The paralysis of financial institutions and credit flows in the United States and United Kingdom during the second half of 2008 ushered in an economic-political crisis, the severity of which is matched only by the Great Depression. The crisis discredits the neo-liberal thesis of a nexus between free markets, unending economic growth and democracy. It creates much public hostility toward economic and political elites and it shifts power from the former to the latter, reversing the power shift that occurred during the preceding two or three decades. One explanation of the transatlantic crisis is that it stems from publics living beyond their means, for which they must pay with protracted austerity. But another explanation views the crisis as a top-down disaster resulting from the fanciful beliefs of elites in neo-liberal shibboleths and in a European currency union without fiscal union.

No matter how blame for the crisis is apportioned, it is obvious that elites – the principal decision-makers in powerful public and private organizations at national and supranational levels – are the pivotal actors. The crisis is the hour of elites. It impels elite interactions of unprecedented intensity and scope and the actions and inactions of elites are its main inflection points. This volume investigates what elites have done and how they have changed during the transatlantic crisis. It asks what the primacy of elites, especially non-elected elites heading the US Federal Reserve, Bank of England, European Central Bank, European Commission and International Monetary Fund, as well as elites controlling transnational banks and corporations, means for democratic politics.

In mid-summer 2013 the crisis had not ended. The Greek economy was 20 per cent smaller than in 2007, having shrunk 5 per cent during the first half of 2013 alone, and further bailouts of Greece and Portugal were distinct possibilities; Italy was in its deepest economic recession since World War II; France was struggling with a heavy load of public debt and had not recorded significant economic growth for years. After registering two successive quarters of negative GDP growth during 2012, Germany’s economy was forecast to grow by a negligible 0.3 per cent in 2013. Ireland’s economic recovery was seen in retrospect to have been partly an artifact of tax-avoiding British firms relocating their addresses to Dublin, thereby
producing unreal increases in Ireland’s balance of payments and national accounts; during 2013, in fact, Ireland was in its fifth consecutive year of economic decline.

More broadly, GDPs of the European Union’s 27 member states (28 after Croatia’s accession in July 2013) contracted an average of 0.6 per cent during 2012 and those of the 17 euro-zone economies (18 after Latvia joined in July 2013) an average of 0.9 per cent, with comparable further contractions forecast for 2013. Eurostat, the EU’s statistical office, reported in July 2013 that during the 12 months to March the gross domestic debt of euro-zone countries increased by 4 per cent to a record 92 per cent of total GDP, while that of the entire EU increased by 3.5 per cent to 86 per cent of GDP. Across the whole of Europe in mid-2013, 26.5 million men and women, including 5.7 million young people, were unemployed and 12.5 per cent of the euro-zone workforce was jobless. Economic and political distance among and between EU and euro-zone states was widening. Doubts about continued UK membership in the EU spread and southern euro-zone countries were expressing bitter resentments over their treatment by northern countries. Meanwhile, Germany and several other northern countries had grave reservations about a proposed banking union able to close insolvent banks, prop others up and insure deposits to prevent bank runs.

On the Atlantic’s west side, US economic recovery was anemic, partly because of indiscriminate cuts in government spending produced by a deadlocked and polarized Congress. Housing prices were rising, but quasi-government agencies, Freddie Mac and Fannie Mae, were guaranteeing an unprecedented 87 per cent of new mortgage loans. Likewise, rising stock market prices were propelled by the Federal Reserve Bank’s third round of ‘quantitative easing’ (QE), whereby ‘the Fed’ purchased $85 billion of bonds each month from banks and the Treasury, which then made low-interest loans available to investors who used the cheap money to buy equities and push stock prices up. Between September 2012 when the Fed began QE-3 and July 2013, it purchased bonds totaling $800 billion. When the Fed hinted in June 2013 that it might taper QE, a sharp sell-off in US and nearly all other stock markets occurred within hours. In the US labor force, 7.6 per cent of workers – some 12 million people – were unemployed and another 8 million held part-time, mostly low-wage jobs, double the number before the crisis.

This is a lengthy but hardly exhaustive list of 2013 ailments stemming from the crisis. It must be said, however, that an economic meltdown and a democratic breakdown on the scale of the 1930s had been avoided. In summer 2013 pictures of violent upheavals were coming from Cairo,
Istanbul and Sao Paulo, not from Athens, Lisbon and Rome. In Germany and several other EU countries crisis management had been largely successful, as indicated by modest unemployment rates and debt totals. No one could forecast confidently what the next year or two would bring. But one could say with considerable certainty that Europe’s historic effort to integrate and the health of economies and political systems on both sides of the Atlantic remained at risk.

This paper sketches a framework for thinking about elites and crises and it ponders the framework’s fit with the actions and inactions of elites before and during the transatlantic crisis.

