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The European core–periphery divide: towards a new narrative

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Economic theory has recently begun to consider the economic impact of narratives. Narrative economics can also be extended to the analysis of the economic–political effect of narratives in the context of the European core–periphery divide, which intensified after the European sovereign-debt crisis. The dominant narrative of the crisis has placed a lot of responsibility on southern member countries. With the outbreak of the COVID-19 emergency, this narrative has returned to influence European public debate. The authors state the importance of analysing the dominant narrative to understand its validity in explaining the sovereign-debt crisis, and the importance of overcoming it to face the health emergency effectively. Therefore, starting from some alternative explanations regarding the European crisis, a new alternative narrative is presented, which underlines the issues connected to the competitive attitude among member countries and the political disequilibrium that characterizes Economic and Monetary Union architecture.

Keywords: *austerity, core and periphery countries, economic integration, European sovereign-debt crisis, eurozone, financial deregulation, fiscal discipline, fiscal policy, foreign debt, narrative economics, politics, privatizations*

JEL codes: *F15, O52, P16*

1 INTRODUCTION

Although economic theory has focused mainly on the rationality of economic agents' decisions, the term *narrative* is recurrent in the economic context. Economic narrative can be defined as a spreading story capable of influencing the economic behaviour of people. While some narratives can be interpreted as exogenous shocks that can originate from single individuals, it is a fact that many economic narratives have a foundation in economic theories. The link between economic ideas, policy-making and society has been widely considered within political and institutional economics. Recently, the role of narratives in communicating economic ideas to society, through a process of simplification and selection of relevant contents, has begun to be recognized. However, narratives can also be used to shield certain ideas from criticism or influence public opinion. In these processes the media play a fundamental role and the dominant narrative becomes the result of a complex intertwining between economic ideas, policy-makers, media, and interests at stake.

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Understanding the role of narratives during the European sovereign-debt crisis is crucial for understanding the roots of the core–periphery divide. The interpretation of the crisis offered by the European institutions has placed many responsibilities on some member countries, which have been blamed for their poor adherence to fiscal discipline and their unwillingness to apply adequate structural reforms. This interpretation has spread and imposed itself in the public debate through a simplified narrative that made extensive use of stereotypes and left little room for alternative narratives. It influenced the reputation of southern European countries beyond their failings by questioning their reliability with deleterious effects for relations between core and peripheral countries. The impact of this narrative has retained its effects even in the following years, as the strong opposition of the so-called frugal countries to the southern countries during the long negotiations for the approval of the recovery package deal in July 2020 demonstrates.

This article discusses the validity of the economic ideas at the origin of the dominant narrative and the mechanisms and motivations underlying its diffusion. The goal of the article is to consider various alternative interpretations regarding the eurozone crisis to develop a new alternative narrative.

After an analysis of the role of narrative for human science, economics and the eurozone case in Section 2, in Section 3 the dominant narrative about the eurozone crisis is presented, commented upon, and compared with an alternative narrative. In Section 4 we discuss the moral teaching of this new alternative narrative. Section 5 concludes.

2 NARRATIVE ECONOMICS AND THE EUROZONE CRISIS

2.1 Narratives in the economic system

Narrative has always been a topic capable of capturing the interest of sociologists and psychologists, but it has experienced an important development during recent decades with the so-called 'narrativist turn' in the human and social sciences (Kreiswirth 1992). Narrative is essentially a spreading story (Patterson/Monroe 1998) aimed to explain an aspect of reality or to interpret events, and it is able to influence the opinion and behaviour of people. Narrative analysis represents an important methodology in the social sciences, from psychology to sociology, education, and policy studies (Artelaris/Mavrommatis 2020) and it 'is concerned with the structure, content, and function of stories in written and oral communication' (Demuth/Mey 2015: 673). Figgou/Pavlopoulos (2015: 546) define narrative analysis as 'a cluster of analytic methods for interpreting texts or visual data that have a storied form. A common assumption of narrative methods is that people tell stories to help organize and make sense of their lives and their storied accounts are functional, and purposeful'. Rodriguez (2016: 125) recognizes how 'narratives are one of the primary ways in which cultural ideologies are taught, preserved, and perpetuated'.

Different approaches and definitions of narrative (and story) exist. Although the existence of such differences may challenge interdisciplinary research in economics (Volchik 2017), methodological individualism and rational choice theory has hampered the use of narrative analysis. However, not all economists have overlooked the impact of social interaction on economic behaviour and how economic agents can be influenced by the contexts in which they have to make decisions; famous examples are J.M. Keynes's *fallacy of composition* and *beauty contest*. Also the emergence of behavioural economics and the developments of institutional economics confirm this tendency.

The awareness that economic agents' rationality is limited and that the social context in which economic decisions are taken cannot be ignored allow scholars to consider more seriously the role of narrative in economics. According to Volchik (2017), from 2016 more economists started to claim the importance for economic theory to consider the impact of narratives on decision-making and social norms (Akerlof/Snower 2016), businesses and investors (Damodaran 2017), and management and marketing (Lerman et al. 2017). The possible development of narrative economics as a new discipline has been considered in particular by Shiller (2017). He defines narrative as 'a simple story or easily expressed explanation of events that many people want to bring up in conversation or on news or social media because it can be used to stimulate the concerns or emotions of others, and/or because it appears to advance self-interest' (ibid.: 968). As a consequence, he defines narrative economics as 'the study of the spread and dynamics of popular narratives, the stories, particularly those of human interest and emotion, and how these change through time, to understand economic fluctuations' (ibid.: 967). According to Shiller, economic narratives are exogenous shocks for the aggregate economy, which can originate from single individuals, called *cultural entrepreneurs*, and are characterized by an epidemiological nature. The connection between economic narrative and crisis is evident, despite the fact that it is neglected within economics. Shiller admits that

> when we as economists want to understand the most significant economic events in our history, such as the Great Depression of the 1930s, or subsequent recessions, or policies toward wealth and poverty, we rarely focus on the important narratives that accompanied them. We have lagged behind other disciplines in attending to the importance of narratives. (Ibid.: 969)

2.2 Economic theory and narratives

A connected and equally important aspect is the role of narratives within economic discipline. Indeed, many economic narratives that propagate in society derive from principles developed in the academic environment. McCloskey (1990: vii) does not hesitate to claim that 'economists tell stories in their science' and that 'economics and other human sciences rely on metaphors and stories'. Stories, metaphors and narratives can become important bridges in making economic ideas more accessible to public opinion.

Within political and institutional economics, the link between economic ideas, policy-making and society has been widely considered (see, for example, Hall 1993). Blyth (2002: 11, emphasis in original) analyses the political use of economic ideas, which 'provide agents with an interpretive framework, which describes and accounts for the workings of the economy … . Economic ideas provide agents with both a "scientific" and a "normative" account of the existing economy and polity, and a vision that specifies how these elements *should* be constructed'. According to Blyth (2002), economic ideas may help to reduce uncertainty, coordinate expectations and ensure institutional stability. Ideas can be used also as 'weapons' for changing existing institutions.

