Book Review
European Perma-Crisis: Usually late and never quite enough

Muhammad Ali Nasir

Off the Target: The Stagnating Political Economy of Europe and Post-Pandemic Recovery

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The social and economic cohesion of Europe is a vexed issue. Cartography hints at the problem. Where Europe ends and other geographies begin seems a mainly arbitrary process, dependent on viewing Europe as a peninsula of the larger Afro-Eurasian landmass (something you only get to do from space). Though one might say the Atlantic Ocean, the Mediterranean Sea and the Ural Mountains create "natural borders", there is really nothing "natural" about delimiting a border. Moreover, "European" has rarely been a designation able to stir deep emotion. Its "us and them" has been historically fluid and European identity has typically been crosscut with other usually more urgent and visceral ways of defining the self and group. If this were not so, then most of Europe's recorded history would never have happened. Still, we are an institution building species and we can, given appropriate circumstances, decide to "make things so".

The idea of Europe and an institutional reality "Europe" are then, works in progress. Muhammad Ali Nasir's *Off the Target* is a reflection on the political economy of this work in progress. The book's eight chapters decompose into (broadly speaking) three parts. First, a descriptive history of European institution formation after WWII and with a particular focus on monetary union. Second, a detailed account of the many and varied responses within the EU to the global financial crisis (GFC), sovereign debt crisis and pandemic. Third, an analysis of the specific problem of cumulative imbalances between the central banks of member states, recorded via the "Trans-European Automated Real-Time Gross Settlement Express Transfer System" (TARGET2, as it came to be called).

The main thread of argument in the book is a familiar one. The EU is a curious expression of bureaucratically bound democracy. European economic integration in general has typically involved exceptions and political compromises that render given economic characteristics of both cooperation and integration contingent. As the various facets of integration have developed, the design of rules and compliance with them have been continually problematic.[1]

[1] "[A]ll the treaties and all the Articles are not only amendable and replaceable but also interpretable according to the convenience when and if required" (Nasir 2022:154). "The Global Financial Crisis and

This is quite a different issue than having rules which are usefully and productively flexible in the face of events. Most notably, European monetary union (since there has been more "progress" on this than fiscal union) has been a political project whose reality bears little resemblance to the hypothetical conditions of monetary union defined in Robert Mundell's "optimal currency area" (see, Mundell 1961).[2]

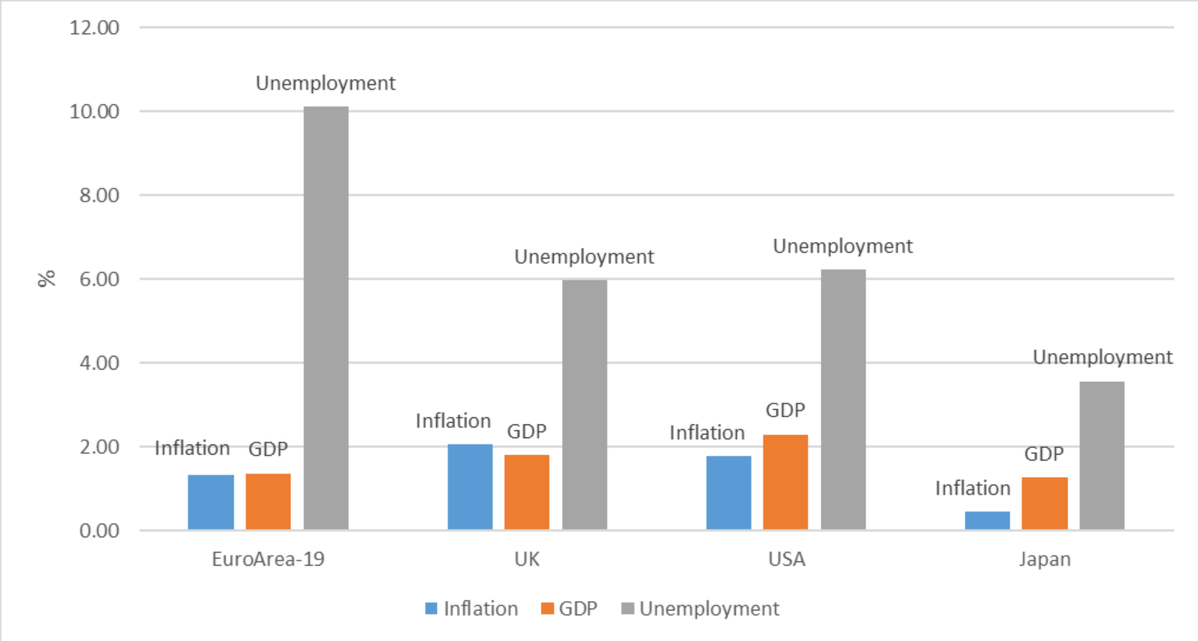
For Nasir (again as with many others), European integration has been an accident waiting to happen. This is not to say that the European project is necessarily crisis prone and bound to fail, but rather that serious and transformative reform is required. According to Nasir, this is underscored by the scale and timing of crisis management since the GFC. If one judges the post-GFC period by results, one might make the case that EU members have collectively prevented worst case outcomes (in some, but not all instances) but that ultimately the post-GFC period has been a lost (and long) decade. Nasir explores this in great detail across several of the chapters and provides a long discussion of the bewildering range of mechanisms and policies that have been applied, taking in their many acronyms. Nasir notes that the EU's kitchen sink commitment to do "everything necessary" in the face of financial instability has perpetually involved an asymmetry that has knocked on to the nature of any monetary stimulus.