The Hour of Elites

There is no agreed definition of crises, which take many forms and have many different effects (Dogan and Higley, 1998). At a minimum, a crisis is an abrupt, momentous event or short sequence of events threatening to injure a society greatly. Its hallmark is pervasive uncertainty about what will happen and, therefore, an inability to calculate political and other risks with confidence. This is felt most keenly among elites. They are uncertain who will prevail in conflicts and what various leaders and groups will or will not do. Although a crisis often affords elites expanded latitudes of action, uncertainty makes the assumptions on which they act dubious. During a crisis the overriding aim of elites is to transform uncertainty into calculable risks. In this and many other ways a crisis is the hour of elites.

Economic disasters are a distinct kind of crisis (Haggard and Kaufman, 1995). A sharp deterioration in aggregate economic performance harms many people and forces elites to pursue new policies. However, new policies usually alarm those who benefit most from existing policies and who support elites identified with them. If elites are unable to fashion policies that ameliorate a crisis and mobilize enough support for those policies, they are likely to be replaced. Like a defeat in warfare, an economic crisis presages elite change.

Three broad elite configurations strike us as relevant to an economic crisis. The first is Vilfredo Pareto’s notion of demagogic plutocracy – rule by the wealthy through a powerful business-financial elite intent on ensuring profits flow to the wealthy and losses accrue to governments and taxpayers (Pareto, 1916/1935, paras. 2228, 2255, 2309; see also Pareto, 1921). In a demagogic plutocracy fiscal and monetary policies result from maneuvers aimed primarily at securing plutocratic interests. An elected legislature or parliament is the forum for these maneuvers. The premium is on protecting rather than creating wealth and gaining public acquiescence by providing
government jobs and limited social benefits (Femia, 2006, p. 110). However, the disjunction between protecting wealth and mollifying the public leads to swelling government debt. Eventually, debt and market distortions become unsustainable, credit dries up, financial institutions teeter on insolvency and an economic crisis occurs. The crisis that began in the US and UK during 2008 might be viewed as the culmination of a Paretian demagogic-plutocratic cycle.

A second configuration, étatism, is in important respects the mirror image of demagogic plutocracy. Instead of a powerful business-financial elite shaping directions in which profits and losses flow, political and state administrative elites orchestrate economic enterprises and extract profits and tax revenues that enhance state power (Levi, 1988; Genieys, 2010). In a demagogic plutocracy wealth is protected more than created; under étatism state interests are promoted at the expense of economic growth. A cohesive and self-conscious political class, disconnected from the larger society, forms around elites controlling the state. Étatist maladies of smug state office-holders, excessive taxation, misallocation of economic resources and unsustainable sovereign debt may help explain the vulnerability of many euro-zone countries to an economic crisis that had demagogic-plutocratic origins in the US and UK.

A third configuration is elite segmentation. A half century ago Suzanne Keller (1963) postulated the rise of ‘strategic elites’ located in the political, economic, civil service, scientific and other differentiated sectors of modern societies. She theorized that elites are increasingly diversified and specialized, heterogeneous in social composition and relatively autonomous. Keller later worried that elites were segmented into ‘separate and contending islands’ (Keller, 1991, xxi), each with its own agenda and beholden to its own clientele. Actions of segmented elites are propelled by conflicting dynamics, for example, those of economic versus electoral markets. One might speculate that excessive segmentation of political and business-financial elites and, for that matter, of national and supra-national political elites was an important cause of the post-2008 economic crisis and constitutes an obstacle to resolving it.

Demagogic plutocracy, étatism and elite segmentation are ideal types against which observable actions and patterns can be compared. No elite discussed in this volume accords pristinely with one or another type; all are mixtures. Yet features of each type are more prevalent in some elites than others, and this variation sheds light on why elites have responded differently to the crisis. It needs to be noted that none of the types is antithetical to a practical degree of democratic politics. In Joseph Schumpeter’s well-known formulation, a ‘competitive struggle for the
people's vote' occurs in all three types, although the struggle is circumscribed and orchestrated somewhat differently by political elites according to which type they most resemble (Schumpeter, 1942, p. 269; Best and Higley, 2010, pp. 1-15). Where demagogic plutocracy is fairly pronounced, business-financial elites bankroll competing political parties and set parameters for 'acceptable' policies and debates. Where étatism tends to prevail, democratic competitions produce parliaments that bend to priorities of state executive, administrative and specialized policy elites. Where elites are preponderantly segmented, the multiplicity of interests they articulate tend to befuddle voters and inhibit clear electoral outcomes. All three elite configurations limit but do not nullify democratic politics, and pressures that flow through democratic politics constrain elites.