Campbell (1998) provides a conceptual framework for clarifying how ideas influence policy-making and society by considering four different types of ideas: paradigms, programmes, frames, and public sentiments. Paradigms are cognitive background assumptions; programmes are cognitive concepts and theories that specify how to solve policy problems; frames are normative concepts that should legitimate programmes; public sentiments are normative background assumptions that constrain action to alternatives perceived as acceptable by the public. All these types of ideas impact policy-making and Campbell (1998) provides some concrete examples. While not delving into the connections between different types of ideas, the author acknowledges that 'the intentional manipulation of ideas through cognitively clear and concise packaging and normatively acceptable framing also requires theoretical attention' (ibid.: 398).

Kapeller et al. (2017), starting from Campbell's (1998) basic framework, explore the connections between the different types of economic ideas. They claim that 'models mediate between paradigms and programs', which operate on a cognitive level, while narratives 'combine single frames into overarching stories to more effectively relate single events or circumstances to long-term public sentiments' which operate on 'a symbolic or "normative" level, which generally consists of assertions based on values and attitudes' (Kapeller et al. 2017: 3). Kapeller et al. claim that both models and narratives have the role to 'select what is noteworthy' and have a 'transmission function' (ibid.: 3). In their analysis, they also evaluate the connection between models and narratives, constructing a bridge between the cognitive and the normative dimensions: 'the model operates on a level that is largely concealed from the public [;] we argue that moving from a model-based debate into a public debate requires tying the former to specific narratives' (ibid.: 16). The analysis of Kapeller et al. (2017) allows us to grasp the intertwining between paradigms, models, programmes and narratives, so as to clarify the connections between economic ideas, policy-making, and public opinion.

Narrative can be a device not only for simplifying and making complex economic ideas accessible to politicians and public opinion, but also for protecting paradigms and programmes from possible criticism or to make them more acceptable to public opinion. In this regard, Shanks (2018: 20) claims that a dominant narrative in economics exists that 'upholds the neoclassical version of economics as the only real form of economic analysis, and has done so for decades'. The strength of this narrative depends also on its capacity to present some hypotheses as undisputed truths (Jo et al. 2012). Shanks (2018: 20) claims that part of the most important hypotheses that allow 'the myriad models to function analytically and predictively' is the idea that humans are amoral optimizers acting individually solely in their own interest within free markets, which represent the best device for coordinating economic activities. Campbell (1998: 390) comes to similar conclusions: 'neoclassical principles dominated economic discourse and the paradigm's central tenets, which most policy makers and economists took for granted' and among the core neoclassical assumptions he finds that 'markets develop naturally' and that 'a healthy economy depends on the ability of individual economic actors to pursue their self interests'. Undoubtedly, these postulates (conveyed through narratives) have been at the basis of capitalist development and have influenced public sentiments. This seems coherent with the observation of Karagöz (2014: 75), who recognizes how metaphors and stories are widely used by economists as 'illustrative and persuasive devices'. Neoclassical interpretation of human nature and the 'myth of the free market' favoured the dissemination of a market mentality and promoted an interpretation of society as a group of consumers for whom the survival-of-the-fittest principle applies (Jo et al. 2012).

Economic ideas spread in society through narratives with the aim of educating people or influencing public sentiment. The media play a fundamental role in this transmission process which, however, is not trivial. As described by Skaperdas (2015: 779), if narrative is 'what crystallizes as conventional wisdom in a society', we should recognize it 'as an equilibrium that emerges out of a complex interaction between political and economic elites, media owners, news editors, journalists, advertisers and the audience'. Despite the fact that 'nobody directly controls the message that eventually prevails', it is true that 'interests are certainly important in promoting and propagating narratives that happen to establish themselves in the media more easily and serve the interests of the individual actors who promote them' (ibid.: 779). As a consequence, 'once a narrative is established it is difficult to replace it' (ibid.: 779).

Following this reasoning, the dominant narrative is the one that most influences policymakers and socio-political decisions. As a consequence, it is not surprising that the

Economic and Monetary Union (EMU) integration process was characterized by a neoliberal design and influenced by ordoliberal ideas (Dullien/Guérot 2012; Ito 2011; Stockhammer et al. 2015). Kapeller et al. (2017) found empirical evidence about the connection between mainstream economic models, policy-making, and political narrative within the EMU. In detail, they considered the model-based fiscal policy-making in Europe and analysed the impact of the European Commission's 'potential output model' (a crucial device for fiscal policy coordination in Europe) on political narratives. They found that 'the model is connected to specific political narratives, which highlight certain aspects and conceal possible alternatives. The model remains hidden from public awareness; accompanying narratives are deliberately composed to influence the public debate' (Kapeller et al. 2017: 19).

2.3 Economic narratives and the European sovereign-debt crisis

With the outbreak of the European sovereign-debt crisis, and the questioning of many aspects of the European project, the narrative has become a fundamental tool for protecting the dominant paradigm, strengthening consensus, and guaranteeing institutional stability. As a consequence, it is not surprising that some economists started to evoke the need of a consensus narrative: 'when terrible things happen, the natural tendency is to fix the immediate damage and take steps to avoid similar problems in the future. It is impossible to agree upon the steps to be taken without agreement on what went wrong' (Baldwin et al. 2015: 1).

As a matter of fact, however, there is no convergence towards a *consensus narrative* (Stockhammer et al. 2015), and national public opinions struggle to share a common European interpretation of the crisis. Müller et al. (2018) analyse the European fragmented public sphere by examining key crisis-related topics in articles from four opinion-forming newspapers in Germany, France, Italy and Spain (respectively, *Süddeutsche Zeitung*, *Le Monde*, *La Stampa* and *El País*). According to their results,

> *Süddeutsche Zeitung* blames everyone else but Germany, the chief suspects being Greece and the ECB [European Central Bank]; it stresses the need to get back to a perceived *status quo* of stability and fairness. … *Le Monde* blames everyone including the French political class, but largely refrains from criticism of European institutions such as the European Commission and the ECB. … *La Stampa* sees Italy as the victim of unfortunate circumstances, including the EU [European Union] austerity measures promoted by Germany, and Italy's own politicians. … *El País* primarily blames Spain for misconduct during the boom years preceding the crisis. (Müller et al. 2018: 11)

These results seem to indicate that, despite the emergence of different 'narratives' within eurozone countries, there are some features in common: national governments are blamed as if they are the main culprits, and little is said about the possible European roots of the crisis. Müller et al. (2018: 11) conclude that 'national problems and solutions took centre-stage in national discourses leaving systemic euro-area issues largely unmentioned. … [A] common economic narrative on the risks faced by the euro area is missing'.

