When all else defaults: government as the ultimate debtor?

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Comments welcome but please do not circulate this early draft.

Abstract: In his monumental study of *When all else fails: government as the ultimate risk manager*, David Moss interpreted the history of public policy in the United States as the building of pervasive social safety nets for failing markets. Can we find a similar evolution in recent times of increasing household debt: do European welfare states come to act as ultimate financial risk managers of and for households? A recent example for this extension of the welfare state, providing safety nets for private debtors, were systemic bank bailouts. Their liabilities were, inter alia, claims of saving households and so the bailouts protected savers, too. This public role of financial risk management for households is missing in prominent accounts of the last two decades, such as Crouch's privatized Keynesianism and Streeck's debt state. The story does not end there, however. By acting as the debtors of last resort, European welfare states have become massively overstretched. The deleveraging of private balance sheets in the wake of the Great Financial Crisis since 2008 has left a large legacy of public debt. Innovations in public debt management, such as perpetual and growth-indexed government bonds, can be understood as applying the entrenched wisdom of welfare state institutions to public finance itself.

1 Capitalism and democracy, welfare states and financialisation

The Great Financial Crisis since 2007-8 has left a large legacy of public debt in the OECD world, unprecedented in peace times. This legacy is the basis for a powerful narrative about the inherent contradictions of financialized capitalism and democracy. In Europe, this narrative has been prominently formulated by Colin Crouch (2009a) and Wolfgang Streeck (2014). Like rising inequality, the excessive rise in private debt (Crouch) and public debt (Streeck) is analysed as a manifestation of these contradictions in that it subjects democratic decision-making to financial cycles. Public finances had to come to the rescue of banks which, as holders of sovereign bonds, had exerted pressure on elected governments in the decades before, to adopt policies that were not in the interest of the majority of tax-payers.

This article reviews these claims about capitalism without, or post-, democracy (Crouch 2004). It leaves unanswered the question how this could happen in mature democracies, with fairly educated citizens and reasonably attentive media. An answer can be found in a recent literature that studies the political foundations of fiscal policy in rich countries from different angles (eg Barta 2018; Chwieroth and Walter 2015, 2019; Haffert 2015). My reading of this recent research is that it talks about fiscal democracy in middle-class society. Core constituencies demand government support when their living standards are under threat while they favour prudent budgetary policies as taxpayers. This counter-narrative suggests that financial rescue measures, which pushed governments to the limits of their debt-bearing capacity, can be an expression of democratic responsiveness rather than a manifestation of capture by banks and bondholders.

My contribution to this line of inquiry is twofold. First, I examine whether the source of democratic responsiveness is an expanding remit of the welfare state to manage risks for individuals and households. This remit used to include the risk of being born into a poor family, managed through redistribution, as well as the risk of becoming poor through unemployment or sickness, managed through social insurance. In this vein, the massive public policy interventions since 2008 can be seen as extending social insurance to households both as savers and debtors. This is to some extent inevitable. When banks are bailed out, their creditors, saving households, are bailed out as well; if counter-cyclical demand management to restore growth supports private sector deleveraging, indebted households get a chance to repair their balance sheets, too. This article looks for more specific evidence of government responses to vary with demands of saving or indebted households.

Second, my article asks how financialization relates to fiscal democracy. This is hard to see if financialization makes welfare states disappear, leaving us with finance only, as Crouch (2009a: 392) suggests: '[T]hrough the links of these new risk markets to ordinary consumers via extended mortgages and credit card debt, the dependence of the capitalist system on rising wages, a welfare state and government demand management [..] had been abolished.' It is not compatible with this view that financialization was promoted from within some European welfare states, in the sense that policymakers instrumentalized financial markets for public policy purposes. Many governments heavily subsidised the 'nest-egg' of debt-financed homeownership while cutting back on pension entitlements (Ansell 2009). This policy was attractive for middle-class constituencies of conservative and liberal parties, supported by a consensus that public old age security systems must be down-sized. Governments had policy choices in how to promote homeownership and private pensions (Burtless 2012, Mabbett 2012). Hence, welfare states were often implicated in the build-up of household debt which aggravated the downturn (Schelkle 2012a, Schwartz 2012). When the bubble burst, governments had discretion on how to protect households against losing their life-time savings or their home in the first place (Bohle 2014, Schelkle 2012b). It is arguable that governments had to step in so resolutely because they had to accept some responsibility for the disaster that financial markets generated.

