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BOOK REVIEW

The Politics of Bad Options: Why the Eurozone's Problems Have Been So Hard to Resolve

by Stefanie Walter, Ari Ray, and Nils Redeker. Oxford: Oxford University Press. 2020. 321p. £30.00.

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At a time when debates about reform of the EU economic and monetary policy (EMU) have reignited and conflicts over the choice of crisis strategies have been reinvigorated, the book *The Politics of Bad Options – Why the Eurozone's problems have been so hard to resolve*, written by Stefanie Walter, Ari Ray and Nils Redeker, offers a new insight on the Eurozone crisis and its consequent distributive conflicts. The three political economists aim at understanding why deficit countries accepted to implement austerity measures, while surplus countries delivered huge bailout packages without allowing meaningful debt relief and why it has been so difficult to find common solutions for sustainable EMU reform. To address these questions the authors emphasize three aspects that have received scarce attention in extant literature: the analysis of the Eurozone crisis in a comparative perspective; the focus on the whole range of policy options and the trade-offs these policy options entail; and the importance of analysing such options in deficit and surplus states.

Several options exist for resolving debt problems and balance-of-payment imbalances, but, in contrast to the conventional narratives that the costs of the resolution were borne almost exclusively by indebted deficit countries, the authors argue that both deficit and surplus countries can contribute to the policy adjustment. Specifically, they indicate three potential policy options and the different implications for the two sets of countries and the Eurozone. The first option is an external adjustment, which ultimately implies a breakup of the Eurozone. The second adjustment is internal and can be achieved by deflating prices, implementing austerity policies and structural reforms in deficit countries, and by increasing domestic demand (i.e. increasing public investments, cutting taxes, or increasing the minimum wage) in surplus countries. Implementing such policies is politically difficult, especially in deficit countries, but may lead to macroeconomic convergences of Eurozone economies. The third option identifies that surplus countries cover deficit states' financing need.

This discussion shows that crises confront policymakers with a list of bad and unattractive options. The authors argue that voters, interest groups and governments vary in their preferred crisis management according to the varying costs each adjustment path would impose. The preferred choice of crisis-resolution strategy depends on an actor's or group's 'vulnerability profiles'. Such concept, although introduced in previous research of Walter, is in the book further extended in the four ideal-type profiles that individual and collective actors can exhibit and in the preferred policy response associated with each of these profiles (see Figure 1). The argument predicts that groups should oppose adjustment policies to which they are more vulnerable to, and especially groups in the 'misery corner' (vulnerability profile II), who are vulnerable to any form of macroeconomic adjustment, should be opposed to such adjustments and more in favour of financing.