One would expect the crisis to be an event capable of testing the soundness of the dominant narrative. However, the fact that economists struggle to converge towards a new narrative and that the role of European institutions remains in the background in public debates suggests that the dominant narrative has never really been questioned. Great responsibilities are traced back to individual member countries and governments, but there is a wide perception that some fundamental issues related to the eurozone are overlooked. As confirmed by Della Posta (2017: 189, emphasis in original), 'a common narrative of the 2010–2012 euro area crisis suggests that it was determined by a divergence in economic fundamentals resulting from a *deliberate misbehavior* of some undisciplined

(South European) countries'. According to Skaperdas (2015: 755) 'the long-running Greek public debt crisis has been accompanied by an information war that has obscured many important aspects of what has occurred'. He recognizes the existence of a dominant narrative made of different myths that 'have been forcefully propagated' (ibid.: 757).

Tsoukala (2013) claims that, especially in the first phase of the crisis, the dominant narrative indicated European member countries as the real culprits of the crisis because of their inability to respect the rules. Alternative interpretations of the crisis, aimed at recognizing member countries as victims of an inadequate European architecture, gained ground especially in the second phase of the crisis. However, it cannot be said that a new alternative narrative has succeeded in replacing the dominant one.

3 FROM THE DOMINANT NARRATIVE TO A NEW NARRATIVE OF THE EUROPEAN CRISIS

3.1 Interpreting the European sovereign-debt crisis: the dominant narrative

European institutions never questioned the validity of the European project. Many mainstream economists confirmed the feasibility of an EMU characterized by an asymmetrical institutional design (Maes 2002), in which a centralized supranational monetary policy coexists with decentralized inter-governmental fiscal policies constrained by EU rules (Schlosser 2019). Some of them have even come to claim the optimality of the EMU asymmetric architecture because of the possible political issues connected to a fiscal union (Alesina/Perotti 1998). EMU asymmetry was not considered a threat provided that member countries ensured fiscal discipline (Alesina et al. 2001; Beetsma/Bovenberg 2001; Issing 2002). As a consequence, it is not surprising that European institutions do not consider EMU asymmetry as the principle responsible for the scarce capacity of member countries to face the crisis, although they admit the importance of proceeding further with the integration process.

In 2008, the European Commission's 'EMU@10' report had already claimed that 'the macroeconomic imbalances that have built up in the euro area in its first ten years … largely have structural rather than cyclical roots' (ibid.: 64). According to the report, these imbalances could be solved through a better integration of financial markets and by strengthening competitiveness through microeconomic reforms in order to improve the efficiency of labour and product markets. These structural reforms have been managed through an open coordination method following the Lisbon Strategy. However, the results have been considered rather modest. According to the European Commission (2008) report, the following factors have prevented the implementation of structural reforms: status quo bias, loss aversion, uncertainty about distributional consequences, reform resistance from well-organized interest groups, and inefficiencies inherent in policy-making (ibid.: 140).

After the outbreak of the European sovereign-debt crisis the point of view of the European institutions did not change. In 2012, the European Commission published a report called 'A blueprint for a deep and genuine economic and monetary union: launching a European debate'. Despite recognizing 'weaknesses in the initial design of EMU' (ibid.: 1), it claimed that 'the increased interdependence of its Member States meant that sound budgetary and economic policies were of particular importance' and with reference to the effectiveness of the Stability and Growth Pact (SGP) it stated that 'it was thought that this coordination would be sufficient to ensure sound policies at national level. Already in 2008, the Commission's EMU@10 report presented a range of possible changes to this setup. The crisis accelerated the need for change' (ibid.: 2).

According to EMU institutions, the poor compliance with fiscal discipline and the failure to apply unpopular structural reforms are key factors to explain the weaknesses of the eurozone. As a consequence, peripheral countries' loss of competitiveness has been considered an issue to be solved through austerity measures, wage moderation and internal devaluation. This interpretation doesn't consider the role of surplus countries and does not foresee any kind of correction for them except by market forces (see Sinn 2014).

In the 2015 analytical note 'Preparing for next steps on better economic governance in the euro area', it is confirmed the idea that the violations of the rules and the lack of reforms are important factors in explaining the crisis. The note claimed that European problems had not been solved: 'euro area countries still exhibit significant rigidities which need to be tackled' (Juncker 2015a: 6). It is important 'to implement a consistent strategy around the "virtuous triangle" of structural reforms, investment and fiscal responsibility' (ibid.: 7). The same year, the five presidents' report titled 'Completing Europe's Economic and Monetary Union' (Juncker 2015b) claimed the need to further the integration process indicating four fronts: towards a genuine economic union, a financial union, a fiscal union, and finally towards a genuine political union. In the 2017 'Reflection paper on the deepening of the Economic and Monetary Union', the European Commission (2017) advanced many proposals aimed to improve EMU architecture and to deepen the integration process (for example, the proposal of enabling a framework for European sovereign-bond-backed securities, the introduction of the European Monetary Fund (EMF) to be built on the European Stability Mechanism (ESM) architecture, the introduction of the European Minister of Economy and Finance). However, the interpretation of the crisis has never been changed, as the legislative proposal to incorporate the fiscal compact into European laws demonstrates.

The crisis has brought economic issues to the centre of public debate. The narrative has played an important role in making the interpretation of the crisis simpler and more understandable to the general public. At the heart of the dominant interpretation of the crisis remains the behaviour of only some member countries, and this interpretation has been conveyed through the narrative to the general public. However, as we have seen, various interests come into play in this process, first of all the protection of the dominant paradigm. In addition to this, the simplification process underlying the narrative involves the press and the use of metaphors and stereotypes.

The dominant narrative of the crisis, as noted by Tsoukala (2013: 243),

> is very straightforward and bears all the structural characteristics of a good fairy tale: a good character, getting entangled in some adventure because of his or her own failures or someone else's evil acts, a correction of the failure or evil act, followed by a swift resolution from which a moral teaching can be drawn for future reference.

The same contrast between the virtuous countries of the North and the wasters of the South is a typical feature of a fairy tale, with its ants and cicadas. The tale of ants and cicadas is certainly a trivialization of European problems, but it symbolizes very well the heart of the dominant narrative on the crisis. As a consequence, it is not surprising that this tale has come back into fashion and has persisted also during the COVID-19 emergency (*The Economist* 2020; Masera 2020). But other similar interpretations are possible, and all lead to a similar morality. Indeed,

> the very name given to the group of euro zone countries that were first targeted by bond investors in 2009 hints at this narrative: P.I.I.G.S. (Portugal, Ireland, Italy, Greece, Spain). In this version of the story the little P.I.I.G.S. were either good characters committing the mistake of overburdening themselves with debt or, in a slight variation, they were the evil characters threatening the innocent euro zone and, more specifically, their northern partners with destruction because of their profligacy. (Tsoukala 2013: 243)

Skaperdas (2015: 760) confirms that this narrative has been conveyed above all through the press and it has been particularly effective in the Greek case:

> [A]ny casual reader of the international, European, and Greek presses over the past five years would consider it axiomatic and beyond doubt that the main objective of troika policies has been the 'rescue' and 'saving' of Greece. This comes along with the narrative that all Greeks have been profligate 'sinners' and the troika has been a benevolent dictator who is not only rescuing them materially but will also force them to transform their institutions in ways that will bring them long-term prosperity.