**The US and UK Crisis**

The enormous wealth accumulated by pioneering successive stages of Western industrialization and, since World War II, post-industrialization, coupled with political systems that greatly advantage the wealthy, give the US and UK aspects of demagogic plutocracy. Myriad studies demonstrate a plutocratic distribution of wealth and income in both countries (for the US see Saez and Pikerty, 2003; Noah, 2012, pp. 144-63; for the UK see Hills, 2010). Studies show, moreover, that the decades preceding the outbreak of crisis in 2008 were a bonanza for American and British plutocracies. Measured by the Gini coefficient (0 = perfect equality; 1 = perfect inequality), between the mid-1980s and mid-2000s overall inequality in the US increased from 0.34 to 0.38 and in the UK from 0.32 to 0.34. By comparison, the coefficient for Germany during the same period rose from 0.26 to just on 0.30, and Sweden's coefficient increased from 0.19 to 0.23 (The Economist, 22 January 2011, p. 8, compiling OECD and World Bank studies).

Many studies also demonstrate the extent to which the US and UK political systems are mechanisms for protecting entrenched wealth (Domhoff 1990, 2010 and Chapter 7 in this volume; Dye and Zeigler, 1996; Sampson, 2004; Mount, 2012). Politics in both countries tend to conceal plutocratic interests, as in countless renditions of the American Dream's promise of social mobility and a home of one's own and comparable recitations about the essential fairness and rectitude of British society. Demagogy is employed to whip up public enmity against persons and projects jeopardizing plutocratic interests: a treasonous plot by an illegitimate president (Obama) to transforms the US into a 'European socialist country'; the abject surrenders of British politicians to imperious
Brussels bureaucrats. Pareto’s encapsulation of hoodwinking in demagogic plutocracies is apt: ‘The many honest ingenuous souls who are ignorant of the real nature of things are attended to with derivations in endless variety that serve to conceal the real causes of corruption under veils of tolerance of human frailties, pity, community pride, patriotism, and the like’ (1916/1935, para. 2262).

Except for an upward spurt associated with the IT revolution between 1996-2000, economic growth in the US and UK, measured by GDP, was generally lackluster after both countries emerged in the early 1980s from serious bouts of stagflation (low growth, high inflation). Policy packages that came to be known as Reaganomics and Thatcherism sought to boost growth by rolling back the state, freeing markets and unshackling business. In the US during 1982, the Reagan administration secured congressional passage of the Garn-St. Germain Depository Institutions Act. The Act relaxed regulation of Savings & Loan associations and banks, enabling them to, in effect, gamble with taxpayer money because the federal government doubled its guarantee of S&L deposits. When, a few years later, 1,400 S&Ls became insolvent (1,300 banks also failed) the administration headed by Reagan’s successor, George H.W. Bush, had to bail out S&Ls at a cost of $250 billion to taxpayers (Eichler, 1989, pp. 86-146). Despite the S&L debacle, Republican and Democratic elites alike stoked the housing market and home construction industry by having government-backed enterprises, known informally as Fannie Mae and Freddie Mac, guarantee packages of mortgages that banks increasingly issued to home buyers with poor or even non-existent credit ratings. The government-backed packages became the basis of a risk-free and highly lucrative trade in sub-prime mortgage-based securities among US and overseas financial institutions.

In 1999 Congress, lobbied by the powerful business-financial elite, passed a Financial Services Modernization Act. This allowed mergers and direct competitions between banks, insurance, investment and securities-trading firms. It also exempted securities-based swap agreements – crucial for rapidly expanding and enormously profitable hedge funds – from government regulation. Bankruptcies of large energy and communications corporations – Enron, Global Crossing, WorldCom – marred the Millennium’s start, but the business-financial elite succeeded in portraying them as instances of mismanagement, not harbingers of crisis. Despite tens of thousands of employees losing their jobs and most worldly possessions, less than a handful of top corporate executives were prosecuted. Also pressured by the business-financial elite, the Securities & Exchange Commission (SEC) in 2004 allowed investment banks to triple their leverage ratios of capital assets to debts outstanding. The SEC’s failure to
heed warnings about a $60 billion Ponzi scheme operated by Bernie Madoff out of a small store in New Jersey illustrated its hands-off posture vis-à-vis financial firms and markets.

During most of this long de-regulatory period, government deficits and gross public debt rose. This was due initially to Reagan administration tax cuts and a large deficit-financed defense buildup. Twenty years later, deep tax cuts by the George W. Bush administration and its deficit-financed military interventions in Afghanistan and Iraq – which absorbed $2 trillion of the $9 trillion debt accumulated after 2001 (Stiglitz and Bilmes, 2013) – made matters worse. By 2006 the federal budget deficit amounted to 6.5 per cent of GDP ($800 billion). Excessive financial leveraging, promiscuous credit practices and swelling consumer debt created huge bond and real estate bubbles. Members of the business-financial elite and the much larger stratum of wealthy Americans pocketed outsized profits. Top employees of the five largest investment banks, for example, received annual performance bonuses totaling more than $34.3 billion in 2006 and $36 billion in 2007 (New York Times, 27 February 2013). Yet GDP growth remained tepid and between 2000-2008 it actually decelerated at an increasing rate (Financial Times, 23 July 2010 and 11 September 2012). Proclaiming its faith in self-regulating markets, the US Federal Reserve acted as cheerleader for the market bubbles and treated them with benign neglect. A few economists warned of financial catastrophe, but the prevalent view among business-financial and political elites was that modern monetary institutions and practices are so invincible that ‘this time is different’. As the two scholars, Carmen Reinhart and Kenneth Rogoff, who employ this phrase observe, ‘The ability of governments and investors to delude themselves, giving rise to periodic bouts of euphoria that usually end in tears, seems to have remained a constant’ (2009, p. 292).