The central bank (the ECB and the national central banks or NCBs) have in general undertaken actions that have supported commercial banks, while doing less to ensure sufficient lending occurs and productive investment is financed, to support recovery and growth in economic activity across the decade (and into the 2020s). This, of course, is against the backdrop of initial post-GFC deleveraging of bank balance sheets (and recapitalisation combined with the implementation of Tier capital rules etc.) and a situation of transfer of losses from private to public etc. Similarly, fiscal rules and financial market constraints have been a continual drag on fiscal stimulus and especially during periods of crisis (albeit the pandemic has been somewhat different than previous events), despite that rules have been violated and/or put aside at various times. The ultimate point, however, is that a great deal of institution building has helped to produce rather than solve problems and policy has been poorly targeted, insufficient in scale relative to the problems addressed and has often been withdrawn too soon. The result has been comparatively high unemployment, deflation (until recently) in terms of price stability targeting at 2%, and slow growth (cumulatively leading to an issue of "secular stagnation", and without, rhetoric notwithstanding, properly addressing the need for massive climate response transitions). Nasir nicely captures some of this in the following Figure:

European Sovereign Debt Crisis magnified the fault lines in the EMU, and its financial institutions and infrastructures" (Nasir 2022: 164). See also roadmaps Table 5.2, pp. 188-189; Table 5.3, pp. 192-193.

[2] On fiscal rules issues see also Orphanides (2018).

Figure 1: Comparative average annual inflation, growth and unemployment during the *Lost Decade* – 2010-2019



Source: (Nasir 2022: 221, Fig 6.9; OECD data).

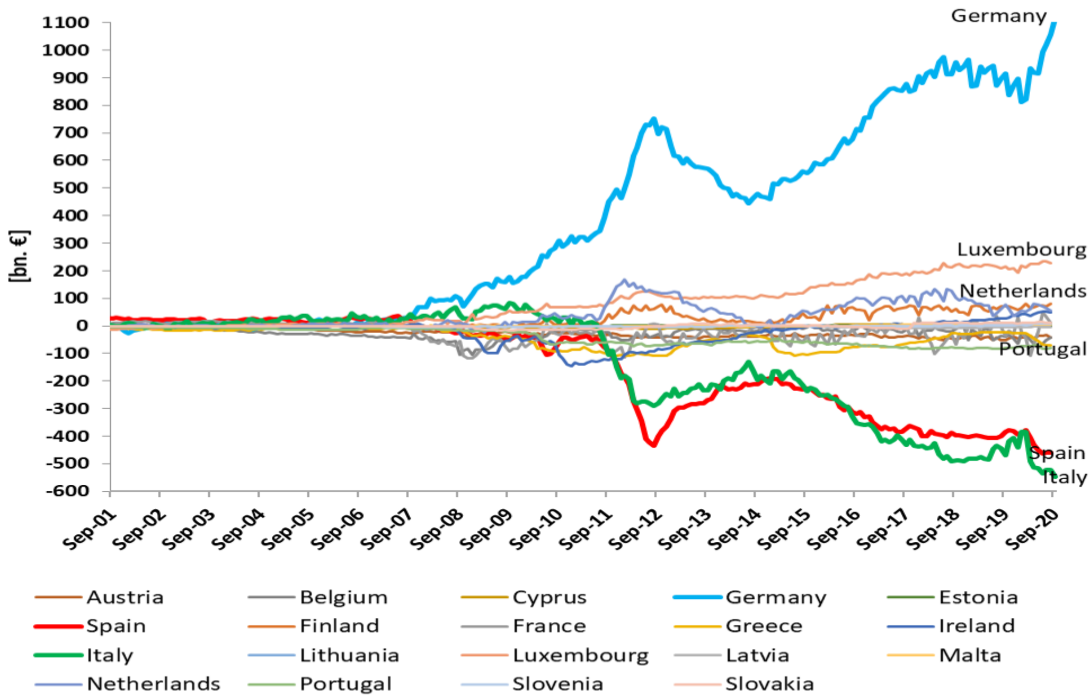
Nasir quotes Wright from 2013:

> Based on current policy and its likely effects, we are likely looking at a lost European decade of economic stagnation low growth, high unemployment, zombie banks and vulnerability to exogenous shocks which will sap Europe's strength, [and] heighten political tensions about the future of the Eurozone and European Union… (Wright in Nasir 2022: 227).

Problems with unresolved cumulative processes brings us to Nasir's interest in TARGET2. One of the main formal justifications of European integration has been mutual economic benefit and this implies that institutional design ought to promote longer term adjustments and positive convergence. However, anyone familiar with EU and Eurozone economics and politics will be aware that this has not been the reality. Use over the years of a language of stronger and weaker economies and core and periphery simply underscore what is self-evident, and that is that there is little sign of this positive convergence.

According to Nasir, TARGET2 is a wholesale payments system. Each commercial bank has a reserve account with its national central bank and these NCBs then record flows, which then accumulate as imbalances between member states. "If a country has a net TARGET2 liability, its banks in total have experienced net outflows of funds to the rest of the Eurozone. Conversely, if a country has net TARGET claims, its banks have received a net inflow of funds" (Nasir 2022: 229). While the full name from which the TARGET acronym derives states the system entails settlement, there is no effective mechanism to settle claims through the ECB. As the Figure below indicates, the pattern imbalances have taken is unsurprising:

Figure 2: TARGET2 imbalances over two decades – Net claims on Euro system 2001-2020



Source: (Nasir 2022: 232, Fig. 7.2; various data sources).

Nasir states:

> There is no set maturity or settlement deadline for the intra-Euro system claims; in fact, the TARGET2 liabilities are honoured by making interest payments. The payments are collected and redistributed by ECB to the central banks with positive TARGET2 balances. This is an important aspect as it means that a creditor country cannot force a debtor country to pay back, and the creditor will have to live on an interest rate which could be zero or even negative in real terms. (Nasir 2022: 235)

Nasir notes analysts suggest there has been, amongst other things, a "passive monetisation" behind the scenes (the ECB has effectively financed deficits in the face of capital flight etc.). TARGET2 then, is a symptom of some problems and a cause of others. Nasir discusses some specific solutions to TARGET2 imbalances (caps, limiting refinancing operations) and orients on three (see Nasir 2022: 260), of which he prefers the last (elaborated over Nasir 2022: 261-265). The banknote allocation system provides an opportunity to apply a variation on its purpose, which essentially takes the form of an adjustment to the monetary base using member's capital key-weights to settle claims. According to Nasir, this "creates liquidity at the country level", provides "fiscal space" and encourages investment (and Nasir spends some time discussing chronic problems of low investment across the EU, including in Germany). Clearly, Nasir is thinking in terms of avoiding adjustment policies that depend on deflation and unemployment (and which have been observed to fail). War in Ukraine, weaponization of energy and accelerating inflation have, however, changed the context of any future implementation, but not the underlying need for reform and productive investment.[3]

In any case, Nasir's solution begs further fundamental structural changes… and the book comes to a close with some discussion of whether the pandemic is yet another crisis liable to exacerbate Europe's ingrained problems or will offer opportunities to solve them (and he suggests the Green New Deal was at the time of writing lacking adequate finance – a rather different issue than whether in fact sufficient account was being taken of economic activity at scale and an economy's underlying capital accumulating processes). Broadly speaking, the book contains a lot of useful material and warrants use as a reference source based on its detailed account of European institutions and mechanisms. It is, however, quite dense and best read in parts. One might need some fortitude in order to cope with the poor copyediting and idiosyncratic language use (the author is definitely not going to win any literary awards). Moreover, while long, the book is quite light on explanations of causes of financial crisis and on background theory and disputes that affect how issues are framed, including structural reform.