Morales et al. (2014) give an interesting explanation of the reason at the base of this wide use of stereotypes in the narrative of the Greek crisis, demonstrating the role of narrative in protecting the dominant paradigm from alternative interpretations or criticisms. Through an empirical analysis of the discursive activity in articles, they find that 'the written press developed two main discourses or interpretive trajectories, which we respectively name the "derivatives" and "cultural" discourses' (ibid.: 432). The derivatives discourse (or narrative) 'focused on the role played by financial instruments in the Greek crisis' and 'blamed investment banks for the introduction of aggressive accounting and financial techniques' (ibid.: 439). However, after March 2010 a 'cultural' discourse emerged, which blamed the Greek government firstly and the citizens subsequently for the crisis: 'Greek citizens saw their national identity being the target of an increasingly negative and stereotypical discourse'; the press has labelled Greek citizens as corrupt, lazy, cheater, profligate, members of those 'Club Med countries', embodying 'that seductive Mediterranean coupling of high living and low productivity' (ibid.: 439). Morales et al. (2014) claim that the 'cultural' discourse had an important role in deviating attention from other crucial issues related to the consequences of the neoliberal agenda for eurozone. The falsification of Greek public accounts, as revealed in 2010, should have been an opportunity to question some key aspects of contemporary state management. According to Morales et al. (2014: 424), 'a number of governments (not merely the Greek one), in the 1990s and 2000s, adopted techniques of creative finance typically used in private companies. We see the development of these kinds of practices as revealing a process of state privatization … the embodiment, by political actors, of an entrepreneurial ethos'. However, these issues started to be a focus of public debate only from 2010, and 'the problematizing trajectories, although potentially subversive at first, ended up focusing the blame on specific actors (i.e. Greek citizens and their government), thereby preventing the wider framework of state privatization from being significantly questioned' (ibid.: 439).

Whatever the version of the dominant narrative, the moral is always the same. The peripheral member countries, the cicadas, are invited to improve their economic behaviour by imitating the core countries, the ants. There is certainly nothing wrong with inviting countries to improve their economic performance, but attention must be paid to the ways in which such goals can be achieved. Indeed, 'the crisis-ridden member states in the south are instructed to improve their cost competitiveness in order to accumulate export surpluses with which to repay their debt. Emerging economies as the global growth engines of the coming decades are identified as the markets that should absorb these trade surpluses' (De Ville/Vermeiren 2016: 1).

Surely this narrative has contributed to sharpening the European core–periphery divide, whose roots, however, are far away. Indeed, national stereotypes coexist with economic arguments. Rota (2012: 132) claims that 'the image of the Southerner as a lazy consumer of free time was also a fruit of the industrious revolution' and 'in order to look for the history of the construction of the Southerner as a lazy consumer of a surplus of time and goods, we shall turn from economic history to cultural history'. It is not the aim of this article to delve into the reasons behind these national stereotypes. However, it is worth pointing out their compatibility with the dominant interpretation of the crisis and the severe consequences of their inclusion in the dominant narrative. This is evident by observing some statements made by some representatives of European governments during the crisis. As Diamantopoulou/Pierrakakis (2019: 226) noted:

> At an early stage of the Greek crisis, German Chancellor Angela Merkel proclaimed that the Greeks could not retire earlier and have longer holidays than the Germans. German magazine *Der Spiegel* interpreted this statement as follows: 'We aren't going to give our hard-earned German money to lazy southern Europeans' (Böll and Böcking 2011). Most famously, the German tabloid newspaper *Bild* asked in 2011 why the Acropolis could not be sold to repay debts to Germany (Bild 2011). This line of thinking had emerged in the public discourse even before the signing of the first memorandum between Greece and its lenders. … Such views unfolded in the context of a broader narrative, rooted in work values stereotyping. As the then Swedish Minister of Finance, Anders Borg, noted while on his way to an EU summit: 'Obviously, Swedes and other taxpayers should not have to pay for Greeks that choose to retire in their forties. That is unacceptable' (Scocco 2015). This view became dominant quite early in the highest echelons of policymaking in the European lender states, and consequently influenced the overall management of the crisis.

This image of 'lazy southern Europeans' is not supported by economic data (Böll/Böcking 2011), so it is evident that national stereotypes came into play. But the most worrying aspect is that 'the work values stereotype of the sluggish Southern Europeans in comparison to their hard-working northern counterparts had not only affected public discourse, but had actually also penetrated, to a certain extent, the highest policy echelons' (Diamantopoulou/Pierrakakis 2019: 227).

3.2 From alternative interpretations of the crisis to a new narrative

The real advantage of the dominant interpretation of the crisis is its simplicity and its compatibility with some widespread national stereotypes. Despite this, there are alternative interpretations of the crisis and different but minority voices even within the media and public opinion.

There are many alternative economic interpretations of the crisis. Many economists look for the roots of the eurozone crisis in the possible determinants of trade imbalances. Along with orthodox economists, others consider divergences in competitiveness and unit labour costs as determinants of the crisis, but for different reasons and with different policy implications. For example, some Marxist economists identify the real root of the crisis as being in the neomercantilist approach pursued by some member countries (Bellofiore et al. 2011). Supporters of the Varieties of Capitalism approach identify the key determinants of competitiveness divergences in the existence of different growth models within an EMU with an asymmetric architecture (Hancké 2012; Hassel 2014) and the existence, as a consequence, of different wage-bargaining coordination systems (Hall 2014). Others underline the importance of structural problems and the EMU's institutional weaknesses (Della Posta 2017), relative demand developments, credit booms, capital flows and effects of financialization, and financial deregulation and inequalities (Stockhammer 2015) in explaining the roots of the crisis. Most post-Keynesians scholars are convinced that trade balances are not the real key element for understanding eurozone crisis, which is instead the consequence of the neoliberal fiscal and monetary policies of the EMU (see Stockhammer et al. 2015).

In order to construct an alternative narrative, it is necessary to reconcile these different analyses within a 'story'. The alternative narrative should overturn the idea that the crisis arose from mistakes made by lazy countries, to underline how the crisis arose instead from the difficulty of reconciling the interests of strong and weak countries within the EMU architecture. The key episodes of this narrative were the creation of the EMU as a competitive arena in which both strong and weak countries have sought to exploit the benefits of membership, the imbalances created by progressive liberalization and financial deregulation, the progressive loss of decision-making power by the peripheral countries in favour of greater influence by the stronger countries (privatization processes are a good example of this tendency), and the outbreak of the crisis with its dramatic consequences especially for the weaker countries.