The Thatcher government’s most dramatic step was the so-called ‘Big Bang’ de-regulation of financial institutions and the London Stock Exchange in October 1986. This paved the way for a bevy of mergers, alliances and networks spanning banks, investment and securities-trading firms. With the arrival in London of US banks and hedge funds during the late 1980s and early 1990s, ‘the City’ became an entrepôt of international finance. Although the Big Bang made abuses and concatenating bank and other financial failures more likely, it was embraced by most British elites and applauded by American and other elites overseas.

The UK’s forced exit from Europe’s exchange rate mechanism in 1992, political scandals, widening social inequality and ballooning government debt led to the Conservatives’ landslide electoral defeat in 1997. Tony Blair and his ‘new’ Labour team took over, but Blair’s three successive
governments instituted no large changes in economic policy. Some government services were privatized and no major restrictions on financial firms and markets were imposed. In 2007 Blair was replaced by Gordon Brown, who as Chancellor of the Exchequer had been applauded by the business-financial elite for his permissive policies toward 'the City' and its red-hot financial sector. Almost immediately, however, Brown faced the bankruptcy of Northern Rock Bank and its unavoidable nationalization. This occurred three months before the US government decided to force a government-subsidized sale of Bear Stearns investment bank in New York in order to skirt Bear's outright bankruptcy. The Northern Rock and Bear Stearns imbroglios signaled the close approach of financial crisis.

The crisis exploded in September 2008 with the insolvency of Lehman Brothers investment bank, the largest bankruptcy in history, and the Bush administration's decision to let it collapse. Within a matter of days credit markets seized up, leaving financial firms and corporations uncertain if they could pay creditors and meet payrolls. As recounted by participants and informed observers (for example, Paulson, 2011; Bair, 2012; Sorkin, 2011), frantic meetings and communications between top Treasury officials, Federal Reserve Board members and CEOs of the largest banks and investment firms led to a hastily concocted Temporary Asset Relief Program (TARP). Arm-twisted by the administration and by stock markets falling like stones, a reluctant Congress appropriated $740 billion with which to bail out major banks and insurance companies with TARP loans in return for government-owned shares in the companies. Thus American International Group (AIG), a financial conglomerate with global reach, received $182.5 billion in return for the government holding 92 per cent of its shares. Banks 'too big to fail' such as Citigroup, Wells Fargo, JP Morgan Chase and Bank of America, along with equally big investment firms such as Goldman Sachs and Morgan Stanley together received $125 billion in TARP loans with government shares in them used as collateral. Reflecting the business-financial elite’s political power, holders of stocks and bonds in these firms were not required to suffer losses, and creditors of the bailed-out companies were paid in full. The semi-public entities, Fannie Mae and Freddie Mac, which had done much to foster the housing market bubble by giving investors confidence to buy securities stuffed with thousands of bundled home mortgages, teetered on insolvency and had to be put into conservatorship at a cost of $180 billion in taxpayer money.

The crisis and TARP bailouts occurred when the 2008 presidential election campaign neared its climax. The credibility of Republican candidate John McCain was demolished and the Democrats’ Barack Obama won the presidency. When the Obama administration took office in early 2009, jobs
were disappearing at the rate of 780,000 a month (Blinder, 2013, pp. 19-22). To prevent financial collapses of General Motors and Chrysler and the loss of several hundred thousand jobs sustained by them, the administration purchased a majority of GM shares and arranged Chrysler’s ‘shotgun marriage’ to Fiat. The Obama administration moved quickly to stimulate the economy through a $787 billion Recovery and Reinvestment Act (subsequent renewal of some of its provisions brought the total to $1.4 trillion). Between late 2008 and mid-2010 the Federal Reserve provided $1.2 trillion in emergency loans to the financial sector (Scheiber, 2011, p. 130). The probable duration and severity of the crisis were nevertheless underestimated. The $787 billion Recovery and Reinvestment Act stimulus, believed to be the maximum Congress would approve (only three Senate Republicans and not a single House Republican voted for it), stopped economic free fall but did not spark recovery. During 2009, GDP contracted by 9 per cent; equity, commodity and other markets dropped precipitously; 120 banks, several of them among the largest, failed; and by February 2010 the cumulative jobs deficit was about 12 million (Blinder, 2013, p. 11).