In this view, the great debt shift from banks to public finances was only a first step in a process that included households and non-financial corporations in the collectivization of private debt. The degree to which this was accomplished was presumably determined by the debt-bearing capacity of the public sector. But it remains an open question to what extent it was a deliberate decision of administrations through action or inaction. Central banks assumed a leading role not only as lenders of last resort to the banking system but also as social risk managers assisting governments in providing a modicum of private deleveraging. We can understand this evolution against the background that European welfare states have become the overstretched debtors of last resort.

My line of argument has been inspired by the monumental study of David Moss, *When all else fails: government as the ultimate risk manager*. He interpreted the history of public policy in the United States as the building of pervasive social safety nets for failing markets. Moss (2002) shows how state intervention, from public finances, regulation, to macroeconomic stabilization, manages risk for the capitalist economy that most citizens take for granted most of the time. Moss's conceptualization of the government as a responsive risk manager of last resort is in line with the research mentioned above, the social origins of fiscal democracy and bank bailouts. This conceptualization finds that governments do respond to broader and varied social forces, that we can characterize as 'middle class society'.[1] The highly regarded history of the welfare state by Baldwin (1990) also ties in with Moss (2002) in that Baldwin provided a detailed counter-narrative to Esping-Andersen's (1990) 'laborist' account that portrays social policies as serving the working class first and foremost; Baldwin shows that the demands of farmers and the self-employed were essential for the welfare system that evolved.

This research shares interests with the recent work by Iversen and Soskice (2019). But their account of responsive risk management is much more pro-active and forward looking in that they claim to

[1]

‘show how democratic states continuously reinvent their economies’ (book announcement). They emphasize state intervention in education and research that makes leading sectors to innovate continuously. Contrary to the notion of ‘the squeezed middle’, they suggest that ‘this investment has generated vast numbers of well-paying jobs for the middle classes and their children, focusing the aims of aspirational families, and in turn providing electoral support for parties.’ The welfare state redistributes innovation gains from the top to the middle, although not the bottom. This is a refreshing counter-cyclical stimulus to the post-crisis debate. But my hunch based on Moss (2002) is less sanguine: Moss does not suggest that these responses are functional in that every instance of emerging public risk management emerged out of long sequences of trial and error. It is therefore more plausible to argue that the near-collapse of economies has forced democratic welfare states to reinvent themselves. While they arguably came to rescue middle class families through bank bailouts, it is doubtful that interventions were well-targeted and triggered widespread political resentment. Moreover, we also saw the limitations of government as the ultimate debtor: some had to be rescued themselves, through supranational social risk management, bailout programmes and extraordinary interventions by central banks.

My article proceeds as follows: the next section reviews the literature on privatized Keynesianism and the making of the debt state and contrasts it with recent research on the political economy of fiscal democracy. This is followed by three sections of empirical evidence that ask whether we can see attempts of responsive risk management in the data. The third section documents for a selection of countries the great debt shift from private sectors to the public sector emphasizing how different country experiences were. The fourth section looks at how this shift has been made bearable for this selection of countries, especially the unexpected contribution that central banks, both the European Central Bank (ECB) and the Bank of England (BoE), made to risk management. The conclusions spell out what the findings tell us about democracy, welfare states and financialization in Europe.