3.2.1 *Exploiting the membership*

That some member countries have exploited their membership by increasing the risk at the community level is well known. Well before the crisis, some countries that did not have the prerequisites to become EMU members have somehow manipulated their position to access and enjoy the economic benefits of membership. As documented by Scharpf (2011: 172), the Maastricht criteria, necessary to access the monetary union, were 'met by a considerable number of unlikely candidate countries – sometimes through creative accounting, but mainly through heroic efforts at budget consolidation and "social pacts" whose short-term effectiveness was not necessarily sustainable over the longer term'. Morales et al. (2014) explain the role of the neoliberal agenda and state privatization in favouring the use of creative accounting. However, the relevant aspect is that other non-peripheral countries have also exploited their membership and gained from the presence of weaker countries.

European institutions have admitted that the introduction of the euro has led to imbalances. The European Commission's (2008: 52) 'EMU@10' report recognized 'the sharp fall in interest rates in some countries and the adoption of conversion rates of national currencies to the euro that in several cases were either too high or too low from a medium-term point of view'. Beyond this, according to Scharpf (2011: 174), since the uniform ECB interest rates were targeted to the average economic conditions in the EMU, they had an asymmetric impact on member countries. Indeed, for those countries with below-average rates of growth and inflation, the uniform ECB interest rates were too high, and the real interest rates were even higher with depressive effects for the economy; and the contrary happened for countries with above-average rates of growth and inflation. As a consequence, while Germany became the 'sick man of Europe' (*The Economist* 1999), in the so-called GIPS economies (that is, Greece, Ireland, Portugal and Spain) low interest rates favoured a sharp increase in credit-financed domestic demand that fuelled real-estate bubbles (especially in Ireland and Spain). Beyond this, labour demand also increased, which resulted finally in higher wages, competitiveness loss, and a sharp increase in current-account deficits and external indebtedness.

European institutions are convinced that imbalances are a consequence of labour cost increases and competitiveness loss in peripheral countries. As a consequence, the burden of adjustment must lie with the countries that must cut wages and restore competitiveness. However, this interpretation takes for granted a causal relationship that attributes current-account imbalances to labour cost increases. Gabrisch/Staehr (2015) found empirical evidence supporting the hypothesis that 'countries subject to large capital inflows experience upward pressure on relative unit labour costs' (ibid.: 573) so that 'capital flows from the European core to the periphery contributed to the divergence in unit labour costs across Europe prior to the global financial crisis' (ibid.: 558). This is in line with Gros's (2010: 1) analysis, which claims that 'restoring competitiveness in some member countries (Spain, Greece) would require others (Germany in the first instance) to accept deterioration in theirs'. Beyond this, 'even assuming that governments could identify and implement structural reforms that yielded quick productivity gains, it is not clear that higher productivity leads to increased competitiveness' (ibid.: 2). All this calls into question the role of surplus countries in determining imbalances.

Through the Hartz reforms that took place between 2003 and 2005, Germany has been able to reduce unemployment, unit labour costs, and wages, and boost export (Dustmann et al. 2014). The resulting rise in current-account surplus was accommodated by equally rising capital outflows towards peripheral countries.

Scharpf (2011: 179) claims that 'in contrast to the currently popular narratives, external indebtedness even in Greece and Portugal was mainly, and in Spain and Ireland exclusively due to private-sector rather than public-sector borrowing', and it has been balanced by capital inflows from surplus countries. The role of the surplus economies has gone rather into the background, although 'the excessive deficits of the peripheral countries would not have emerged if they were not heavily supported by other countries' banking sectors', in particular 'some countries were willing to finance the deficits, mainly Germany and France' (Priewe 2018: 54). As a consequence, it appears that core countries have also used their EU membership strategically to get particular, albeit legal, advantages. Following the crisis, this attitude appeared clearly to be, whether consciously or not, to the detriment of the peripheral countries. Indeed, peripheral countries became extremely vulnerable to the turbulence of financial markets. This turbulence could have triggered capital flight followed by liquidity and solvency crises. In these circumstances, even the toughened version of the SGP 'would have done little to reduce the economic vulnerability of the GIPS economies' (Scharpf 2011: 179).

An aspect that should not be underestimated is that imbalances do not concern only trade or capital flows. As noted by Gräbner et al. (2020), since the introduction of the euro a process of structural macroeconomic divergence and polarization has taken place especially in terms of technological capability, and formed a 'core–periphery' pattern amongst eurozone countries. This process has continued since the crisis and is difficult to solve without a coordinated industrial policy intervention. Unfortunately, as documented by Heimberger/Kapeller (2017), the European Commission has been unable to properly interpret this phenomenon and its fiscal regulation framework has contributed to increasing this 'core–periphery' structural divergence.

3.2.2 European financial liberalization and deregulation

The process of liberalization and deregulation of European financial systems is a key aspect for understanding what happened to cause the crisis. Many peripheral countries have had to speed up their financial liberalization process in order to access the union by guaranteeing the removal of any barrier to financial flows. Capital liberalization has been a cornerstone of the European financial integration process and has been strongly supported by Franco-German political cooperation – a support that has probably been strengthened by the economic interests of some countries' banking systems. Starting from the late 1980s and 1990s, there has been 'a shift in German and French banking cultures, as banks previously seen as focused on the conservative, risk-averse domestic market looked to investment banking and abroad to increase profits' (Hardie/Howarth 2009: 1021), with a growing use of derivatives in trading activities. Despite the reticence of countries such as Greece, Ireland, Spain, Italy and Portugal, 'within a few years the [European Community] was entirely a community of mobile capital, despite not being a community that entirely agreed on the virtues of such mobile capital' (Abdelal 2007: 72). Unfortunately, this process has not been accompanied by a strengthening of supervision. Indeed, financial surveillance and regulation have been left to individual countries. As a consequence, the systemic risk increased significantly within the European financial system (Eichacker 2017).

The strong pressure towards capital mobility and financial deregulation were indispensable prerequisites for pursuing economic policies that have proven to generate macroeconomic imbalances. Pérez Caldentey/Vernengo (2012: 92) claim that that 'non-core countries did not have the means to counteract and offset core countries' "beggar thy neighbor policies"'. Eichacker (2017) claims that financial deregulation favoured some countries and in particular the market for German financial services. However, this process turned out to be risky even for the countries that initially benefited from it. Indeed, although exports and capital flows have guaranteed German growth, they also exposed Germany to the risk of the sovereign-debt crisis in peripheral countries as a consequence of growing current-account imbalances.

