At various points, political leaders and technocrats (whose identity qua political leaders became more clear) echoed the familiar Washington Consensus salvo: ‘there is no alternative.’ But there were alternatives and these are

much more clearly seen in the European cases. While the US alternatives were either largely obscured within policy-making circles—periodically appearing as op-ed pieces in the *New York Times*, or appeared in the form of Tea Party or Occupy Wall Street activism—European countries saw a wider range in alternative proposals from a wider range of political actors.

Earlier crises (Mexico 1982, 1994, Venezuela 1994, Russia 1997–1998, South Korea 1998, Argentina 1999–2002, Uruguay 1999–2001) are instructive as they took place in decidedly certainly less developed (with the possible exception of South Korea) and often less institutionalized democratic regimes (with the exception of Uruguay and possibly Venezuela and Argentina). They also took place at an earlier time with different technologies and rules governing finance. In virtually each of these cases, some politicians and bureaucrats (domestic as well as international) insisted that there was no alternative to their proposals. Yet, Mexico's one-party state is now a multiparty democracy, Venezuela's two-party system was thoroughly discredited, Russia has seen a reversal in terms of political and economic liberalization, South Korea continued to liberalize and deepened its dependence on exports, Argentina defaulted and devalued its currency while remaining democratic, and Uruguay continued to be a stable democracy. Obviously, the conditions each faced were not identical, nor are they identical and, possibly even, comparable with the crises in the US and Europe, but, clearly, there were alternatives. Where there is space for comparison—and this is one of the chief contributions of this volume—is in the notion of what is a crisis and what happens during critical junctures.

Much of the scholarship on the crisis in Europe (or elsewhere) may focus on its causes and resolutions. These questions are very interesting but, as Panizza's introduction states, the chapters herein do not seek to identify causes and solutions—as though such things existed objectively—but why did one crisis narrative win out, why was one group able to silence others in declaring that there is no alternative to its prescription. Implicit in the chapters in this book are the questions: which crisis; what makes it critical; for whom? One could certainly describe any of the moments described in the books as 'critical,' but that would certainly be shorthand for a number of overlapping crises (and noncrises). The authors problematize such shorthand visions of crisis. There is a tendency to *economicize* and, particularly, to *financialize*, the notion of crisis. This is not without reason as all of these crises have occurred alongside major economic downturns, which had profound effects on the ability of the financial sector to function as an intermediary. But crises also involved challenges in the organization of state policy-making capacity, state revenue generation and spending, the organization and activity of various politically active (and inactive) sectors, the perception of how and through what mechanisms society should reconcile its diverse population, and so on. If a crisis was simply a financial crisis which could be solved by injecting liquidity into the financial sector, the authors in this volume suggest, this was not because that was a response to an empirically observable truth. Rather, it was because it was defined as a financial crisis, a product of a struggle of interpretations. It was the result of the hegemony of one particular crisis narrative, a narrative that was favored

and favorable to groups that were better capable of turning their vision into *the* consensual vision.

As the book's title suggests, crises are seen here as moments of truth and, specifically, they are moments of intersubjective truth that is established through public and private contestation that aims to establish the truth about the crisis. Crisis narratives aim to understand what is the crisis, what caused and will cure it (short- and long-term, simple policy tinkering, structural changes, cultural transformations), and how the costs of the crisis and its resolution should be distributed. These narratives are partial as none can truly offer a full account, though few political accounts claim to be partial (this may be easier for scholars to accept than for politicians and citizens). When one account becomes hegemonic (sometimes very quickly, sometimes only after many years), this reflects not only the accuracy of the account but also the nature of power relations and the way that discourse is communicated in political spaces. As the critical junctures literature highlights, political spaces become more porous and flexible during crisis—they are moments in which what is envisionable as a truth expands and during which there may be wide shifts in what might be perceived as desirable. Nevertheless, they do not seem to generate *ex nihilo*, but build on previous ideas, are communicated through extant socio-political structures through actors who, in some form, predate the crisis. Certainly shifts occur within the crisis but, as Carstensen's chapter on the Danish bailout suggests, there is an identifiable linkage between pre- and postcrisis conditions.