Elite responses to the crisis were complicated by the Obama administration’s early decision to attempt sweeping reform of the country’s costly private health care system. The reform effort involved more than a year of intricate maneuvers in Congress plus extended negotiations with a galaxy of powerful interest groups representing the many companies that profit from the health care system. In March 2010 Congress passed an elaborate Affordable Care Act, but no Republican voted for it. The still dire economic situation and the health care controversy fueled an insurgent ‘tea party’ faction within the Republican Party bent on portraying Obama and his administration as responsible for the country’s economic plight. In the mid-term 2010 elections Democrats lost 63 seats in the House of Representatives, giving Republicans control. Republicans also won a record 720 seats in state legislatures, adding control of 20 state legislative chambers and 11 governorships to their column. Triumphant congressional Republicans set about blocking further measures to stimulate the economy and Republican governors and state legislatures instituted large cuts in public sector employment that retarded economic recovery. In a bitter mid-2011 confrontation, congressional Republicans resisted raising the ceiling on government borrowing and made an eventual ‘sequestration’ of federal government spending, other than for social security, health care and veterans benefits, their price for allowing additional borrowing. The US lost its triple-A credit rating when the S&P rating agency concluded that Washington policy-making was too unstable.
It took until March 2013 for the Dow Jones stock index to reach its pre-crisis level in nominal dollars (adjusted for inflation it was still 10 per cent below its October 2007 high). Unemployment remained at 7.6 per cent and 12 million people were still without jobs. In October 2012 the Federal Reserve had promised to buy bonds and mortgage-backed securities at the rate of $85 billion per month and keep interest rates on government bonds near zero (its third round of QE) until unemployment declined to 6.5 per cent. At the end of 2012 the US government’s current account deficit was half its pre-crisis high of more that 6 per cent of GDP. A sense that the crisis was abating underlay Obama’s decisive re-election to the presidency in November 2012, although Republicans retained control of the House of Representatives and vowed to force further reductions in federal government spending. After protracted theatrics, Congress avoided going over a ‘fiscal cliff’ on New Years Day 2013 by making Bush administration tax cuts for all but the highest income earners permanent and ending a temporary reduction in the employee payroll tax. On 1 March, however, the sequestration of government funds Republicans had insisted on in mid-2011 as their price for raising the ceiling on government borrowing took effect, with $86 billion cut from ‘discretionary’ government expenditures. The mudslinging that accompanied the fiscal cliff and sequestration confrontations epitomized the increased political elite polarization that is a legacy of the crisis.

Between the onset of crisis in 2008 and July 2009 in the UK, GDP fell by 7.1 per cent and by the end of 2009 nearly a million jobs were lost. One authoritative commentator, Martin Wolf, believes it ‘quite likely that the crisis will cost the UK a sixth of gross domestic product, in perpetuity’ (Financial Times 21 June 2013). The crisis was centered in the biggest British banks and on 8 October 2008 the Brown government injected $87 billion into eight of the banks in return for shares in them. The accord known as Basel II, reached in 2004 but not agreed to by Washington’s watchdog agencies, allowed British and continental banks to hold much lower ratios of capital to assets than the Basel I accord in 1988 stipulated. The Basel II ratios left banks potentially unable to pay creditors with capital on hand should they suffer sudden and sharp losses. The folly of this arrangement was made apparent by the crisis, and in 2010 Basel III required banks to hold a higher ratio of capital to assets. After intense lobbying by American and European banks, however, the Basel III requirements were loosened and the deadline for banks to comply was postponed to 2019.

In 2008 the Royal Bank of Scotland (RBS) was the biggest bank in the world, with assets of $3.5 trillion. Invoking Basel II, RBS had lowered its
capital-to-assets ratio to less than 1 per cent. When real estate and other markets turned sharply down, RBS suffered a loss of about $12 billion (0.3 per cent of its assets). Without sufficient capital on hand to cover this loss, RBS had to be nationalized by the government purchasing more than 80 per cent of its shares. Lloyds Banking Group and three other major British banks were in the same boat and were kept afloat by government purchases of shares in them. Together, the purchases cost more than $100 billion in taxpayer funds, the Bank of England injected another $850 billion into the financial sector, and at a G-20 meeting in April 2009 Gordon Brown orchestrated a commitment of $1.1 trillion from central banks to British and other crisis-wrecked banking systems. Total government interventions across the entire British banking sector amounted to 76 per cent of Britain’s annual GDP (New York Times, 20 May 2013). To breathe life into the nearly asphyxiated UK economy, the value added tax was lowered by 2.5 per cent.