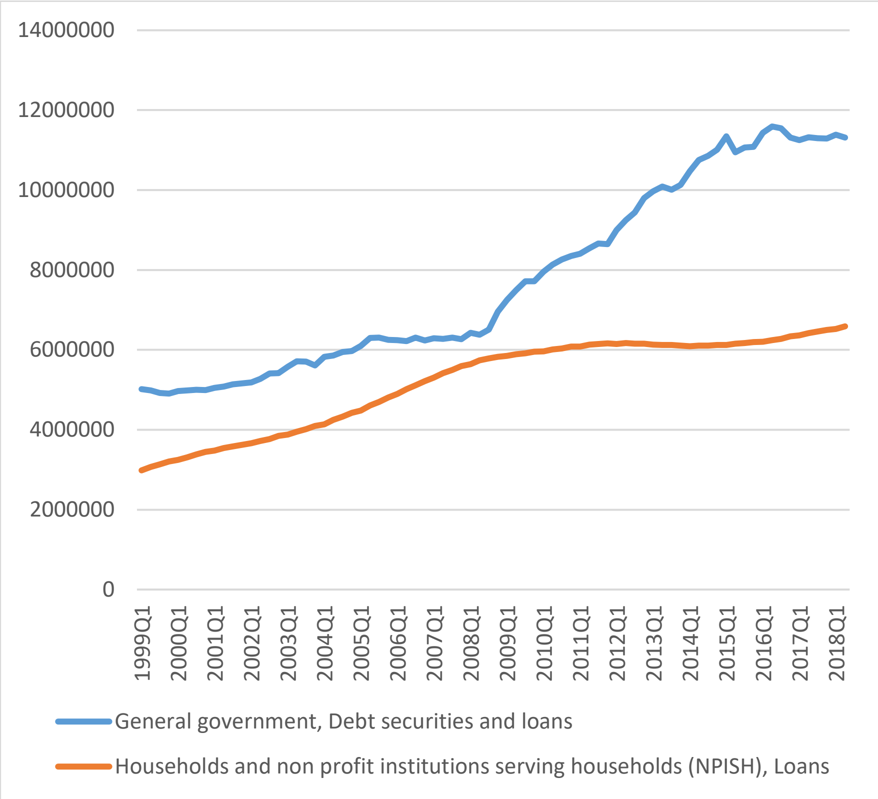
2 The political economy of debt

The view that governments’ crisis management benefited only Wall Street but not Main Street fuels the current disillusion with liberal democracy and economic openness. This sentiment has upset established party systems in capitalist democracies before. The widely cited study by Funke, Schularick and Trebesch (2016) looked at the political fall-out from systemic financial crises in 20 advanced countries between 1870 and 2014 and found that especially far-right parties increase their vote share on average by 30 percent. Normal recessions or non-financial crises do not give them such a boost. The study by these three economists does not analyze why financial collapse gives such a boost to forces that challenge representative democracy.

For answers, we may turn to two well-known scholars, straddling economic sociology and political economy, who have provided widely cited accounts of what the rise of finance and its crisis meant for capitalist democracies. The notions of ‘privatised Keynesianism as an unacknowledged policy regime’ by Crouch (2009a) and ‘buying time’ through the debt state by Streeck (2014) have become shorthand for what was wrong with the *Trente Pitieuses*: rising inequality, a decline of meritocracy und ultimately the hollowing out of democracy. I take these two accounts as bold and prominent attempts of making political economy sense of the rise of household and government debt in Europe, comparable to Bartels’ (2008) notion of a ‘new gilded age’ in the US.

How did household and public debt, and later public debt and bank bailouts, relate to each other? The following graph shows household and general government debt between 1999 and 2017 for the European monetary union of 19 member states (EA-19). This should be the group of countries arguably most under the spell of integrationist neoliberalism and for that very reason hardest hit by the North-Atlantic banking crisis. Fig. 1 illustrates that between 2008 and 2015, household debt in absolute terms was rising fast while government debt levelled off in the mid-2000s. After 2008, aggregate public debt doubled in absolute terms, from slightly more than €6 trn to almost €12 trn, while household debt stabilised at the elevated level until 2015, after which it started to rise again.

