Why 2012 is Not 1933: The Sovereign Debt Crisis in Historical Perspective

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INTRODUCTION

It has now been over two years that European leaders have frenetically sought to resolve a sovereign debt crisis that even the most optimistic observers admit threatens the survival of the EURO. Given that the common currency is not only the most significant political achievement of the Maastricht Treaty on European Union, but also the most visible symbol of European cooperation, it is important to ask whether the last two years have marked a resurgence in the type of nationalism that, according to both the official narrative of the European Union and the rhetoric of political leaders, the EU was designed to solve. But many informed commentators have done more than document the manifestations of this nationalist backlash: they have warned that Europe is heading down the same basic path that it did in the 1930s. In this view, the Great Recession has unleashed two political forces that tore the continent apart in the wake of the Great Crash of 1929.

The first is the rise of political parties that tap into public anger with the current political elite, whether they be mainstream politicians, bankers, or Brussels-based bureaucrats, and offer diagnoses and solutions to the crisis through the frame of nationalism. These parties are usually referred to as far right, extreme right, right-wing populist, or radical right, and while their leaders would reject all of these designations they are united in their opposition to both immigration and European integration. To be sure, these parties take on different forms in different national contexts: the True Finns that emerged in opposition to the bailouts and proffer a muted version of xenophobia are a far cry from the Movement for a Better Hungary (Jobbik) whose members don paramilitary garb and chant slogans from the fascist Arrow Cross movement of the interwar period. Put another way, some parties openly embrace the fascist past (although these are certainly in the minority) while others reject it outright or seek to distance themselves as far from it as possible. Yet whatever form they take, according to the dominant narrative
of the Eurozone crisis these parties have flourished and their success threatens to unravel European integration at the minimum, and to undermine democracy at the maximum. To take only one example, in a column titled “Depression and Democracy” Paul Krugman writes that “democratic values are under siege” and warns that “ominous political trends shouldn’t be dismissed just because there’s no Hitler in sight.”

Though analysts may disagree on the degree of danger to both European integration and democracy itself, most would probably agree with the spirit of Krugman’s claim that “nobody familiar with Europe’s history can look at this resurgence of hostility without feeling a shiver.” Indeed, if German Chancellor Angela Merkel equates the Euro with the EU, and the EU with peace, it is not too large a leap in logic to conclude, along with Krugman, “that the breakup of the euro may be the least of [her] worries.”

The second is a resurgent, self-confident Germany that is seeking to free itself from its multilateral reflexes and to forcefully articulate and defend its national interests. While comparisons between Merkel and Hitler have been mostly confined to Greek protestors, a number of well-informed observers have argued that we are witnessing a historic rupture in German behavior with dire consequences for the rest of Europe. Among the volumes of criticism, three points stand out. First, Germany has failed to speak with a single voice in crafting policies to ameliorate the Eurozone crisis. Divisions between Merkel and Finance Minister Wolfgang Schaüble, squabbles between the Bundesbank and the coalition, and dissonance within the ruling coalition itself are all making German foreign policy on the issue “unberechenbar” (unpredictable) according to former Chancellor Helmut Kohl. In other words, the domestic political consensus that undergirded Germany’s successful strategy of integrating itself into international institutions has fractured beyond repair. Second, Germany has abandoned its unwavering commitment to supranationalism and become both more nationalistic and Euroskeptic. Gone are the days, so the argument goes, when Germany would willingly sacrifice its own national

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interests in the service of European integration. Whether this newfound nationalism is a product of generational change, fading memories of WWII, or the myopia of contemporary politicians, the implication is that a gulf has opened between Germany’s self-interest and its commitment to the European project. The third point is that the combination of German policy divisions, or preference instability (Newman 2012), and retreat from multilateralism have led it to take decisions that have made the sovereign debt crisis worse than it had to be.²

This is hardly the first time that unsettling events in Germany and Europe have been interpreted through the lens of the interwar period, and it is a relatively easy exercise to point out the profound differences between the two historical epochs. Yet given the number of serious observers who see at least echoes of the 1930s in the current crisis, it is worth taking this analogy seriously. This is especially true since the conventional wisdom is that the crisis has redounded to the benefit of radical right parties and that Germany is less willing to support the European project at any point since the signing of the Treaty of Rome in 1957.

In this essay, I argue that both of these views are flawed. Radical right parties have been part of the European party landscape for nearly of a quarter of a century, so to view them as a response to the current crisis is simply wrong. Moreover, while the rise of parties like the True Finns and Jobbik give the impression that the radical right has benefitted from the crisis, this is not the case when one looks across the whole of Europe. In the aggregate, radical right parties have either trod water or stagnated over the past four years. This is because the dominance of economic issues in domestic elections has overshadowed the cultural issues that radical right parties profit from. So while these parties undeniably benefit from the anti-establishment mood across Europe, this is counteracted by their inability to

² The titles of some recent articles on the German response the financial crisis are revealing: “The European Sovereign Debt Crisis: Is Germany to Blame? (Young and Semmler, 2011); “Why Germany Fell Out of Love With Europe (Proissi, 2011?); “Merkel’s Folly (Jones, 2010); “Flight From Risk: Unified Germany and the Role of Beliefs in the European Response to the Financial Crisis” (Newman 2010).
address the core economic concerns of their electorate. At the end of the day, French workers may be sympathetic to the xenophobia of the National Front but do not want Marine Le Pen to be in charge of managing the economy at such a critical juncture.