As TARP had done in the US, the Brown government’s actions prevented economic collapse. But as with the US Democrats, this did not save the Labour Party from losing 91 seats in the May 2010 parliamentary elections. Conservative MPs elected for the first time in 2010 thereafter comprised 48 per cent of the party’s ranks in the House of Commons, one of the largest waves of newcomers in British parliamentary history and a measure of the political upheaval triggered by the crisis. A Conservative-Liberal Democrat coalition government, headed by David Cameron as PM, emerged in the hung parliament after the election. Perceiving the UK’s large budget deficit and swollen public debt as the greatest threats, Cameron and his ministers embarked on a stringent austerity (‘fiscal consolidation’) program. George Osborne, Chancellor of the Exchequer, confidently asserted that by the time of the next election in 2015 public debt would be reduced by some $100 billion through cuts in government spending and tax increases. However, the chronically weak British economy showed little or no growth, the debt-to-GDP ratio worsened, tax revenues declined and a fall in sterling’s value made imports more expensive, which contributed to an inflation rate of 5.2 per cent in September 2011. At the start of 2012, Britain’s annual GDP was 3.8 per cent below its pre-crisis level and the economy experienced two successive quarters of negative GDP growth during the year. Late in 2012, Cameron and Osborne announced that austerity measures would be extended to 2017, and in his autumn budget statement to Parliament Osborne further extended them to 2018.

The austerity program contributed to spreading ‘euro-skepticism’ in the political elite and British public. From the time of the UK’s admission to the EU in 1972, issues too numerous to recite kept UK relations with Brussels and various other member states prickly. However, the British
The state bulks larger in European countries than in the US and, arguably, the UK. The American state is hemmed in by many constitutional limitations and a strong tradition of parliamentary supremacy constrains the British state. In most continental European countries, however, the state has long been the decisive economic actor, although its centrality and power vary among countries in ways too intricate and numerous to catalogue here. It is perhaps enough to emphasize the close connections between states and large economic enterprises, whether private or public, as indicating a broad, albeit uneven, étatism in continental European countries. In none does less than 40 per cent of GDP flow through state coffers, and in France, the étatist archetype, the proportion in 2012 was 56.6 per cent, with 30 per cent of the French GDP spent by the state on social programs and the public sector (New York Times, 28 June 2013). The high proportions of MPs in European parliaments whose previous careers were in their countries’ public sectors is another manifestation of the étatist tendency (Cotta and de Almeida, 2007, pp. 51-76),

economy and business-financial elite benefited greatly from access to the single market and creation of the euro zone: 40 per cent of Euro currency exchange is transacted in ‘the City’, for example. A ‘Brixit’ from the EU was more or less unthinkable among political and business-financial elites until abrasions over EU measures to combat the crisis, especially the euro-zone crisis, multiplied. Efforts to create a centralized banking union supervised by the ECB was one abrasion; an EU-mandated cap on annual bonuses for high performers in EU-based banks and financial firms was another; a proposed increase of the seven-year budget for the European Commission was a third. During 2012 and the first half of 2013 a majority of the British public appeared to favor leaving the EU, and a phalanx of backbench Conservative MPs – many of them newcomers bearing a family resemblance to ‘tea partiers’ elected to the US Congress in 2010 – agitated for an ‘in-out’ referendum on UK membership. Moreover, the radical UK Independence Party (UKIP), which urged a ‘Brixit’, seemed poised to attract significant numbers of Conservative and Labour voters. These developments forced an obviously reluctant Cameron to promise a referendum on continued EU membership should his government be returned to office in 2015. In mid-2013 an eventual ‘Brixit’ was hardly a foregone conclusion, but whether the UK would co-exist in the EU with a more tightly integrated euro zone – perceived by most continental elites as essential for euro-zone survival – was a subject of considerable doubt in London and other European capitals.
**Étatist** linkages between continental states and banks mean that banking crises are at once sovereign debt crises, and *vice versa*. Bailouts of insolvent banks by struggling governments drive states into deeper sovereign debt only to face higher borrowing costs to cover the increased debt. Because banks own a large amount of sovereign debt, doubts about the ability of states to make good on it immediately raise doubts about the solvency of banks holding the debt (Blinder, 2013, pp. 419-20). How to break this ‘doom loop’ of banking and sovereign debt is a central dilemma in the euro-zone crisis.

The road to the euro-zone crisis began in the economic pessimism and fears of sclerosis shared by elites of the nine countries that comprised the European Economic Community (EEC) during the 1970s. Elites viewed greater integration as essential if Europe were to compete with Japan, the US and newly industrializing countries. Greater integration entailed many steps during the following three decades. Each was controversial and taken only after much wrangling. Yet the bulk of political and business-financial elites – there were always skeptics and naysayers, especially among British elites – drove the process forward. European publics were little consulted except where, as in Denmark, France, Ireland and the Netherlands, constitutions or political pressures forced referendums to bring national laws into conformance with EU treaties (Haller, 2008; Best, Lengyel and Verzichelli, 2012)

European Monetary Union (EMU) and a European Central Bank (ECB) to oversee it were to be lynchpins of integration. Both were problematic, however. EMU was based on the assumption that a one-size-fits-all monetary system would integrate what eventually became 17 disparate national economies – the euro zone - with 10 other EU countries and economies remaining outside the zone but expected to join at some future point. It was likewise assumed that a 22-member ECB governing council, constituted mainly on the basis of each member country having one vote, would be able to conduct monetary policy that inevitably advantaged some countries more than others. It was assumed, in short, that monetary union without fiscal union would move Europe toward economic and, ultimately, political integration.