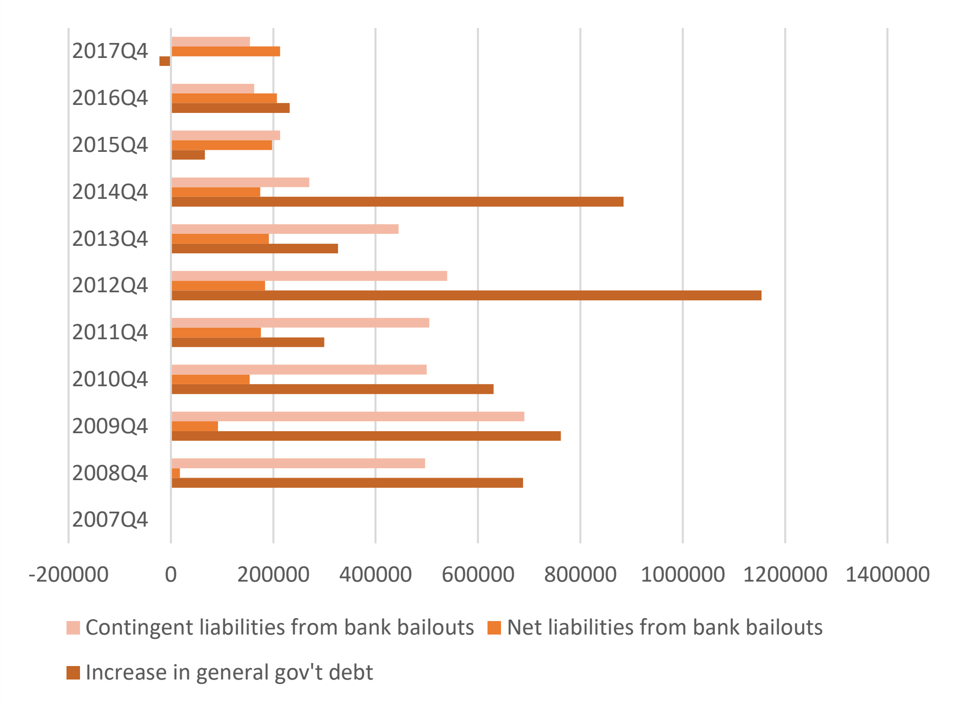
Fig.1: General government and household debt in the euro area, 1999-2017 (€ mio)



Source: ECB, as of October 2018.

A good part of this increase in public debt was due to bank bailouts, especially in later years. But not all: until 2014, the actual losses were less than the rise in debt. Contingent liabilities, notably guarantees to bank creditors, are not part of government debt until they materialise in actual losses. These losses were realised once government finances started to stabilise since 2015, obstructing governments' consolidation efforts.

Fig.2: Public debt increase in the euro area and bank bailouts, 2008-2017



Source: ECB, Eurostat

The privatized Keynesianism narrative maintains that by the 1980s, 'globalisation, both a producer and a product of the deregulation of financial markets,' (Crouch 2009a: 388) had undermined the autonomy of the nation-state and replaced it with the self-regulation of transnational financial corporations. The abandonment of Keynesian demand management in the Western hemisphere produced ever higher unemployment and stagnating real wages, in stark contrast to the successful demand management in autocratic development states of South Asia and the Far East. But market entrepreneurship 'came to rescue the neo-liberal model [..]: the growth of credit markets for poor and middle income people, and of derivatives and futures markets among the very wealthy' (Crouch 2009a: 391). Credit seemed to allow households to keep on consuming despite low income growth and retreating state intervention. We note, however, that this should have led to a decline in public debt as a direct consequence of private debt, contrary to what fig.1 shows.

A growth model thriving on 'asset values [that] had become totally based on an almost infinite regress of expectations of value' (Crouch 2009a: 394) can easily by upset by any disturbance, which leads to a contagious collapse of confidence in these collectively held expectations. In a brilliant turn, Crouch notes that the 'very irresponsibility [of banks] became a collective good', so it is not only governments that are to blame: 'there is a far wider moral hazard involved in this complicity of virtually whole societies in the irresponsible practices in the first place' (Crouch 2009a: 394).This insight is crucial for my pushback against the label 'privatized Keynesianism' since there is something un-Keynesian about this complicity, making the state invisible.