On the second point, I argue that the notion that Germany has changed fundamentally is based on a reading of Germany’s past monetary relationship toward Europe that it difficult to square with the historical record. While a cross-party political consensus on the virtues of supranationalism and the vices of the aggressive pursuit of national interest may be a relatively accurate description of Germany’s general orientation toward the European Union, particularly its positions on security issues (Banchoff 1999; Katzenstein 1997), it is worth reminding ourselves of Germany’s behavior during some key junctures in the history of European monetary integration. Whether one looks at the debate about the Werner report that laid the basis for EMU, at bargaining over the Maastricht Treaty that brought EMU about, or to the creation of the Stability and Growth Pact that Germany pushed for and famously violated, one sees a Germany in which contradictory positions were publicly aired and fiercely defended. During these critical junctures in European Integration, the outcome of bargaining between European governments and supranational entities reflected an amalgamation of German preferences. In short, Germany has always gotten its way on monetary issues, even when there was strong initial division over the best course of action. This rather than viewing Germany’s response to the sovereign debt crisis as a break with the past, it is better viewed in terms of general continuity with past behavior.

If one wants to use historical analogies to understand the current crisis, I contend that the 1930s is not the place to look. Rather, it is the 1970s that offers a much more fitting lens. Like today, international financial imbalances and a series of exogenous shocks in the Middle East wreaked havoc on domestic economies. The inability of the state to manage the demands of business and labor as it had throughout the previous three decades led to the perception among both voters and academics
that parts of Europe had become “ungovernable.” Efforts at European integration appeared to flounder on the shoals of domestic interests, and all the achievements of the past two decades looked as if they would be reversed. The European project, in short, looked dead.

And yet it was the 1970s that set the stage for the famous “relaunch” of the 1980s that transformed the EU from essentially a customs union and agricultural support scheme for French farmers into the structure—warts and all—it is today. The lessons of the 1970s was not that economic integration was impossible, but that it was essential in a post-Bretton woods world in which even countries as important as France, as Francois Mitterrand would famously learn, had lost the freedom to manage their economies as they saw fit. The answer for all European leaders (with the exception of Thatcher) to the problem of mobile capital and floating exchange rates was more, rather than less, Europe. At the same time, slowly and almost imperceptibly some EU institutions, such as the European Court of Justice (ECJ), massively expanded their competencies during chaos of the 1970s and would become important motors of integration later on. It is not a stretch to see the same dynamics playing out in the current crisis: new institutions have been created and old institutions (the ECB in particular) have acquired new powers. Instead of “dithering” and playing for time, politicians (and Angela Merkel in particular) have in fact moved Europe toward joint economic governance at breathtaking speed.

The Neofascist Fallacy

Since they first began winning sizable vote shares in national elections in the 1980s, radical right parties have been likened to fascist movements of the past. Part of this was a conscious strategy by mainstream parties to delegitimize them in the eyes of voters, but the chorus of commentators who viewed the contemporary radical right as the second coming of fascism has always been loud enough to influence academic observers, politicians, and ordinary citizens. In this sense, there is nothing new about
Krugman’s warnings about parties like Jobbik. While most of the army of scholars who study radical right parties would resist such easy comparisons, the findings from this burgeoning research area have unfortunately done little to counteract the tendency of others to do so.

To draw out the fundamental differences between fascist movements and contemporary radical right parties, it is necessary to define each in turn. This is unfortunately not a straightforward enterprise, as definitional debates have a long lineage in the literature on both topics.³

I define radical right parties as those parties that view ethnic differences as basic, immutable, and potentially destructive features of political life and that take positions on these issues that place them to the right of their mainstream conservative competitors. This concern with the cultural dimension of politics—at the expense, I will argue later, of the economic dimension—has led radical right parties in Western Europe to adopt positions on immigration that are stricter than any other political party in their respective countries. It is worth remembering that the cultural cleavage in West European politics is primarily manifested in questions relating to national identity, as opposed to the United States—and arguably also some states in Central and Eastern Europe—where issues like abortion, gay rights, and gun control are particularly salient and divisive. Radical right parties are thus reacting to the general political environment in their respective countries when they try and tap into a pool of voters that harbor strong suspicions of, or outright hostility to, both those foreigners already living inside the country and those who could potentially join them. Radical right parties seek to win votes on other issues beside immigration, but as a rule most of their votes come from people who would define themselves as being nationalistic and who consider immigration to be threatening.

³ For the definitional debate on the radical right, see Mudde 1996. The debate over the nature of fascism is so extensive that even a few references would not help readers chart the terrain, but a good place to begin is the discussion in the last chapter of Paxton 2004.
Before turning to fascist movements, it is necessary to say a few words about why and when the radical right emerged in Western Europe. There is a scholarly consensus on at least two important reasons. The first, and most obvious one, is that immigration has transformed the structure of many European societies. Before the 1970s, most Western European countries were ethnically homogenous. But a combination of state policies to attract foreign workers to address domestic labor shortages, repeated waves of asylum seekers, and the growing ability of illegal immigrants to reach what they see as an economic promised land changed this. The dynamics of this process varied across countries, but nearly all Western European states have become multiethnic to some extent. Norway is on the lower end of the spectrum, with a non-native population of around 10%. Switzerland, the home of the far right Swiss People’s Party that won 26.6% percent in the most recent elections, possesses a foreign population of over 20%.

The second reason behind the emergence of far right parties is less intuitive, but no less important, and has to do with the transformation of European party politics. Up until the 1980s, elections in most European countries were predictable affairs. The major leftwing (usually socialist, but sometimes communist) political party captured the vote of most workers, and the major rightwing party (often Christian Democratic) gathered most churchgoers and property owners. But the transformation of European economies from manufacturing to services has eroded the power of labor unions (it is much easier to organize autoworkers at the same plant than hairdressers spread around the country) and with it the electoral power of the left. At the same time, the secularization of European societies means that the right can no longer count on the votes of churchgoers. These twin processes have produced a new group of “floating voters” that are available for mobilization by new political parties. The radical right, with its anti-immigrant and populist message, has profited the most from this process of electoral dealignment.
Scholars of fascism—many of whom are historians— are no less familiar with definitional debates than the political scientists, sociologists, and anthropologists that study radical right parties. Since it would be impossible to outline this debate in a single paper, I will concentrate on the few points of consensus rather than on the numerable ones of major disagreement. Fascist parties were many things, but all of them that subscribed to a fascist ideology that was anti-democratic, ultranationalist, and paramilitaristic (Mann 2004). The major differences between the Italian and German variants of fascism—of which positions on race were clearly the most important—demonstrate that fascist movements were not identical and that one could construct subcategories. But the point is that all fascist parties were sworn enemies of parliamentary democracy, sought to defend their nation (however defined) from what they perceived to be internal and external threats, and organized coercion outside the rules of the state in order to achieve their objectives.