With the outbreak of the crisis, German and French banking systems were exposed to the risk of default. Indeed, as confirmed by Thompson (2015: 856) 'the German banks had poorer capital to assets ratios and were more dependent on funding from wholesale markets than those in either the UK, the USA or France. German and French banks were also the most exposed in 2009 to the periphery of the euro-zone. … [J]ust under half of foreign claims on Portugal, Ireland, Italy, Greece and Spain in the final quarter of 2009 belonged to Germany and France'. The possibility that the bail-outs of some peripheral countries were attempts to rescue core countries' banking systems cannot be excluded. Nikolaidou (2016: 22) claims that 'the aim of the initial bail-out was to offer a safe exit to private bondholders exposed to Greek bonds' and that 'most of the bail-out funds were used to bail out, directly or indirectly, the financial sector (both Greek and foreign) – not Greece'. Indeed, only 11 per cent of the total funding was 'used for the Greek state's operating needs. The rest went to the country's banks and to foreign creditors, mostly French and German banks' (ibid.: 22).

Probably the most painful aspect of the crisis is the fact that the weight of the rescue has fallen mostly on European populations. This aspect triggered the wave of social anger that undermined the trust of many European populations in the European institutions:

> [A] cynical ploy that transferred hundreds of billions of losses from the books of the French and German banks to Europe's taxpayers was presented to the world as the manifestation of European solidarity … . In essence, the private losses of French and German banks were spread around throughout the eurozone, forcing even the weakest citizens of the weakest of member-states to chip in. (Varoufakis 2016: 154–155)

Thompson (2015: 853) claims that 'the incentive for the German government both to present as German sacrifice initiatives that have in fact served the interests of German banks and to spread the cost of supporting those banks beyond German taxpayers was acute and consequential'. This aspect clearly shows the extent to which national interests can influence the dominant narrative, which obviously has not incorporated these issues. As Thompson (2015: 853) confirms: 'these interests must be acknowledged in a way that has been absent in much discussion of the euro-zone crisis'.

3.2.3 Foreign influence and privatizations

The process of financial liberalization and deregulation clearly shows not only the power imbalances among the eurozone countries, but also the influence that some of them had on the European institutions themselves. The analysis of some privatization processes and episodes of foreign influence clarifies the relevance of these issues and the competitive nature of the EMU. Well before the crisis, many of the financial resources absorbed by peripheral countries have contributed to favouring the businesses of foreign companies often in sectors that have little to do with the well-being of citizens. The Greek case is emblematic in this regard. Few scholars underline how much defence spending weighed on Greek debt. Nikolaidou (2016: 18) confirms that at the beginning of the European crisis 'Greece was the world's fifth biggest arms importer (after India, Malaysia, Singapore, and China), with most of the imports coming from the United States, Germany, and France' and that 'military expenditure contributed to the build-up of Greece's public debt'. An interesting aspect is that 'the French and German arms industries gained a lot from Greece's excessive spending. In the five years up to 2010, Greece purchased more of Germany's arms exports than any other country, and most of these purchases involved great scandals and corruption among Greek politicians and German companies' (ibid.: 18). The fact that enormous public expenditure on armaments is linked to episodes of corruption in which foreign companies are also involved is a phenomenon also commented upon by Sternberg et al. (2018: 34): 'some of the biggest corruption scandals in Greece involved Siemens, a German company … . [A] series of other German companies were implicated in corruption scandals also involving Greek politicians, with bribes having been paid for German military equipment sales to Greece'.

With the outbreak of the crisis there have been pressures to prevent cuts in military spending. Indeed, Sternberg et al. (2018: 34) reports on 'German politicians' failure to demand government cuts on military equipment expenditure while insisting on every other sort of austerity cuts'. In addition to this, foreign companies benefited from the pressure towards privatization. The Greek case is particularly representative. In 2015, Greece was forced to put up for sale important state assets in order to repay its creditors (for example, the ports of Piraeus and Thessaloniki, the Helliniko Olympic complex, airports, water, and natural gas companies, telecommunications, etc.). As a consequence, important infrastructure and companies passed into the hands of foreign companies (for example, Deutsche Telekom has become the largest telephone company in Greece and major Greek airports are now managed by the German public company Fraport).

Although the Greek case is particularly striking, it is not unique. Christodoulakis (2015: 109) claims that 'with reference to countries such as Greece, Portugal and Ireland, the obligation to massively privatize state-owned property became one of the pillars of the restructuring plans imposed by the troika to provide bailout funding, thus losing the freedom of choice for active state asset management, as in France and Germany'. Papadopoulos (2015: 14–15) confirms that 'privatizations are among the main objectives of the MoU [memorandum of understanding]' and that 'many other EU law provisions are encouraging privatizations'. The European Commission is convinced that privatization of public companies allows the reduction of public debt and costs connected to state-owned enterprises, to improve companies' efficiency, competitiveness and to attract foreign direct investment (European Commission 2011). However, some negative effects have been evidenced by recent privatization processes, such as state revenue reduction, corruption increases, poorer services, wage losses, and erosion of labour rights. Vila/Peters (2016: 5) claim in this regard that 'the blindness of the Troika to the detrimental effects of short-term liquidation of state assets may be ideological in nature, but it is bolstered by the growth of a powerful privatisation industry in Europe that profits immensely from these sales and actively lobbies for continued business'. Some scholars questioned the neutrality of the EU towards privatizations (for example, Papadopoulos 2015), and some concrete cases confirm the validity of these concerns. For example, the politics of privatizing public water promoted by the European Commission in Greece and Portugal has attracted a lot of criticism and has been followed by popular struggles. Bieler/Jordan (2018: 940) claim that 'the Athens Water Supply and Sewerage Company (EYDAP) and the water company of Thessaloniki (EYATH), both earmarked for privatisation, have historically been profitable, including the holding of significant cash surpluses, while also running efficient and high-quality services for consumers'. Given that the poor performance of private water companies is well known, this 'indicates the deeply politicised nature of the proposed capitalist restructuring of privatisation' (ibid.: 940). The analysis of other privatization processes helps us to understand the interests at stake and why in these cases 'politics interfere with economic rationality, often concluding with inferior outcomes' (Christodoulakis 2015: 109). According to Vila/Peters (2016: 11), there are serious conflicts of interest since 'most of the legal actors involved in the privatisation advisory business are also active in investor–state cases in Greece, Cyprus and Spain'. Similar conflicts of interest are present also in Italy, Ireland and Portugal.

For example, 'the Troika pressurised Ireland to sell off its lucrative energy supplier to alleviate the precarious financial situation it faced in 2012' but the operation has not been profitable at all for the Irish economy and in addition to this 'the state-owned company lost its profitable wind farms, plants and the right to supply gas to nearly a million customers in Ireland' (ibid.: 16). Similar results have been obtained from the privatization process of AENA airports in Spain. As noted again by Vila/Peters (2016: 18), if

> the Spanish taxpayer lost out, the same can't be said for the banks that coordinated the IPO … . Lazard, Europe's favourite privatisation advisor, played a key role in AENA's under-evaluation before its IPO as it helped determine the IPO price … . [O]ne of Lazard's asset management branches, Lazard World Dividend & Income Fund, acquired AENA shares at the IPO and sold them roughly a month later netting a 60% profit.