For a while, these assumptions seemed plausible. Mirroring pre-crisis trends in the US and UK, EU and euro-zone consumption levels, real estate prices, equity markets, the Euro’s value and other indicators of prosperity were robust. Cross-border bank lending and private investments, deficit-financed government expenditures and EU subsidies fueled credit booms, expanded employment opportunities and paid for much infrastructure development in the so-called PIIGS – Portugal, Ireland, Italy, Greece and
Spain – but also in France and East European countries after the latter entered the EU in 2004 (Bulgaria and Romania in 2007), with Slovenia and Slovakia also joining the euro zone in 2009. Yet the absence of institutions to check growing current account, investment and trade imbalances, as well as spiraling public and private debt in all but a few EU and euro-zone countries, pointed toward eventual crisis. Roiled during 2009 by knock-on effects of the US and UK calamities, credit flows tightened, real estate prices slumped, unemployment rates rose sharply, defaults on mortgages and bank loans multiplied and GDPs contracted by, for example, 6.8 per cent during 2009 in Germany and 16 per cent between mid-2008 and the end of 2010 in Greece. The EU had to provide Greece with loans totaling $140 billion on the stipulation that the Athens government would undertake austerity measures and basic structural reforms (Blinder, 2013, p. 411).

Greece’s economic situation continued to deteriorate, however, and in October 2011 the ECB, European Commission and IMF ‘troika’ concluded that another bailout, amounting to $150 billion, was unavoidable. The troika required that private holders of Greek government bonds agree to a debt restructuring (a ‘haircut’) that erased half the value of their bonds. This biggest sovereign-debt restructuring in history was accomplished in March 2012. Greek public debt was reduced by $140 billion and the country's overall debt-to-GDP ratio was forecast to decline to roughly 160 per cent in 2012 under watchful troika eyes. Amid public protests and strikes by increasingly impoverished citizens, an election in May 2012 resulted in a political standoff, and it was only after a second election a month later that a coalition government, led by Antonis Samaras, took office. Talk about a ‘Grexit’ from the euro-zone became rife, especially when the Samaras government asked that the deadline for restoring the economy to a self-financed condition be extended by two years, until 2017. This amounted to asking the troika for still another bailout or, alternatively, getting creditors to accept writing off even more of the debt owed them.

The second half of 2012 was consumed by discussions about granting the Greek request and going ahead with disbursements of the March bailout funds. In a series of late-night meetings during November and early December, euro-zone finance ministers hammered out a complex agreement to lower interest rates on the earlier bailout loans, return to Athens profits made by the ECB on Greek bonds it held, and disburse $47 billion, some $20 billion of which Greece would use to buy back bonds from banks and investors at roughly a third of their original value. The agreement gave Greece an additional two-year lease on fiscal life, but it was widely believed that eventually – perhaps after Germany’s September 2013 federal elections – a massive forgiving of Greek public and private debt
would be essential for Greece to remain in the euro zone. In a word, the 2012 action was a stopgap.

The Greek crisis has been and remains the most dramatic manifestation of the euro-zone crisis. In many ministerial meetings and more than a score of European Council summits, EU and euro-zone political leaders have striven to prevent a contagion of sovereign debt defaults spreading from Greece. In May 2010 they created a European Financial Stability Facility (EFSF) containing $680 billion, from which Ireland and Portugal received bailouts of about $100 billion each. However, agreement about ‘mutualizing’ sovereign debts by allowing the ECB to issue Eurobonds or purchase huge amounts of debt was a bridge too far. In the eyes of nearly all observers, the endless meetings and summits amounted to ad hoc muddling through. Instead of adopting a centralized rescue plan or a plan for ‘orderly defaults’, leaders of northern euro-zone countries demanded that governments in Italy, Portugal, Spain and other miscreant countries slash their budget deficits and sovereign debts through draconian austerity programs, as Ireland did in 2009 and the UK began doing in 2010. When Italy’s democratically elected government, led by Silvio Berlusconi, appeared recalcitrant, market and EU political pressures forced his departure and the installation of an interim technocratic government headed by former European Commissioner Mario Monti. During 2011 and the first half of 2012 governments in eight euro-zone countries were defeated or reconfigured by election outcomes that registered the pain voters were feeling. Even in Germany, where there was no acute crisis, the governing coalition headed by Angela Merkel suffered a string of defeats in state elections during 2012.