Having tried to define both radical right and fascism, we can now ask to what extent the former represents a return of the latter. Given the rhetorical power of the fascist moniker in many West European countries, it is not difficult to explain why many mainstream politicians of both left and right (in addition to the more vocal ones within parties like the Greens or the far left) tried to draw parallels between radical right parties and fascist movements. One could say that the media was particularly interested in inviting its readers to draw links between the fascist past and the present: newspapers and weeklies in Austria sometimes juxtaposed pictures of Jörg Haider, the late leader of the radical right Austrian Freedom Party (FPÖ), and Adolf Hitler. Such provocative invocations of the Nazi past should not be simply viewed as attempts to increase sales (though that was most likely a calculation as well): Haider and other leaders of radical right parties have often either outright adopted or flirted with positions on the fascist past that could be described as apologetic or revisionist for political gain (Art 2006; 2011). Many radical right leaders were thus at least partly complicit in perpetuating the view that they were attempting to regenerate fascism.
But the academic case for the thesis that radical right parties represented a revival of fascism (or that they contained core elements of fascism in some sort of neofascist synthesis) was never strong, for two primary reasons. First, it is difficult to claim that contemporary radical right parties are anti-democratic. They may offer critiques of some features of contemporary democratic politics, but they are not challenging the principles of liberal democracy in general as fascist movements from the interwar period universally did. We should remember that democracy was both new and fragile throughout Central and Eastern Europe in the interwar period, and that most of the new democracies created after the Treaty of Versailles were well on their way to breaking down before fascist movements within them, or from the outside, ultimately extinguished them. Put another way, fascist movements flourished in places where democratic institutions were new and untested, where there was significant resistance to democracy among important sectors of the population, and in a time when there were other movements—of which the communists were no doubt the most important---that were also sworn enemies of parliamentary democracy. These conditions clearly did not pertain in the West Europe of the 1980s and 1990s, the period during which the radical right emerged.

Second, radical right parties do not engage in paramilitary activity. Despite the fact that members of Jobbik may dress the part, they do not engage in violence against their political competitors as the fascist movements of the past universally did. The most successful radical right parties have sought to distance themselves from the sorts of activists who are liable to commit violence against leftists groups and immigrants. To be sure, the boundary between parliamentary radical right parties and a right-wing extremist (or Neo-Nazi) subculture is often blurry, and radical right parties often struggle to keep the extremists out. But it is no accident that the most successful radical right parties are those that have banned activists with extremist pasts from joining their parties in the first place, or ejecting them if they continue to behave in ways that damage the parties’ reputation among the
electorate. More broadly, we can say that those radical right parties that have most resembled the fascist parties of the past have done poorly at the polls (Golder 2003; Carter 2005).

What is one to make, then, of Anders Breivik and the cell of neo-Nazi serial murderers in Germany? Do not the violent propensities of individuals within the right-wing extremist subculture represent a threat to public order? I would answer that they do, but that we should not exaggerate the extent of the threat. We should remember that the Norwegian massacre is really an exceptional event: in the entire postwar period, there has not been a similar tragedy that comes close to it in terms of deaths. Germany is also an exceptional case in that the right-wing extremist scene in it has been unusually violent when compared to its counterparts in other countries. And while it is of course tragic that nearly 100 people have been killed by right-wing extremists in Germany since 1990, one could probably find a similar rate of racially motivated murders in the United States.

Breivik and the neo-Nazi serial murderers also represent cases in which domestic security services dramatically failed to protect their populations from individuals that they were monitoring. It is dispiriting to read how incompetence, turf battles between various agencies, poor decision making at crucial points in the investigation, and simple bad luck prevented the Germans from capturing a cell they had been closely monitoring for years. But their record before this episode was actually quite good. This was revealed in 2001 in the attempt to ban the radical right German National Party (NPD) on the grounds that it was a threat to democracy. The case against the party was ultimately thrown out because so much of the testimony gathered against the party was provided by paid informants of the German interior ministry. In general, one can say that the German state has kept extremely close tabs on the right-wing extremist scene and has succeeded in penetrating it. Other states have perhaps been less vigilant than Germany on this front, but it is difficult to claim (as some critics often do) that
governments have trivialized the threat of right-wing extremists and have not devoted resources to monitoring it.

To summarize, it is clear that on two fundamental points fascist movements and contemporary radical right parties and the fascist movements of the past occupy radically different positions: radical right parties are not paramilitary organizations, nor are they open enemies of parliamentary democracy. The differences between fascist and radical right movements when it comes nationalism are less dramatic, yet still important. Both types are nationalist (or even ultranationalist), but while fascist parties of the past generally bought into the pseudo-science of Social Darwinism and eugenics and made clear distinctions about the worth of various ethnic groups, radical right parties have largely rejected this form of biological racism in favor of ethnopluralism. This is a set of ideas, developed in large part by members of the French Nouvelle Droite, that posits that ethnic groups are all equally valuable but that mixing them in the same polity leads inevitably to major political, social, and economic problems. Radical right parties thus appeal to the immigration skeptics among their population, a group that vastly outnumbers the hard core of inveterate racists (Rydgren 2008). One can debate whether ethnopluralism is simply a convenient cover for crude racism, but the fact is that all successful radical right parties have embraced it rather than the racial ideology of the fascists. While it is possible that Jobbik may come to represent a case of an unreconstructed far right party consolidating itself in a national party system, it is important to remember that such an outcome would make the Hungarian case a clear outlier in this respect.