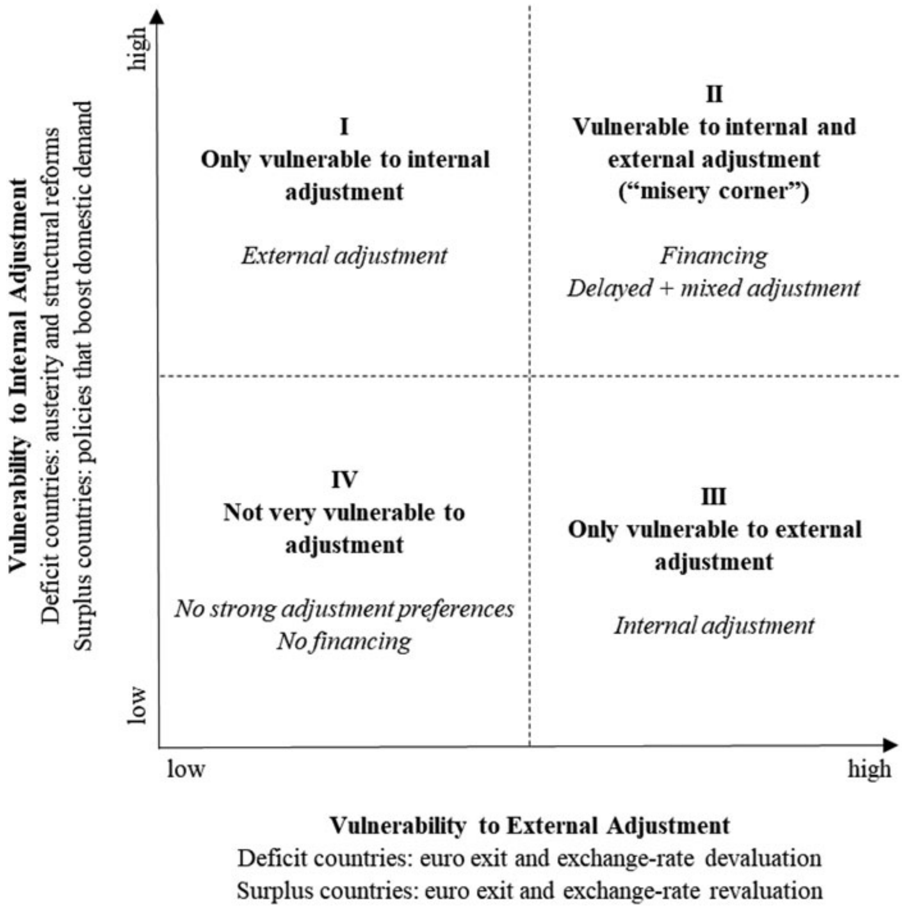

Figure 1. Classification of vulnerability profiles and preferred policy response.
Source: Walter, Ray and Redeker (2020: 24).

Beyond the three merits mentioned before, this book offers an invaluable contribution for its empirically rigorous analyses on the deficit (Greece, Ireland and Spain) and surplus countries (Austria, Germany and the Netherlands) through a wide array of methodologies. For example, the original and accurate survey of the actual preferences of more than 700 interest groups in crisis contexts is, in my view, certainly one of the noteworthy merits of this book. According to the literature, interest groups play a key role in shaping crisis-time policymaking, but systematic empirical analyses are rare. Chapters 3 (for Greece, Ireland and Spain) and 6 (for Austria, Germany and the Netherlands) fill this void and explore how domestic economic and societal interest groups viewed their vulnerabilities to the crisis and which policies they preferred.

Chapter 3 examines three findings. First, internal adjustment is the most preferred scenario when interest groups weigh their most liked internal adjustment strategy against Eurozone exit. To have the common currency and benefit from the low-interest rates guaranteed by the European Central Bank (ECB) apparently was considered very valuable. Second, the concrete design of adjustment strategies matters. Support for internal adjustment shrinks when the choice becomes more difficult, that is to say when interest groups confronted with the least liked internal adjustment scenario. Third, the authors observe that the choice between internal and external adjustment is particularly difficult with regard to those groups in the 'misery corner'. Among this group, a vast majority consistently favoured internal adjustment to leaving the Eurozone, also in trade-off scenarios with the most liked and least liked preferences. However, the least liked trade-off scenario also demonstrates the difficulties these groups face in making their choice: the number of groups refusing to answer rose substantially, especially in Spain and Ireland.

The limited amount of burden-sharing amongst Eurozone members and surplus countries' reluctance to rebalance their current accounts have been the most puzzling aspects of the Eurozone crisis. Chapter 6 shows, one of a kind, that analysing the distributional conflicts amongst different interest groups in Austria, Germany and the Netherlands helps to understand some important features of the management of the crisis. Unlike the analysis on deficit countries, results on surplus countries show that different types of interest groups (employer associations, trade unions, and social policy groups) disagreed heavily about the policies through which internal adjustment should be achieved. At the same time, financing has been largely supported as a way to resolve the Eurozone's problems, but was a low-salience issue. These findings offer a likely explanation why the negotiation during the Eurozone crisis was a highly contentious process and characterized by a 'chicken game' situation. The distributional conflicts about the specific forms of internal adjustments and the large consensus to avoid a breakup of the EMU made financing the politically most attractive strategy. The reasons proposed by the authors are two: the dominance of ordo-liberal ideas and strong interests that feared that export-led growth models could be undermined by such Keynesian measures.

Results on the preference constellations about crisis management in the two set of countries open up the questions of how crisis politics played out in these countries and why adjustment policies were ultimately enacted. These questions, which are addressed in two additional chapters (Chapters 4 and 7), are here not explored. Their relevance and accurate analyses are extremely useful, though, in understanding why policymakers had to frame their decisions around what was 'politically possible without evoking resistance from a watchful public' (p. 226) as attested by interviews conducted for the book.

Overall, this book is an invaluable contribution to understanding the politics of the Euro crisis, but two aspects are missing. One aspect that could have been explored is the role of the ECB and the bond-purchasing programme. Despite this programme embroiled the ECB in political controversy, it reduced the costs of internal adjustment policies in the deficit countries and contributed to save domestic banks in the surplus countries indirectly. The mediating role of the ECB to the preference of domestic interests could be a fruitful future area of research. Furthermore, it would be interesting to include also balanced countries, such as France, Finland and Belgium (see p. 15), in the case selection, as they could give a more nuanced perspective of the distributive conflict, instead of the dichotomous narrative of surplus versus deficit countries.

Apart from these aspects, *The Politics of Bad Opinion* is required reading for anyone interested in the European Union, the politics of the European economic governance, and, more broadly, comparative and international political economy.