The buying time (or debt state) narrative of Streeck (2014) suggests that the post-1980s saw, across the board of OECD countries, a rise in public debt that was a temporary solution to an inherent fiscal conflict of democratic capitalism. The conflict is between steadily rising social expenditure and stagnating tax revenue. Social expenditure had to rise so as to finance the 'surplus population' that cannot find sufficiently gainful employment and threatens capitalist democracies with social unrest (Streeck 2014: 3). Tax revenue stagnates because the upper income echelons successfully resist paying high and progressive taxes; instead, the debt state offers them gainful and safe investment opportunities for their savings while non-financial businesses are starved of funds. Financialization, ie the deregulation and internationalization of financial markets, provided the ground for this transition from the tax state to the debt state (Streeck 2014: 72-75). Financialization creates a 'Marktvolk' of internationally oriented bondholders that comes to dominate the 'Staatsvolk', the will of the people in nation states, by threatening with the withdrawal from bond markets. The financial crisis meant that the debt state can no longer buy time, however: its successor, 'the consolidation state', must now slash social expenditure and demolish the welfare state because the wealthy can still not be taxed (Streeck 2015). This sequence is not compatible with what we saw in fig.1: the rise in debt comes too late.

Sandy Hager (2016a) has tried to trace 'the making of a modern debt state' in empirical detail, albeit for a most likely case, the United States.[2] He observes the fiscal conflict of rising social expenditure and stagnating tax revenue in line with Streeck (Hager 2016a: 65). Yet, his findings contradict the claim that progressive taxation of the rich has been slashed. Income tax, which counts for half of all federal revenue, draws heavily on the 1% richest households: they paid 35% of all income taxes in 2011, which is 'nearly double the amount [the top 1%] paid in 1979' (Hager 2016a: 63). Also, the top 2,500 corporations pay more than two thirds (68%) of corporate tax, which counts for 10% of federal revenue (Hager 2016a: 62-3). Contrary to Hager's intentions, the explanation of why there is fiscal conflict, namely that democracy is captured by the bondholding, tax-resisting class, gets only weak support. Stagnating tax revenues and rising, not declining, progressivity of the tax take suggests that the unwillingness of a broad section of the middle classes may be responsible, at least in the US.

Hager (2016a: 41) also studies the regressive distributive implications of concentrated bond-holding by the rich. He shows that the top one percent of the income distribution of wealth and their ownership of public debt go roughly together since 1900. Closer inspection reveals, however, that the ups and downs of each are inversely related: when the aggregate value of wealth declines, very wealthy individuals shift into public bonds; they shift out of them when aggregate wealth booms. This suggests that bond holding is motivated by risk diversification rather than yield. Bond yields have typically been low or negative in real terms.[3] Regressive redistribution through sovereign bond holdings seem to be a second-order problem over the longterm. It is more pertinent to say that public debt acts as a social safety net for the wealthy; yields that are well below stock market returns suggests that this social insurance extracts a contribution from their holders.

The accounts of privatized Keynesianism and of the modern debt state contend that democracy is hollowed out by financial capitalism. Crouch (2004) famously spoke of 'post-democracy' that leaves crucial policy decisions like banking regulation to financial elites; Streeck (2014: ch.2) suggests in an 'excursus [on] capitalism and democracy', that 'the final liberation of capitalism from its historical remodelling by social justice' has allowed 'market justice to prevail'. Yet, both privatized Keynesianism and the debt state are apparently popular with middle classes. Streeck (2014: 117) speaks of 'a neo-Protestant middle class of owners of "human capital"' that supports this 'progressive freeing of capitalism from democratic intervention'. So well-educated and well-earning classes (Streeck) as well as lower middle classes (Crouch) take up the opportunities that financialized

[2] Hager (2016b) claims that 'comprehensive data on ownership of the public debt outside of the US does not appear to exist', which is incorrect. Data on some European countries has been collected at Bruegel (Merler and Pisani-Ferry 2012), and has been widely used and cited. While not as comprehensive as one would wish, this could be said of US data as well. The Bruegel data is used in section 4.