A Populist Backlash?

To what extent has the radical right benefitted from the Great Recession and the Sovereign Debt Crisis? The causal newspaper reader could be forgiven for concluding that the radical right has been the primary outlet for massive frustration with political elites across Europe, growing resistance to
immigration as welfare states are squeezed and domestic unemployment rates, and stratospheric levels of Euroskepticism.

The problem with this view is that similar analyses have appeared, in wavelike fashion, over the last several decades. It has now been over a quarter of a century since the French Front National first won representation in both national and European parliaments. This turned out to be a harbinger of a surge in radical right electoral success that began in the mid 1990s and has basically continued since. Since this period, journalistic accounts of the radical right have routinely used a particular election or event to paint a picture of a rising tide of radical right populism when the historical record demonstrates that most radical right parties—and nearly all of the successful ones—have been relatively stable over the past two decades.

Table one presents the results of national parliamentary elections from seven of the most important radical right parties in Western Europe since 1992. It is worth noting that the electoral averages for these parties (last column) in most cases fall about midway between their best and worst performances over these twenty years. This is not surprising, as most parties of these parties have fluctuated within relatively narrow bands. If one to remove a couple of elections that render the variation greater, such as the 2002 elections in Austria when the FPÖ fractured in the middle of the election campaign, the bands would appear to be even narrower (as they would be if one also removed the 1992 score for the Norwegian Progress Party). The data are thus consistent with the view that radical right parties have not exploded onto the political scene recently but have instead secured more or less the same level of electoral support for two decades.
TABLE 1: The Performance of Major Radical Right Parties in National Parliamentary Elections Since 1992

<table>
<thead>
<tr>
<th>Country</th>
<th>Party</th>
<th>Low Score (year)</th>
<th>High Score (year)</th>
<th>Average (# of elections)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>FPÖ</td>
<td>10% (2002)</td>
<td>26.9% (1999)</td>
<td>18.3% (6)</td>
</tr>
<tr>
<td>Belgium</td>
<td>VB</td>
<td>7.8% (1995)</td>
<td>12% (2007)</td>
<td>10.3% (4)</td>
</tr>
<tr>
<td>Denmark</td>
<td>DF</td>
<td>7.4% (1998)</td>
<td>13.8% (2007)</td>
<td>11.7% (5)</td>
</tr>
<tr>
<td>France</td>
<td>FN</td>
<td>13.8% (1993)</td>
<td>4.3% (2007)</td>
<td>11.1% (4)</td>
</tr>
<tr>
<td>Italy</td>
<td>LN</td>
<td>3.9% (2001)</td>
<td>10.1% (1996)</td>
<td>7.25% (6)</td>
</tr>
<tr>
<td>Norway</td>
<td>FrP</td>
<td>6.3% (1993)</td>
<td>22.9% (2009)</td>
<td>16.2% (5)</td>
</tr>
<tr>
<td>Switzerland</td>
<td>SVP</td>
<td>14.9% (1995)</td>
<td>28.9% (2007)</td>
<td>23.3% (4)</td>
</tr>
</tbody>
</table>

Indeed, one could claim that radical right parties have actually been less volatile and better able to repeatedly mobilize their core constituencies than mainstream ones. These parties are not simply protest movements, a hypothesis that many scholars held in the late 1980s and 1990s, and that many observers continue to repeat today. Yet all of our evidence indicates that once someone casts a vote for a radical right party, they are likely to continue voting for it. The data are most complete for the French case (insert reference), but there is no reason to believe that radical right voters in other countries are less loyal than their French counterparts.

Table two provides evidence against the conventional wisdom that radical right parties have been the prime beneficiaries of the financial crisis. Most parties have seen their electoral scores stay basically the same or fall a bit after September 2008. Opinion polls suggest that the Austrian FPÖ would
receive more votes now than it did in 2008, but this is certainly in part attributable to the collapse of its principal competitor for the far right vote (the BZÖ). The French case also needs to be contextualized. In 2007, Jean Marie Le Pen had his worst showing in a presidential contest since 1988, so his daughter Marine’s tally of 17.9% in 2012 looks dramatic in comparison. But we must remember that Le Pen famously made it to the second round in 2002 (thereby ending the political career of the Socialist Lionel Jospin who finished behind Le Pen and the eventual winner Jacques Chirac), and that the FN scores have been remarkably consistent (indeed more consistent than the 1st round presidential scores of any other French party) since 1988.

Table 2: Before and After the Onset of the Financial Crisis

<table>
<thead>
<tr>
<th>Party</th>
<th>Last Election Before 9/2008</th>
<th>Latest Parliamentary Election or Public Opinion Poll* (date)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austrian Freedom Party (FPÖ)</td>
<td>17.5% (2008)</td>
<td>24%* (2/6/12) opinion poll</td>
</tr>
<tr>
<td>Danish People’s Party (DF)</td>
<td>13.9% (2007)</td>
<td>12.3% (2011)</td>
</tr>
<tr>
<td>Flemish Interests (VB)</td>
<td>12% (2007)</td>
<td>7.8% (2010)</td>
</tr>
<tr>
<td>Northern League (LN)</td>
<td>8.3% (2008)</td>
<td>2.6% (2012)* municipal elections</td>
</tr>
<tr>
<td>Progress Party (FrP)</td>
<td>22.1% (2005)</td>
<td>22.9% (2009)</td>
</tr>
<tr>
<td>Swiss People’s Party (SVP)</td>
<td>28.9% (2007)</td>
<td>26.6% (2011)</td>
</tr>
</tbody>
</table>
Table 3: The Front National in Presidential Elections since 1986

<table>
<thead>
<tr>
<th>Year (or date of Poll)</th>
<th>Percent in 1st Round</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>14.4%</td>
</tr>
<tr>
<td>1995</td>
<td>15.0%</td>
</tr>
<tr>
<td>2002</td>
<td>16.9%</td>
</tr>
<tr>
<td>2007</td>
<td>10.44%</td>
</tr>
<tr>
<td>2012</td>
<td>17.9%</td>
</tr>
</tbody>
</table>

Such simple comparisons of elections before the beginning of the Financial Crisis obviously cannot get at questions of causality: there are too many possible variables to consider for any party and for any single election to make running even a more advanced version of this exercise worthwhile. Yet if radical right parties were profiting from rising levels of extremism, Euroskepticism, etc…, then we should at least expect to see some uptick in their electoral fortunes. The only clear case of radical right parties benefitting from the financial crisis is the True Finns.