After another inconclusive European Council summit in December 2011, at which the UK refused to go along with proposed treaty changes to introduce fiscal control of the single market, the ECB made $640 billion in three-year loans available at one per cent interest (a 'long-term refinancing operation' or LTRO) to provide liquidity for hard-pressed banks, most of them located in the euro zone. Instantly, 523 banks applied for and received loans totaling $630 billion, for which they had to post relatively scarce collateral. The unspoken quid pro quo was that banks would use the ECB loans to buy government debt. A second LTRO, in which 800 banks sought loans, brought the total to $1.3 trillion. The LTRO loans calmed financial markets and stabilized government bond prices for a month or two, but many banks remained under-capitalized and intent on de-leveraging debts rather than make capital available for private investment. In January 2012 the S&P rating agency downgraded France’s previously top credit rating by a notch, dropped Italy's rating by two notches, and cut Portugal's rating to
junk status. Late in 2012 the Moody agency lowered the credit rating of both the EFSF and its intended permanent replacement, the European Stability Mechanism (ESM) by a notch.

The specter of having to bail out Spain, the euro-zone’s fourth largest economy, loomed during the summer months of 2012. The yield Spain had to offer to sell even relatively small government bonds was hitting the unsustainable 7 per cent level. Bankia, a consortium of regional saving banks (cajas) subject to much misuse by regional and municipal governments, had to be bailed out by the ECB, and many observers recognized that other Spanish banks required bailouts. Whether bailing them out would spur attacks by ‘bond vigilantes’ on Italy – whether Italy might also need a bailout - was an open question when European elites returned from summer holidays. By all accounts, the autumn months of 2012 promised to be, as Angela Merkel said late that August, ‘a decisive phase in the battle against the euro-zone crisis’.

Non-elected elites were the front-line troops. In August, Mario Draghi, president of the ECB, proclaimed the ECB would do ‘whatever it takes’ to save the Euro. In early September he announced ECB readiness to provide unlimited bailout funds to Spain and other needy countries provided they first apply to the ESM - the $1 trillion ‘firewall’ intended to replace the EFSF – for relief and then accept budgetary oversight by Brussels. The European Commission proposed creating a Central Banking Authority (a ‘banking union’) to superintend Europe’s 6,000 banks and guarantee deposits in them. A few days later, the German Constitutional Court found contributions to the EFSF consistent with Germany’s Basic Law.

These actions again calmed markets briefly, but by September’s end the likelihood of Spain requiring a full-scale bailout was making headlines. Interest rates Spain, Portugal and Greece had to offer to sell government bonds were edging up; angry citizens protesting austerity measures were thronging streets around government buildings in Madrid, Lisbon and Athens; and most of Europe was clearly sliding into a second economic recession. Nerves were jangled when Berlusconi and his Party of Liberty torpedoed Monti’s technocratic government in Italy and opened the way to elections. Interest rates on Italian and Spanish government bonds shot up amid fears that a new government in Rome would not continue the Monti government’s reform efforts. In the event, elections in late February 2013 produced a hung parliament, with the radical Five Stars Movement capturing a quarter of all votes and the balance of power in the Senate. Italy endured two months of political party deadlock and fragmentation before a ‘grand coalition’ government was stitched together only after threats by the president, Giorgio Napolitano, to dissolve parliament and force another
round of elections. But with Italy’s GDP down 7 per cent, personal income down 9.5 per cent, industrial production and the construction sector down by a quarter, and unemployment doubled, all since 2007, the situation was dire and Rome was tempted to threaten Italy’s departure from the euro zone if EU-imposed austerity was not relaxed.

EU and euro-zone schisms have become sharper during the crisis. Leaders at the European Council summit in November 2012 were at daggers drawn over the size of the next seven-year European Commission budget. Led by the UK’s David Cameron, one group insisted on a budget freeze to reflect Europe’s austere situation and mollify voters increasingly hostile to the EU. France’s president François Hollande and Poland’s president Donald Tusk spearheaded a larger group arguing for a budget increase to stimulate economic growth and preserve EU subsidies for less developed countries, regions and economic sectors. The dispute could not be resolved and a decision was postponed until June 2013 when a seven-year EU budget of about $1.3 trillion was finally agreed (*New York Times*, 28 June 2013). Within hours of the November 2012 summit, Spain’s wealthiest but most indebted region, Catalonia, held a snap parliamentary election widely regarded as a de facto referendum on Catalan independence. Its outcome strongly favored pro-independence parties and other parties demanding full fiscal autonomy from Madrid. Across the Channel, a Scottish referendum about declaring independence from the UK is scheduled for 2014, while in Belgium the autonomy of linguistically distinct regions from Brussels increases. Scenarios of a shrunken EU, irreconcilable conflicts between EU members inside and outside the euro zone, and some countries splintering along sub-national regional lines gained plausibility.

**Analyses in this volume**

What do responses by American and European elites to the transatlantic crisis reveal? How effectively have they dealt with it? How are they altered by it? In whose interests have they acted: their own, those of the publics over which they preside or wider national and supranational interests? Although the authority of elites is always subject to dispute, has the crisis damaged their authority irrevocably? These and many related questions are addressed in our forthcoming volume: The Hour of Elites: Political Elites in the Trans-Atlantic Crisis (Palgrave 2013).

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