Trust and Crisis Management in the European Union. An Institutional Account of Success and Failure in Program Countries, by Dóra Győrffy, Palgrave Macmillan, 2018, pp. 244, ISBN 978-3-319-69211-1

Book Review by **Tamás Szigetvári**[1]

Abstract: *This review is about Dóra Győrffy's book, 'Trust and crisis management in the European Union'. The book takes an institutional approach to analyse the success and failure of crisis management in eight EU member countries that needed an external financial support to solve their financial difficulties. The book shows us how much trust mattered in these processes, both by the conditionalities implied and the exigencies during the implementation phase. While Ireland is a positive example, where trust in the institutions has accelerated the crisis management process, the case of Greece proves how the lack of trust leads to an austerity spiral. The book compares the experiences of the three Mediterranean (Cyprus, Spain, Portugal) and the three Eastern (Hungary, Romania, Latvia) EU member countries to the Irish and Greek examples, presenting the similarities and differences, and revealing the importance of institutional trust in these crisis management processes.*

Keywords: *European Union, financial crisis, institutional trust*

As the previous monographies from Dóra Győrffy (Democracy and Deficits, Akadémiai Kiadó, 2007; Institutional Trust and Economic Policy, CEU Press, 2013), this book also deals with the analyses of financial and monetary processes in the European Union, based on an institutional approach. The major goal of the present volume – published by the prestigious Palgrave Macmillan – is to investigate why crisis management was successful in some of the EU member countries, and what were the reasons of failure in others.

The global financial crisis hit the European Union and its member countries quite seriously, and the management of the crisis needed immense efforts both from the European institutions and the member countries. Eight of the member states had to ask for international financial support: Ireland, Greece, Spain, Portugal, Hungary, Latvia,

[1] **Tamás Szigetvári**, PhD, is an associate professor at Pázmány Péter Catholic University, and a senior research fellow in the Institute of World Economics, Center for Economic and Regional Studies of the Hungarian Academy of Sciences. E-mail: szigetvari.tamas@btk.ppke.hu
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and Romania. The volume focuses mainly on the experiences of these countries.

In the institutional approach of economics, institutions are 'rules of the game' that have an important role in reducing uncertainty in the society. A trust in institutions leads to cooperation which is a necessity on various levels of crisis management. Creditors and borrowers have to agree on the conditionalities of a support program, in the implementation phase governments have to convince both the public on the necessary sacrifices, and also the markets, to be able to come back to normal financing. As Győrffy shows it, lack of trust may lead to austerity spiral: when negotiating a stabilization program, governments with low credibility are likely to face more severe conditions, which will increase public resistance against the policies and thus lower market confidence as well.

The most visible proof on the importance of trust during crisis management comes from the comparison of the case of Greece and Ireland. While the reasons behind the crisis in the two countries are of different nature, neither was immune from a financial crisis, and neither could avoid the pains of adjustment. Trust created a huge difference in the crisis management process, however. Greece has not only suffered from severe structural problems and from an excessive state intervention: it had a negative record of falsifying statistics for years. On the negotiations with the Troika (IMF, EC, ECB) this pre-history has created a deep distrust towards the Greek government, which lead to more strict conditions. In the implementation phase, delays, the lack of confidence towards the ruling parties, protests against the cut of expenditures ended up in consecutive failures to manage the crisis, an austerity spiral, and at the end, to the rise and coming to power of populist movements (who actually have no alternative than to implement the agreements). Ireland, on the other hand, due to its good reputation and strong pre-crisis record, its commitment to market-friendly policies, and its efforts to take decisive steps from the beginning of the crisis to address the emerging problems, could enjoy a more constructive negotiation on support, almost setting the conditions for the program by itself. And trust mattered in the implementation phase as well. In the Irish society and along party lines there was no division about the necessity of austerity measures, which was crucial in the successful implementation of the austerity program and the fast recovery of the country.

The crisis management of the three Mediterranean countries, Cyprus, Portugal, and Spain, can be well compared to the Greek case, due to the similarities in their economic structure and problems. As Euro zone members, with high original indebtedness, and low productivity all of them can be characterized as low trust countries. In a sharp contrast to Greece, however, they were able to avoid austerity spirals and were successful in returning to the financial markets with the help of the support programs. The difference laid not so much by the conditionality of the programs: while Spain got much more lenient conditions due to its constructive approach, Cyprus had to face a similar treatment than Greece, with rather punitive conditionality. On the other hand, there was a strong elite commitment in all of these countries towards the implementation of financial support programs, and major parties were able to survive the collapse of public trust. As a lesson from these countries, the book underlines, that the crisis and the following management period can be used as an opportunity for implementing reforms, but building public trust and strengthening government capacity is an unavoidable necessity. On the other hand, Euro zone membership had also its obvious drawbacks during crisis management.

Weak institutions and low trust are common characteristics not just of the three Mediterranean countries, but also of the three Eastern European EU members, Hungary, Latvia and Romania. Being outside the Euro zone, these countries had to face the impact of the financial crisis in 2008 already. Low trust and its consequences created similar problems to the aforementioned countries. As Győrffy points on it, the case of Latvia was rather similar to Ireland: in the shared commitment between the elite and the public to neoliberal ideas of the state (as a rejection of Soviet past), Latvia experienced a fast recovery after serious adjustment. Romania's experiences are rather close to the Mediterranean examples, where capacity constraints were obstacles to a complex reform. Hungary, on the other hand, was a specific case, with similarities to the Irish and Latvian case, but with a fundamental change in political approach and in the functioning of institutions.

Based on the eight country cases, the book also analyses the connections between austerity and growing populism. As it argues – and shows empirical evidences on it – the idea of limited government is a key for both economic success and the avoidance of populist threat, while lacking such commitment by the political elites leads to economic failures and the rise of populists.

Overall, the book gives an excellent analysis of the management of the financial crisis in the EU. By focusing on the importance of trust in economic and political processes, it offers a well-chosen theoretical tool to point at the similarities and differences of each crisis management story. One of the strengths of the book is that it is able to put convincing empirical evidence behind the theoretical approach it follows. The quantitative data both on economic and on political trends, visualized also by well-edited graphs, gives us a comparative overview of the crisis and of its management in these countries, and the detailed analysis also reveals the background of some post-crisis trends in these countries.

About the author of the book:

Dóra Győrffy is Professor of international political economy at the Péter Pázmány Catholic University and the Corvinus University of Budapest, Hungary. She holds a BA in Government from Harvard University, a MA and PhD in International Relations from Central European University and a Doctor of Science degree in Economics from the Hungarian Academy of Sciences. Győrffy's publications address fiscal consolidation and reforms, European monetary integration and financial crises.