So why has the radical right not done better? To think about this question, consider the reasons that they are supposed to be doing well. As longtime opponents of the European Union (though their record is not entirely consistent on this score: see Mudde 2007), they should capitalize on public resistance to bailouts and general disillusionment with the common currency. As the parties best positioned to capitalize on the politics of resentment (Betz 1993), the current political climate could not be more favorable to them. Scapegoating of immigrants probably rises during periods of economic crisis (although the empirical evidence for this relationship is not overwhelming), so their “issue ownership” of questions relating to immigration and national identity more generally should help them during this period.
But there is an alternative logic that is compelling theoretically and may even be playing out empirically. This view holds that the success of the radical right is due primarily to its ability to capitalize on salient cultural issues. Voters are attracted to radical right parties primarily because of their positions on immigration (they want less of it), national identity (they consider it to be under threat), and resentments toward out of touch political elites (as in the United States, populists in Europe like to target political correctness and out of touch elites). While radical right parties do have positions on economic issues, these tend to be less developed and less important to their core message (Mudde 2007). They do not maintain “issue ownership” in the economic dimension as they do in the cultural one, in large part because it is difficult to offer emotional appeals over technical and complex issues like trade policy, the regulation of financial markets, and the pros and cons of creating a lender of last resort for the European Union. In this sense, the dominance of economic issues across Europe since 2008 has not allowed radical right parties to play to their strengths. It may also be that many would-be radical right voters simply do not trust their preferred parties to make good decisions on economic issues. Since much of the radical right electorate is similar in social profile to that of traditional working class parties, some voters may have temporarily returned to Social Democratic or Labor parties (although not in large enough numbers to help most of them mount a serious challenge to conservative incumbents).

A Threat to Democracy?

Since radical right parties are not fascist, the specter of the 1930s is a misleading frame for interpreting the present crisis. And since they have been part of European party politics for a quarter century and have held government office in multiple states, the argument that they are now suddenly threatening to make Europe ungovernable, to erode the quality of democracy, or to otherwise radically reshape existing political orders is difficult to defend.
It is also important to note some common pathologies within radical right parties that have repeatedly stymied their efforts to implement their program. For one, they often have a great deal of trouble finding competent candidates for public office. They are often reliant on people with no political experience, and with no interest in learning the finer points of parliamentary procedure. It is thus not surprising that many radical right parties have collapsed under the pressure of holding public office.

Organizationally, many radical right parties are basket cases in which bitter internal fights produce constant defections and breakaway parties. To those who have observed these parties closely over the years, it often seems as if factions within radical right parties are more hostile toward one another than to they are toward the mainstream parties they routinely denounce. What all this means is that radical right parties are often much weaker than their electoral tallies might indicate. The history of the European radical right is littered with examples like the List Pim Fortuyn, a party that won 17% in 2002 and entered into a coalition government but whose serial incompetence and factionalism led to its implosion after less than nine months in office.

None of this means that the radical right is not an important player in European party politics. A full accounting of how the radical right has mattered in European politics would look at its influence in the following areas: immigration policy (Williams 2006; Van Spanje 2010); citizenship policy (Howard 2009); effects on national party systems (Bale 2003); and European Integration (Berezin 2009). Their effects can no longer be described as indirect—meaning that they merely put items on the political agenda or force mainstream parties to adopt elements of their program: radical right parties have now been members of national coalition governments in five Western European states (Austria, Denmark, Italy, the Netherlands, Norway, and Switzerland) and have therefore had the power to influence legislation in those issue areas they care most about. Yet even in countries in which they have the most scope for crafting policy, one would be hard pressed to find examples of their legislative outputs that approach their radical discourse.
Before moving onto the supposed rise of nationalism in Germany in particular, it is important to recognize the enormous variation in the success of radical right parties across Europe. Some countries (Germany, the United Kingdom, Sweden) have been relatively immune to the radical right challenge, while others (Austria, Denmark, Italy) have not. There are many different explanations for this divergence, but the key point is that such diversity in the radical right landscape exists and, contrary to the view one normally gets from the media and from many pundits, radical right parties are not on the march across the continent. While European societies all face the same basic structural transformations stemming from immigration, globalization, and (at least for most) European integration, they divergent fates of radical right parties reminds us that they can still respond very differently to them.

**Germany and EMU: The Defenders of Ordoliberalism**

It has become commonplace to charge that Germany is forcing a neoliberal austerity program on the rest of Europe. In this reading, Angela Merkel appears like the second-coming of Margaret Thatcher: her adamant refusal to raise German contributions in order to defend the Euro won her the nickname “Madame No.” Like the moniker “Iron Lady,” this was meant as a complement, at least by many domestic observers. Merkel’s decision to involve the IMF in the sovereign debt crisis also adds ammunition to those who see a neoliberal ideology at work in her policy responses.

But those who follow German politics know that Merkel is just the latest German Chancellor to both hew to the broad outlines of ordoliberalism, and to be constrained by forces within the country that view themselves as the defenders of this economic paradigm. Here is not the place to explain why ordoliberalism became hegemonic in Germany, nor to examine the specifics of the theory.\(^4\) Suffice to say that there are some key differences between the neoliberalism of Margaret Thatcher and the

\(^4\) For an excellent treatment of these issues, see Allen 1989.
ordoliberal view that prevails among German academic economists and politicians from the CDU/CSU, the FDP, and even those from the SPD and the Greens.