The author is a member of the Post-Keynesian Economics Society (PKES) and at times quotes from Keynes and Marc Lavoie, as well as Barry Eichengreen (e.g. Nasir 2022: 222, 243-244, 246, 256), so perhaps one can infer some positions, but the book is best read in conjunction with work which provides a number of supplementary things (something that by no means requires Nasir to be a proponent of any suggested work). First a theory of money and its role. One might note, "The history of capitalism may well be written as a chronicle of its recurrent monetary and financial crises which successively reopen unresolved debates on the nature and role of money" (Ingham et al. 2016: 1).[4] Second, as most Post-Keynesian's aver, (and as I was reminded recently with the sad death of Victoria Chick)[5] a framework able to make sense of complex endogenous process (since this surely stands behind institution building and its cumulative problems). As she notes "economics is always a creature of time and place" and theory and our relation to given theory must account for this (Chick 2018: 1). As Sheila Dow puts it, "a non-mainstream ontology of complex interconnectedness within an evolving social system requires conceptual interconnectedness for its analysis, employing a political economy approach" (Dow 2017: 1539). Third, critical work regarding particular issues of European monetary and fiscal policy and trends. Over the years *Real-World Economics Review* has published various essays on Europe and member states.[6] Fourth, work that provides a broader framework to make sense of fundamental changes in the world, which then also influence key institutions in Europe. For example, critical macro finance tries to offer this framework and within it explores issues such as the role of central banking as part of a complex finance system (moving since the GFC, as Benjamin Braun and Daniela Gabor, among others, argue, well

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[3] See, for example, Merijn Knibbe (drawing on Keynes) on the recent liquidity crunch in the EU related to interest rates, inflation policy and demand for money: https://rwer.wordpress.com/2023/03/31/modern-monetary-statistics/#more-44011 See also Blair Fix "Inflation! The battle between creditors and workers." https://rwer.wordpress.com/2023/03/24/weekend-read-inflation-the-battle-between-creditors-and-workers/ And Lars Syll "On fighting inflation." https://rwer.wordpress.com/2023/03/21/on-fighting-inflation/

[4] See also, for example, Huber (2017); Dow (2020); Wray et al (2023).

[5] See Chick (1973, 1983). Visit: https://www.ineteconomics.org/perspectives/blog/victoria-chick-1936-2023

[6] See, for example, Beker (2013); Buzaglo (2011); Hanappi (2020); Häring (2020); Hillinger (2015); Holtham (2020); Karagiannis and Kondeas (2012); Koratzanis and Pierros (2017); Palley (2014, 2017); Skouras (2016); Ugarteche (2014); Vernengo and Pérez-Caldentey (2012).

beyond lender of last resort).[7] This kind of work highlights the democratic contradictions inherent to the European project (see, for example, Klooster 2022).[8] Finally, work which sees its task as offering a greater sweep of imagination regarding possibilities in the world. For example, projects like DiEM25 or the "Global Keynesianism" of Heikki Patomäki in his *The Great Eurozone Disaster* and more recent *Disintegrative Tendencies in Global Political Economy* (Patomäki 2012, 2018).[9]

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[7] See, for example, Goghie (2022) and Braun (2020). As Gabor also notes, critical macro-finance provides further context in terms of four propositions: "(1) US-led financial globalization has structurally evolved around market-based finance, driven by the production of new asset classes and the Americanization of national financial systems with changing practices for producing liquidity; (2) global finance is a set of interconnected, hierarchical balance sheets, increasingly subject to time-critical liquidity; (3) credit creation in market-based finance involves new forms of money (systemic liabilities); and (4) market-based finance structurally requires a derisking state, for both systemic liabilities and for new asset classes. The precise contours of the derisking state are determined through political struggles…" (Gabor 2020: 45). For early work identifying key issues see Werner (2012).

[8] "I highlighted how the ECB's ill-defined constitutional role leads it to downplay and obfuscate its agency in relation to government debt—portraying itself as bound by a legal mandate, relying on immutable internal procedures and deferring risk assessment to credit rating agencies. This approach constrained the ECB's room for manoeuvre in the eurozone crisis, leading to its overturning in the face of the 2020 pandemic. The ECB's more effective pandemic response was made possible by accepting a political role. However, the fundamental issue of how to deal with government debt in the EMU remains unresolved, and (at least formally) the ECB's minimum credit rating requirement remains in place. Rather than following the seemingly attractive path of technocratic depoliticization, the question of how to deal with government debt needs a genuinely political answer" (Klooster 2022: 16). See also Morgan (2023).

[9] Visit: https://diem25.org/en/

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