[3] To be more precise, real US Treasury rates have been unusually high in the first half of the 1980s (as a consequence of Reagonomics), low on average over the following decade and then very low to negative over much of the 2000s (Gourinchas and Rey 2017: slide 4).

capitalism offers them. If, consequently, they vote for governments that keep these opportunities available, it would be equally plausible to turn their line of argument around: financialized capitalism was underwritten by a democratic choice or at least a permissive consensus, rather than imposed by elites.

The role of the European Union or supranational technocracy generally differs between the two accounts. For Streeck (2014: xviii, 103), the EU is a 'liberalization machine' and the great hope of a libertarian like Hayek (1939) who saw it as the most effective means of destroying the nation-state with its interventionist Keynesian leanings. As such, it has paved the way for the debt state in the interest of transnational finance all along. This ignores that the same EU tried to rein in the deficit spending of member states with ever more intricate fiscal rules and has embraced, after the crisis, the transition to the consolidation state as part of the European multilevel regime. Streeck's portrait suggests that the EU promoted financial integration first and pursues fiscal surveillance now while the EU did always both and neither very effectively as its critics argued before the crisis and could argue still.

For Crouch (2009a: 391-2), the problem starts with fiscal surveillance and the anti-inflationary stance of the European Central Bank: how could enough demand be generated under such austere conditions? The way out was demand management in line with the neo-liberal thrust that the EU embodies. Obviously, fuelling private debt is Keynesian if one considers 'taking on debt to stimulate the economy' (Crouch 2009a: 390) to be the defining feature of Keynesianism, as its monetarist and public choice critics maintain. But the notion of privatized Keynesianism is an oxymoron if one sees as Keynes' main insight that counter-cyclical consumption smoothing is a task of government. This also entails running budget surpluses in times of inflationary overheating. Private actors, and least of all households, can do this for themselves, thwarted by their incentives and their liquidity constraints (Glyn 2007: 52-3). The EU Commission has been quite consistent in advocating symmetric, counter-cyclical fiscal policies, against what it perceives to be a 'deficit and pro-cyclical bias' of national budgetary policies.[4] In this, the Commission is and has been supported by academic research not driven by an anti-state bias (eg Lane 2003, Portes and Wren-Lewis 2014).

A theoretical alternative has as its point of departure that prevailing manifestations of capitalism are shaped by democratically elected governments of nation states that are simultaneously engaged in international cooperation. Democracy does not have to act as a corrective of capitalism or else is not democracy. This 'states against markets' logic rests on a strangely normative-functionalist understanding of national democratic politics. Democracy feeds on the capitalist economy and serves it through policies and regulations as Iversen and Soskice (2019), and many before them, stress. But democratic processes are not continuously fixated on, or subservient to, capitalism and capitalists either. Foreign and domestic policy imperatives may go directly against the economic interest of transnational business: Brexit and 'America first' trade policies are recent examples. And each government has to take into account that other states, some more powerful or assertive than oneself, have their imperatives and policy choices: 'States aren't simply bounced between citizens and markets' (Tooze 2016: 5). Governments see other states. Hence, the imaginary collective of political elites cannot represent 'the national interest' pure and simple because it does not exist; nor does it follow that they must be captured by transnational business, which, after all, cannot get them elected or appointed.

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[4] See the EU website on 'What is fiscal governance?' (accessed 12 January 2019). The Commission defends counter-cyclicality within the confines of an arbitrary 3% deficit-to-GDP ratio, which was reformed to become a cyclically adjusted measure in 2000 that tries to avoid pro-cyclical retrenchment.

Several recent contributions have looked into the social origins of fiscal democracy. Even a small selection of them can indicate why there is more democratic responsiveness to popular pressures than meets the eye, notwithstanding the constraints set by market reactions and international obligations. They explain debt accumulation and subsequent deleveraging as the outcome of socio-economic distributive conflict. The most direct evidence is provided by Chwieroth and Walter (2019) who document over two centuries that '[c]risis policy interventions have become more extensive and costly - and their political aftermaths far more fraught - because of democratic governance, not in spite of it.' (book announcement) This is a 'wealth effect': middle classes harbour the 'great expectations' that the government protects their wealth and democratically elected governments try to live up to these expectations or risk dismissal.