It is not difficult to demonstrate that when it comes to Germany’s economic policies—and positions on monetary union are particularly relevant here—no German leader has ever seriously sacrificed ordoliberal principles for the greater good of building European solidarity. While it is true that the defenders of ordoliberal orthodoxy have periodically claimed that German Chancellors have done exactly that, a thumbnail sketch of the major steps toward EMU suggest otherwise.

Monetary integration was a tangential issue in the bargaining that produced the Treaty of Rome, and a serious discussion about EMU did not begin until the late 1960s when the collapsing Bretton Woods system lead both Germany and France to think about a European alternative to the dollar peg. The two states clearly had different reasons. France was concerned that Europe was turning into a defacto D-mark zone in which Germany, because of the size of its economy and stability of its currency, would increasingly dictate French monetary policy. In his memoirs, former Foreign Minister Michel Debré noted that “In November 1968, the strength of the Mark permitted Germany for the first time to speak with a very loud voice. This strength ensured it of the economic supremacy that made it the master of Europe for a very long time.”5 As this quote, and many others like it, reveals, arguments about a reassertive Germany have a long lineage in the politics of European integration.

The Germans, for their part, were becoming increasingly worried that the United States was importing inflation—the chief evil to be avoided, according to ordoliberal doctrine—to their country. As an export-driven economy, moreover, German firms were in favor of avoiding the wild swings in currencies that were both a symptom of the collapse of Bretton Woods and a harbinger of the turmoil

5 Quoted in Marsh, p. 56 (emphasis added).
that would follow its demise. Neither the German nor French interests in monetary integration have changed fundamentally over the course of the last four decades.

The first serious attempt to outline a roadmap for EMU revealed the gap between the French and German approaches to the issue. The Werner Report of 1970 is now best remembered for two things: 1) instilling a three-step approach toward EMU into the cognitive schemas of the policy-makers that designed the Maastricht Treaty two decades later and 2) exposing the rift between the “economist” and “monetarist” approach to monetary integration. The choice of terms is somewhat confusing, as the monetarists had little in common with the monetarist paradigm that underpinned Thatcher’s economic policy, and the adjective economist is too vague to be of much help. In a nutshell, the monetarists argued that West European economies would need to converge around a core set of economic indicators before monetary union could be achieved. This was also termed the “coronation” approach to EMU. The economists reversed the sequencing, arguing that monetary integration would inevitably lead to convergence and could thus begin before states had coordinated their fiscal policies and achieved similar levels of inflation, public debt, and other economic indicators.

The French, Italians, and Belgians pushed for monetary union before convergence. The literature explaining this position is vast, but two points stand out. First, these were all “soft currency” countries that were unwilling to sacrifice expansionary fiscal policy at the altar of ordoliberalism. Second, French politicians in particular were eager to address the asymmetries following from D-mark dominance as quickly as possible, rather than engaging in what would be painful restructuring of their domestic economies in return for the possibility—but not a promise—of monetary union. The Germans took the opposite position and were the primary proponents of coronation theory (although the Dutch, who had long since recognized that the German juggernaut gave them precisely zero choice in setting their own interest rates, supported this position as well).
There is some debate about whether the Germans—and particularly the most orthodox defenders of ordoliberalism in the Bundesbank and in the economics profession—were ever serious about “coronation theory,” or whether they considered it a convenient way of raising the hurdles to monetary union to such heights that the French would drop the idea entirely. What one can say is that Chancellor Willy Brandt and Economics Minister Karl Schiller adopted the hardline negotiating position of the Bundesbank. Brandt’s instructions to Schiller immediately following the publication of the Werner Report in October of 1970 make it clear that even a Socialist politician—and one with little expertise in economic affairs—believed that any future monetary union should be constructed primarily on German terms. “We should be careful to stamp our hallmark on future work to implement the Werner report in Europe. This offers the best guarantee that, throughout the Community, our monetary views prevail in the widest possible fashion.”

In any event, the Werner report led to very little in the short term. Importantly for the argument of this paper, there is no evidence that the Germans ever considered deviating from their core position on EMU in order to further other goals, even something as important as Brandt’s signature policy of Ostpolitik. The Bundesbank succeeded in framing its position toward EMU and drawing a line in the sand for politicians that would try and deviate from it.

Here the attempt of Chancellor Helmut Schmidt to design a “symmetric” European Monetary System (EMS) is instructive. Unlike Brandt, Schmidt was trained in economics and confident in his ability to master the technical intricacies of exchange-rate coordination. Although he was in basic agreement with the tenets of ordoliberalism, Schmidt became convinced that monetary integration needed to be accelerated and came to view the hard-line ordoliberal coalition as an unacceptable hurdle in this effort. Certainly, Schmidt’s contrarian nature and self-confidence were factors that helped direct him on a

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6 Quoted in Marsh, p. 61.
collision course with the Bundesbank. Yet a politician as perceptive as Schmidt would never have risked a confrontation with the defenders of ordoliberalism had he not believed that changes in the international economy required such a move. With the failure of the Snake and the collapsing value of the dollar—a development that Schmidt attributed to US President Jimmy Carter’s ignorance of economics—Schmidt decided that German industry required “a major step toward monetary union.” His argument that the rising value of the Mark would decrease German competitiveness and lead to more job loss resonated with representatives of both German industry and the trade unions. French President Giscard d’Estaing, like his predecessor George Pompidou, was open to any change in German monetary policy that would address the enduring problem of asymmetry that the Snake had failed to do. Knowing that a German offer of a “symmetric” exchange-rate system would draw a furious and powerful reaction from the Bundesbank, Schmidt and Giscard worked in secret to agree on the outlines of the European Monetary System before the ordoliberal coalition caught wind of the plan.