Vila/Peters (2016: 20) also note that

> many SOEs in Europe are actually being transferred not to private hands but from the hands of one state to another … . The privatisations in Greece, for example, have already led to the transfer of some of the country's assets to Germany and Azerbaijan. One country particularly active in buying up European state assets in recent years is China.

The EU seems to be starting to realize the risks associated with an excessive presence of foreign actors (such as China) in strategic sectors and the need to exercise strategic sovereignty (Anghel 2020). However, the consequences related to the loss of sovereignty in some privatization processes, to the advantage of other member countries, has been substantially ignored. This confirms the presence of political disequilibrium within the eurozone and the presence of conflicting interests between European member countries and institutions.

4 THE MORAL TEACHING OF THE NEW NARRATIVE

Through this new narrative, it is possible to pass from a story of virtuous ants and lazy cicadas to a story of big fishes and small fishes. If in the first narrative cicadas pay the right price for their mistakes, in the second one the small fishes pay the consequences of their desire (or their need) to live with the larger ones. The moral teaching of this new narrative is that a political disequilibrium exists within the EMU, and while weaker countries should limit their vulnerability, a more cooperative attitude should be promoted within the EMU.

4.1 The role of political disequilibrium

The aspect that appears particularly clear from this alternative narrative of the crisis is the political disequilibrium that exists within the EMU. The push towards liberalization that favoured some core countries' banking systems, the post-crisis narrative that placed all the responsibilities and adjustment burden only on peripheral countries, and the privatization process which has particularly benefited some countries' companies are only some examples of the consequences of political disequilibrium. Unfortunately, the potential economic consequences of the EMU's political imbalance have not been considered seriously enough in the economic literature. Despite this, especially with reference to fiscal policy, some scholars have started to recognize that 'powerful countries seem to be better able to change Commission assessments of fiscal policy' and that a publicly evident example was when 'Commission president Juncker admitted in 2016 that the Commission had given France leeway on fiscal rules "because it is France"' (Haas et al. 2020: 332).

It must be recognized that these imbalances were not created by the crisis but are a feature of the EMU architecture (Casagrande 2021). From the beginning 'the Euro Area represented an ambitious and bold political commitment to the promotion of European unification, an affirmation of the importance of political leadership, above all by France and Germany' (Dyson/Maes 2016: 1). Dyson (2000) recognizes a 'structural basis of a privileged Franco-German relationship at the heart of the operation of the Euro-Zone' which is 'provided by the weight of their two economies' (ibid.: 84) and that 'continues to be central in imparting political direction, in shaping the parameters of policy content, and in legitimizing its operation' (ibid.: 91). It should be emphasized, however, how some scholars are convinced that Germany is the real leader of the pair thanks to its economic predominance, whereas France appears to be 'co-opted by its more powerful neighbour' (Schoeller 2018: 1022).

Moreover, the Franco-German relationship is unstable. This appeared clearly during the crisis. Despite the fact that France and Germany played an important leadership role during the attempt to reform the eurozone's governance framework, from 2012 (when the 'Merkozy' era ended and a new French government was elected) their divergences deepened, due to a deterioration of French creditworthiness and an ideological shift induced by the new socialist government, making the bi-lateral leadership more challenging (Schoeller 2018). Schild (2013: 24) claims that 'the two governments did not develop a common comprehensive strategy based on a shared conceptual framework'; instead they proceeded through compromises between their different economic strategies, by combining through 'an additive logic' the French preference for temporary and permanent financial support schemes and the German goal of strengthening surveillance and fiscal rules. According to Schoeller (2018: 1021), this is the consequence of the divergence between French 'dirigism' (strong government) and German 'ordoliberalism' (strong rules).

The deep differences between the German and French economic philosophies and traditions influenced the entire European integration process. According to Brunnermeier et al. (2016: 43), 'the easiest explanation of the thought divergence of France and Germany follows simply from political structure'. By comparing French centralism and German federalism, it is clear that while 'France looks like a gigantic spoke system emanating from Paris, the political center … [,] Germany has multiple nodes, all connected with each other' (ibid.: 45). This political divergence is not without consequences for the European integration process. Indeed,

> the Federal Republic of Germany insists more on the principle of parliamentary approval of legislation and also on checks … . A constant irritant to Germany's partners in the European Union throughout the euro crisis was the German government's worry about the need to obtain the approval of the Bundestag for each of the rescue packages. (Ibid.: 45)

In addition to this, German leadership raised concerns especially on the part of the United Kingdom, the main supporter of an inter-governmental vision that has always jealously defended its sovereignty. It cannot be overlooked that this is one of the ideological roots of

Brexit. In general, the most serious concern is that the interests of the various member countries are necessarily conflicted and the most powerful countries have an advantage with respect to the others. Varoufakis (2016: 95) summarizes this situation as follows:

> French and German champions saw monetary union as a means of gaining power and pursuing what they perceived to be in their national interest, often against the interests of their European partners. … Ideally, Europe's institutions should have harmonized the national interests of its members into a common European will. But to assume that monetary union would automatically achieve this harmony, as long as Europe's money was bundled together, was a flight of dangerous fancy. That monetary union is good for Europe's economy and consistent with European democracy ought to be a theorem. Europe, however, decided to treat it as an axiom.

Despite the noble aims that many architects had set themselves by proposing the project of European unification, there is no doubt that the pursuit of national interests was a driving force in the unification process. As claimed by Connolly (1995: 98):

> Those outside the Bundesbank who paid lip-service to the goal of price stability did so as a way of furthering the pursuit of EMU, and they sought EMU as a way of furthering the pursuit of their own power. Wilhelm Nölling, Chairman of the Hamburg Landeszentralbank and a Bundesbank Council Member, put it very clearly at the beginning of 1991, saying: 'We should be under no illusion – the present controversy over the new European monetary order is about power, influence and the pursuit of national interests'.

The impossibility of creating a political union has generated within the EMU a competitive arena in which each member country has tried to pursue national interests even at the expense of the others. In this game, the weaker countries paid the highest price, often beyond their actual responsibilities.

4.2 Limiting countries' vulnerability and improving cooperation

Dependence on external financing has proved to be extremely damaging for peripheral countries. The Greek case is particularly emblematic. As confirmed by Reinhart/Trebesch (2015: 307),

> since its independence in 1829, the Greek government has defaulted four times on its external creditors – with striking historical parallels. Each crisis is preceded by a period of heavy borrowing from foreign private creditors. As repayment difficulties arise, foreign governments step in, help to repay the private creditors, and demand budget cuts and adjustment programs as a condition for the official bailout loans; political interference from abroad mounts, and a prolonged episode of debt overhang and financial autarky follows.

The authors point out how, 'in the case of Greece, the debate has focused on other issues, such as debt sustainability, contagion effects, the need for reform, and the associated political economy problems. The fact that the ongoing crisis is very much an *external* debt crisis has been largely overlooked' (ibid.: 308, emphasis in original).