Thinking of crises through dueling notions of truth does not mean that crises are reducible to words or that changes in unemployment, purchasing power, the range of political alternatives for citizens, or the amount of security—however defined—experienced by residents of a given political space are empty of empirical content. A political movement responding to a crisis may aim (and succeed) at fundamentally shifting how resident foreign nationals are treated or how citizenship is experienced. Similarly, banks have only so much money and there are limitations to how much a central bank or treasury can issue debt to produce more money (one may contest where the limits are, how much monetization is feasible, morally acceptable, and so on, but there are still limitations, partially because money is a sociocultural phenomenon depending on expectations, promises, symbolism, and enforcement mechanisms) without severe consequences. The latter issue is especially the case for countries with currencies whose value depends on their stock of another country's currency (such as Argentina and Uruguay, or Russia and Venezuela when petroleum prices are low) or is a non-decision-making part of a monetary union (such as Greece and, to a lesser extent, Spain and Italy), but it was also true of the United States in 2008 and, because of the complicated net of intra-European sovereign debt holdings, it was a possible threat for Germany, France, and the United Kingdom.

Crisis narratives are also "real" in that they are understood within the conflict of group interests and through institutional structures. The emphasis on the relationship between the political agency of human beings and the

institutional structure they encounter, aim to change, and which aims to modify their behavior, is a fundamental element in knowing and understanding crises. Rather than abstracting into a definition of crisis that may lend itself to more variable-oriented research, the authors of this book suggest that crises are not only highly contested but also highly contextualized. That is, they are embedded in texts (narratives of different sorts) and contexts (the conclusion contrasts the effects on democracy of different crises in Latin America and Europe, highlighting different time periods, institutional environments, legacies with authoritarianism, extragovernmental actors, and institutions). Again, the aim is not to compare the crises but, through probing the way crises were enacted, interpreted, and experienced in different contexts, the authors examine the tensions within which scholars may understand crises and critical junctures. In so doing, this book exemplifies conceptual, comparative political inquiry and is typical of what this book series aims to offer to the field.

In some ways, the best way to introduce what is meant by “conceptual comparative politics” is to read this book (or forthcoming books in the series) as it *does* conceptual comparative politics, rather than tries to identify conceptual comparative politics as a thing. But, for pragmatic reasons, it is worth briefly explaining what conceptual comparative politics is (see Spanakos and Panizza forthcoming) so that the claim that this is a book that fits in the series is more credible. Conceptual comparative politics aims to recover and update traditions within the field of comparative politics, which draw on other disciplines (political theory, history, sociology, anthropology, economics, literary theory, etc.) to reflect on concepts that are used (rather than specifying a concept for the sole purpose of testing a set of hypotheses) in explaining and understanding deeply contextualized empirical phenomena (rather than somewhat distant and unproblematic data sets). What emerges in the current study is the role of judgment and decision (linking *crisis* to the ancient Greek verb *κρίνω*) of organized political actors in identifying and communicating crisis narratives in institutionalized spaces, made somewhat more permissive and visible at specific moments. The authors are not interested in composing linear explanations with simple causality to explain the crises, cases, and aftermaths. *Crises* and *critical junctures* are not abstractions to be applied but terms that the authors approach after deep reflective engagement with their subjects. None of that engagement leads to the endorsement of a singular hypothesis, but all seem to endorse a broad way of approaching crisis conceptually, methodologically, and empirically. The interpretivist and qualitative orientation of this book is indicative of a particular way of doing conceptual comparative politics (see Schwartz-Shea and Yanow 2012; Brady and Collier 2004). Conceptual comparative politics may also embrace more positivist and quantitative approaches. Such work would similarly probe the concepts that will serve as variables and would recognize that the concepts and theories are intimately connected to the empirical phenomena they study (see Hawkins 2010). The goal is to rethink comparative politics and to open a conversation about how to do comparative politics.

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