When it did, the Bundesbank marshaled the same set of arguments that it did during the debate over the Werner Report. The ordoliberals emphasized two points—both of which are still relevant to the contemporary debate about the sovereign debt crisis. First, a symmetric exchange-rate regime (one based upon a currency basket in which the relative weight of the Mark would be less than it was under the Snake) would mean that inflation from soft currency countries could be imported into Germany, a situation that was worse than the present one in which the Bundesbank could still revalue the Mark to ensure that Carter’s economic policies did not threaten domestic price stability. Second, Schmidt and Giscard’s idea of creating a European Monetary Fund raised the specter of the Bundesbank intervening frequently and directly in currency markets to help defend weak currency countries. The Bundesbank reasoned that it, as the defacto anchor of the system, would need to move before weak currency

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7 Schmidt was openly disparaging toward Carter, referring to him alternatively as “the peanut farmer,” “Jimmy the Carter,” and the “nitwit.”
countries to lower the value of the D-mark. In sum, it viewed Schmidt’s proposals as leading down the road of an “inflation community” in which the ability to create Marks would be, according to Bundesbank President Emminger, taken “fully out of our hands.”

As Kaltenthaler (1998) persuasively argues, the Bundesbank adopted a policy of “brinksmanship” to water down Schmidt’s proposals for a symmetric EMS. Emminger made clear that he would effectively veto any design for EMS that did not hue closely to the Bundesbank’s own position. When Schmidt went to Aachen to negotiate the terms of EMS with Giscard, he did so “knowing that he faced a major political battle at home if he agreed to the French president’s preferred EMS design.” Kaltenthaler, like other scholars who have examined the episode closely, concludes that the strength of ordoliberal resistance “led Schmidt to essentially replicate the Bundesbank’s policy coalition’s position.” As a result, EMS was constructed largely on ordoliberal terms.

A paper with greater ambitions that the present one would chart the periodic crises that plagued the EMS in the 1980s with the goal of demonstrating just how successful the Bundesbank was in preserving the fundamental asymmetry of the system in the face of attacks on it from other European countries. The French view had changed little since the late 1960s. As the French socialist politician Jean-Pierre ChevEnement put it: “we cannot except the fact that the EMS is nothing more than a thinly veiled deutsche mark zone.” Yet even when something as ostensibly critical as Franco-German reconciliation was at stake, the Bundesbank refused to back away from its orthodox positions. Helmut Kohl’s attempts to commemorate the 25th anniversary of the 1963 Elysée Treaty (officially known as the Treaty of Franco-German Friendship) by acceding the French demands to create a Franco-German Economic and Finance Council were rebuffed by the ordoliberals who perceived, quite accurately, that such an institution would give the French increased control over German monetary policy.

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8 Quoted in Marsh, p. 88.
9 Kaltenthaler, p. 55.
10 Quoted in Kaltenthaler, p. 60.
It is sometimes forgotten that this French initiative ended in shambles during the opening rounds of the long debate over the Maastricht Treaty. For those in search of evidence that Germany has sacrificed its monetary autonomy in the service of European integration, the swirl of negotiations in the midst of game-changing events like the collapse of communism and German unification is the conventional place to start. Even those scholars who argue that the primary driver of European Integration in general is the pursuit of national economic advantage are forced to concede that “Kohl and Genscher pushed German domestic economic interests to the limit in the interests of a clear commitment to EMU.” ¹¹ Yet this observation is, of course, a long way from endorsing the popular account of Maastricht as a bargain between Mitterrand, who was desperate to reign in the Germans through EMU, and Kohl, who needed French acquiescence in order to seize the window of opportunity and proceed quickly with unification. Most accounts draw a more nuanced picture, one in which massive changes in the international environment were an undeniable factor in getting to EMU but that reject the notion of a simple quid pro quo between Mitterrand and Kohl (for which the evidence is scant at best). What is clear is that Kohl was more successful than Schmidt in outmaneuvering the most obdurate elements of the ordoliberal coalition and in taming the Bundesbank by binding them into the negotiations over EMU from the moment that he decided to push forward. ¹²

In the end, EMU was constructed largely on German terms. To be sure, the Germans did make some sacrifices, the two most important being the only symbol of nationalism Germans allowed themselves—the Mark—and the autonomy of their most respected institution—the Bundesbank. I will not dispute the claim that these issues mattered deeply to many Germans. Yet as in the current crisis, politicians could use their nation’s quasi-metaphysical attachment to their currency and central bankers to their advantage: “The deep misgivings about the currency transition in German public opinion,

¹¹ Moravcsik, p. 470.
¹² For more on this strategy, see Dyson and Featherstone’s (1999) analysis of Germany in their exhaustive study of the Maastricht negotiations.
persuasively relayed by the media and the Bundesbank, allowed Kohl to set a high price for sacrificing the D-Mark. Since the plan’s unpopularity evidently gave him so little room for manoeuvre, Kohl was able to forge EMU on essentially German conditions, above all through the stipulation that the European Central Bank had to enshrine Bundesbank-style independence.” In addition to getting an ECB modeled on the Bundesbank, as opposed to on the French Central Bank that was more permeable to political manipulation, the Germans got agreement on a tough set (at least in theory) of convergence criteria and no lender of last resort that would open up the possibility of “bailouts.” They also succeeded in making the convergence criteria permanent through automatic penalties to discourage potential violators as part of the Stability and Growth Pact. That both the convergence criteria and the Stability and Growth Pact did not achieve their desired effect, and that the latter in particular appears as a Paper Tiger in lieu of the Greek debacle, should not blind us to the fact that they represent further examples of the power of the ordoliberal coalition.