What the member countries most affected by the European sovereign-debt crisis really have in common is not a poor adherence to the principles of fiscal discipline but a strong dependence on foreign borrowing. The potential connection between external debt and the crisis has been recognized (see, for example, Manasse/Roubini 2009), and some scholars have started to seriously consider the potential role of external liabilities in triggering the eurozone crisis (for example, Catão/Milesi-Ferretti 2014). There is an interesting debate especially among post-Keynesians about the connections between current-account imbalances and the debt crisis within different finance-dominated capitalist growth regimes (see Hein/Martschin 2021; Niechoj/van Treeck 2011; Stockhammer et al. 2020).

As noted by Gros (2013), countries such as Spain, Portugal, Ireland and Greece, which today are considered the periphery of the union, were considered fast-growing economies before the crisis. In terms of fiscal discipline, Spain and Ireland had debt-to-GDP ratios that were lower than the European average, Portugal's debt and deficit ratios were not so different from France's, while Belgium's debt-to-GDP ratio was higher than the European average. The difference is that Belgium has run current-account surpluses, thus accumulating a large stock of foreign assets, while periphery countries have run current-account deficits and incremented the percentage of their public debt held by foreign owners. As a consequence, it is not surprising that when the flows of capital stopped, peripheral governments and private sectors had difficulty in financing ongoing deficits, and 'this created the impression that excessive fiscal deficits and high public debts had brought these countries to the brink of default' (ibid.: 503).

Gros's (2013) analysis indicates that who holds the debt (residents or foreigners) may become a more important factor than the currency of denomination of that debt. However, the eurozone case seems particularly challenging. Indeed, some scholars are convinced that a eurozone member country's public debt denominated in euros is comparable to one denominated in a 'foreign' currency since no single member country has the power to influence ECB policy. Others claim that 'public debt issued by a euro area government and held by the residents of a different Eurozone country is *foreign debt*' with the problem that 'at the least sign of weakness and uncertainty, they are also ready to sell quickly the (foreign) bonds that they own' because this type of debt is more inclined to induce a self-fulfilling crisis (Della Posta 2017: 190, emphasis in original). According to De Grauwe (2012: 265), the loss of capacity to issue debt in a currency over which a country has full control, as in the case of eurozone countries, is a factor that increments vulnerability, because 'changing market sentiments can lead to "sudden stops" in the funding of the government debt' and consequently to a country's default.

According to Gros (2013: 512), in a crisis situation, the key variable is not the fiscal deficit, but the current-account balance, because

> a country with a balanced current account has, by definition, a sufficient flow supply of domestic savings to finance not only all domestic investment, but also the fiscal deficit. The view that the euro crisis is at its core a balance-of-payments crisis implies also that the debate about austerity is misleading.

Consequently, the role of public debt should be reconsidered, indeed 'the crisis is not due to the rise in public debts and deficits … . The crisis led to a huge rise in government debts and deficits' (Mathieu/Sterdyniak 2013: 190).

In conclusion, peripheral countries must limit their vulnerability by limiting foreign debt. This implies a more forward-looking management of the countries' economic resources, which cannot be limited to the control of the public-sector debt level. The aggregate indebtedness of an economy matters (foreign debt but also private debt), and the balance sheet of the entire economy should be considered, that is, the country's net international investment position (NIIP). As claimed by Turrini/Zeugner (2019: 161), 'the crisis has contributed to foster the adjustment of large and unsustainable current account imbalances in a number of countries, but overall NIIP positions continue to diverge'. Despite the fact that NIIP is one of the indicators that the European Commission uses for monitoring macroeconomic imbalances, it is important to properly interpret its components for understanding crisis roots and dynamics.

Surely peripheral countries should improve the workings of their own institutions. This improvement could take place by overcoming inefficiencies in terms of market, state and social failures and externalities inside economic, social and political institutions (see Casagrande/Dallago 2021; 2022). But a change of mentality is needed, which is able to understand the role of public expenditure for the progress of a country (Zuleeg/Schneider 2015) and the importance of a cooperative attitude on the part of the surplus countries for solving macroeconomic imbalances.

In a phase of low growth prospects, further worsened by the COVID-19 health emergency, many claim the need to activate counter-cyclical fiscal policies. The main obstacle to activating these policies is precisely the competitive attitude that characterizes the EMU. Priewe (2018: 75) reports that, according to some scholars, 'German policy should be geared to serve only own interests, like other countries are believed to do, but not "moral values" like helping other countries to shrink their deficits'.

Obviously, this reasoning would be correct if the pursuit of the 'own interest' would not imply damage to others. However, the crisis has shown that the economically and politically stronger countries have after all paid a very low price for their actual responsibilities, and that without cooperation the eurozone's prospects are not encouraging. The intervention of the outgoing President of the ECB, Mario Draghi, in one of his last speeches on 1 October 2019 at the Academy of Athens, is interesting in this regard. He claimed that

> there are two key dimensions that matter. The first is the ability to ensure stabilisation across countries. This is about finding the right balance between convergence and insurance. The second is the ability to ensure stabilisation over the cycle. This is about all policies playing an appropriate role in contributing to euro area growth.

The hope is that the cooperative attitude will become a common goal capable of promoting a new European narrative.

5 CONCLUSIONS

The importance of narrative in economics is expected to increase. Indeed, there is no doubt that narratives represent powerful tools for simplifying, manipulating and spreading certain interpretations of events or economic ideas and support certain policy decisions. The analysis of the role of narratives during the European sovereign-debt crisis allows us to understand the roots of the core–periphery divide. Indeed, the narrative adopted by the European institutions, and shared by many core member countries and promoted by the press, has recognized many responsibilities in the behaviour of some but not all countries.

Surveying the events of the crisis allowed us to present an alternative narrative. The crisis was not caused by a failure to comply with fiscal discipline and the latter is better seen as a consequence. The pursuit of national interests has prompted an excessively strong and fast process of liberalization and deregulation of the European financial system. The excessive deficits of the peripheral countries have been heavily supported by other countries' banking sectors. Many of the financial resources entering the peripheral countries have contributed, on the one hand, to fomenting real-estate bubbles and, on the other, to favouring the affairs of foreign companies. The Greek case is emblematic but not unique in this regard. The strong dependence on external financing has proved extremely damaging for peripheral countries with the outbreak of the crisis.

This alternative narrative overturns the idea that the crisis arises from mistakes made by lazy countries. The crisis is the consequence of the difficulty in reconciling the interests of economically strong and weak countries within the EMU's architecture. The moral teaching of this new narrative is that a political disequilibrium exists within the EMU's competitive arena, and while weaker countries should protect their national interests by reducing their vulnerability, a more cooperative attitude should be promoted within the EMU.

The COVID-19 crisis is a black swan event, which made even more evident the seriousness of the political and economic issues that emerged during the European sovereign-debt crisis, which have somehow been influenced by the dominant narrative. All this affirms the urgency to develop an alternative narrative that promotes cooperation among European member countries.

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