Several points are worth emphasizing from this thumbnail sketch of the recent history of Germany’s position toward monetary union. First, prior to the Werner Report and in numerous junctures thereafter, politicians in France and elsewhere argued that Germany was behaving in a new, nationalist, egoistic, and un-European way. Contemporary observers who claim that some process of “normalization” is driving Germany’s response to the sovereign debt crisis would be well-advised to study these episodes in order to see what, if anything, is novel about Germany’s recent behavior. Second, while the broad contours of monetary systems from the Snake, to EMS, to EMU have conformed to ordoliberal prescriptions, there have been vigorous internal debates that match the intensity of the current one between Merkel, Schäuble, Axel Weber, the FDP, and other relevant actors. Kohl’s contention that Germany has become “unpredictable” as a result of internal disagreement over

13 Marsh, p.139.
responses to the sovereign debt crisis appears somewhat hypocritical given the fierce—and public—divisions over the Maastricht Treaty that he negotiated. Like some observers, he is invoking a historical memory of Germany that, as I have tried to suggest here, the historical record does not support.

**The 1970s and the Third Relaunch?**

To this point, I have argued that the sovereign debt crisis has produced neither a resurgent radical right across Europe nor a new form of German economic nationalism. The conventional narration of events since 2008 has certainly drawn these two longstanding features of European politics into sharp relief and has made it seem that the most serious crisis of capitalism since the Second World War is awakening the ghosts of the 1930s. Yet neither radical right parties nor German politicians are behaving much differently than they have in the past. At least when it comes to the purported rise of nationalism in Europe, the sovereign debt crisis is not having the transformative effects on European politics than many observers claim.

This is not to say that the crisis does not represent a critical juncture in the history of European integration—too many monumental changes are occurring in front of our eyes to maintain that the crisis has simply brought preexisting features of European politics to the sudden attention of journalists, politicians, and pundits. But if we continue further with the exercise of interpreting the crisis through historical analogies, I would suggest that another critical juncture in European politics besides the 1930s provides both a better point of comparison and a more optimistic assessment of where Europe is heading.

At first blush, the period between the collapse of Bretton Woods in 1973 and the end of Francois Mitterrand’s leftist experiment in 1983 would not appear to offer many hopeful lessons for Europe. Like today, politicians in the 1970s appeared overwhelmed by international economic forces that not only undermined the postwar European growth model but also created such domestic conflict
that Europe looked to be “ungovernable.” In many ways, the threats to political order were much more serious then than now: the anarchist protestors in contemporary Greece are a far cry from the Red Army Faction in Germany or the Red Brigades in Italy. In terms of European integration, the turn toward protectionism reversed momentum toward the construction of the long-promised single market, to say nothing of the grander schemes of the proponents of the “spillover” thesis who viewed any movement toward “ever closer union” as irreversible. The experiences of the 1970s seemed to suggest that “Europe” had been a fair weather project that national leaders would quickly abandon whenever the economic going got rough.

And yet we now know that developments in the 1970s set the stage for the “relaunch” of the 1980s that produced the Single European Act of 1986 and the Maastricht Treaty on European Union in 1992. Exactly how this occurred is too complex a story to relate here, but two points are worth noting. The first is that there was a high degree of institutional development—particularly in the legal arena through the growing powers of the European Court of Justice—that proved to be absolutely critical for later steps toward integration. The regulatory powers of the EU also expanded enormously during this period, and something as complicated as the implementation of the Single European Act would have been unthinkable without such a massive increase in capacity.

Is it wrong to suggest that we are witnessing another flurry of institutional development today? The combination of the Lisbon Treaty and the crisis responses of national leaders have transformed existing institutions, such as the European Council, and created new ones like the European Stability Mechanism and the European Banking Authority. Given the importance of the tasks they are charged with, it is unlikely that either of these latter institutions will reveal themselves to be paper tigers. The European Central Bank has also arguably been fundamentally transformed in its efforts to prevent the Eurozone from breaking apart. It has arguably become the most powerful of Europe’s supranational
institutions (the EU Commission appears like a welterweight in comparison with it) and has taken on
activities and responsibilities that were unimaginable just several years ago. Is it naïve to believe that
the institutions resulting from the much derided crisis management of European leaders may not only
succeed in holding the Eurozone together but also pave the way for the economic and financial
integration that most serious observers agree Europe needs if the common currency is to survive in the
long run?

The second development was the realization by both French and German leaders that there was
really no better solution to the problem of currency instability in the post Bretton Woods world than
European Monetary Union. Helmut Schmidt was not willing to let Jimmy Carter’s economic policies
(which he considered to be disastrous) constrain his own, and once Mitterrand understood that his
leftist program could not succeed so long as the relationship between France and Germany in the
currency regime remained asymmetrical he set out to readdress it. I would submit that both German
and French national interests have remained broadly the same since, and as much as the two states
disagree over the solutions to the Eurozone crisis they are constantly being pushed together by the logic
of TINA (there is no alternative).

Of the two, the German response is certainly the more consequential for the future of Europe.
Given what I have argued in this paper, one might conclude that the survival of the Eurozone looks grim
given that Germany’s record of making sacrifices in the name of European solidarity is not encouraging.
Yet let me close by making two observations about German interests that point in the other direction.

The first is that Germany has been, and will in all likelihood continue to be, the prime
beneficiary of the Euro. There is a broad consensus among economists—and perhaps more importantly
among German politicians and business leaders— that the common currency has been vital for
Germany’s export industry.
The second is that I have real trouble imagining that Germany will not ultimately “pull the trigger” if they deem that the survival of the Eurozone requires it. While I reject the argument that Germany’s past has turned it into Europe’s reluctant paymaster, I do think that history will ultimately matter if and when the Eurozone comes to a fork in the road in which one path clearly leads toward breakup and the other toward increased integration. Having inflicted two World Wars on Europe, I find it difficult to believe that any German Chancellor would want to preside over the breakup of the Eurozone if they could possibly prevent it. If pushed on Eurobonds, for example, my suspicion is that Merkel will be able to eventually overcome the hard-core ordoliberals and join with the SPD (who have been pushing Eurobonds for over a year now) and convince both Germans and the rest of Europe that fiscal transfers are the next inevitable step in the course of European Integration.
Bibliography