Frieden and Walter (2017: 385) provide an example for the fraught political aftermaths of bank bailouts when they explain why the German government, despite its disciplinarian discourse, agreed to guarantee a bailout for Greece, historically a serial defaulter, and to underwrite a permanent emergency fund. They argue that a second wave of bank bailouts was deeply unpopular in 2009-10. Hence, the bailouts of sovereigns helped German banks indirectly to reduce their exposure. It is a telling example for the fact that governments try to make the EU work for their priority of domestic democracy: all countries with large bank exposure to the crisis countries could thus externalize costs of bank bailouts but let EU bodies take the unpopular, fiscally convenient measures. This is not to deny, in fact it is a direct consequence of domestic democracy having priority for governments, that citizens in the debtor countries had to bear the brunt of brutal adjustment.

Over a longer time horizon, Barta (2018) tackles the puzzle of why political economies like Greece get themselves repeatedly into precarious debt situations. For a wide range of political economies, she explains the dynamic of public debt management as a result of two factors: first, the degree of fiscal polarization which determines whether retrenchment requires to inflict more or less transparent losses on particular groups that will resist it; and second, the degree of international exposure which makes the drag of public debt on competitiveness apparent to more or fewer citizens. Reining in a public debt dynamic is not obstructed primarily by opportunistic policymakers. They have, after all, incentives to reduce public debt since rising debt service leaves them too little room for manoeuvre. Haffert (2015) and Haffert and Mehrtens (2015) have this as the starting point for the analysis of fiscal consolidations in advanced democracies. The problem for governments, and in particular social democratic parties, is that fiscally hawkish policies become quite popular with the majority of middle classes in mature democracies.

Finally, Scheve and Stasavage (2016) can answer the question under which circumstances this may be different: even nascent democracies managed to tax the rich heavily for the massive effort of financing major wars. They provide strong evidence that deep-seated democratic norms, notably equality, made this possible: during wars, progressive taxes become a quid pro quo for the in-kind contribution required from ordinary citizens. As we know from Piketty's bestseller, peace is a strong driver of the concentration of wealth; with Scheve and Stasavage (2016) we understand why peace reduces the pressure for progressive taxation of wealth and income. Lierse and Seelkopf (2016) explore the interaction of capital markets and taxation and support the thrust of the Scheve-Stasavage analysis: that domestic governments have room for manoeuver, yet in crisis times they may be pushed into raising taxes by the sudden loss of investor confidence.

The upshot of all these contributions is that taxation and public debt are the result of democratic responsiveness. My hypothesis builds on these contributions, for a contingency that spiralled out of control of government. I argue that the tortuous management of this crisis allows us to observe whether and how an entrenched institution of capitalist democracies, the welfare state in its varied guises, tried to tackle the financial risks of middle class society. Responsive public risk management was up against deep uncertainty about the pertinent response to market collapse on an unprecedented scale as well as a perilous loss of political legitimacy because governments had not prevented -- and sometimes even contributed to -- these financial risks. The attempt to come to the rescue of the private sector overstretched fiscal capacities and made national governments themselves an object of social risk management.

3 The great debt shift to the public sector

The massive rise in public debt was, in comparative perspective, the characteristic feature of the North-Atlantic crisis as a recent IMF study notes: 'During the most recent 2007–11 wave, which includes 25 systemic and borderline systemic banking crises predominantly affected advanced economies and direct fiscal costs of around 5 percent of GDP were low compared to previous crises. However, the increase in public debt of around 20 percent of GDP was particularly large.' (Amaglobeli et al 2015: 10) This section tries to establish whether this rise in public debt was at least partly due to responsive risk management for the non-financial private sector. This is a hard test for the responsive risk management hypothesis because a systemic crisis forces the hands of public authorities and makes targeting to vulnerable households very difficult.

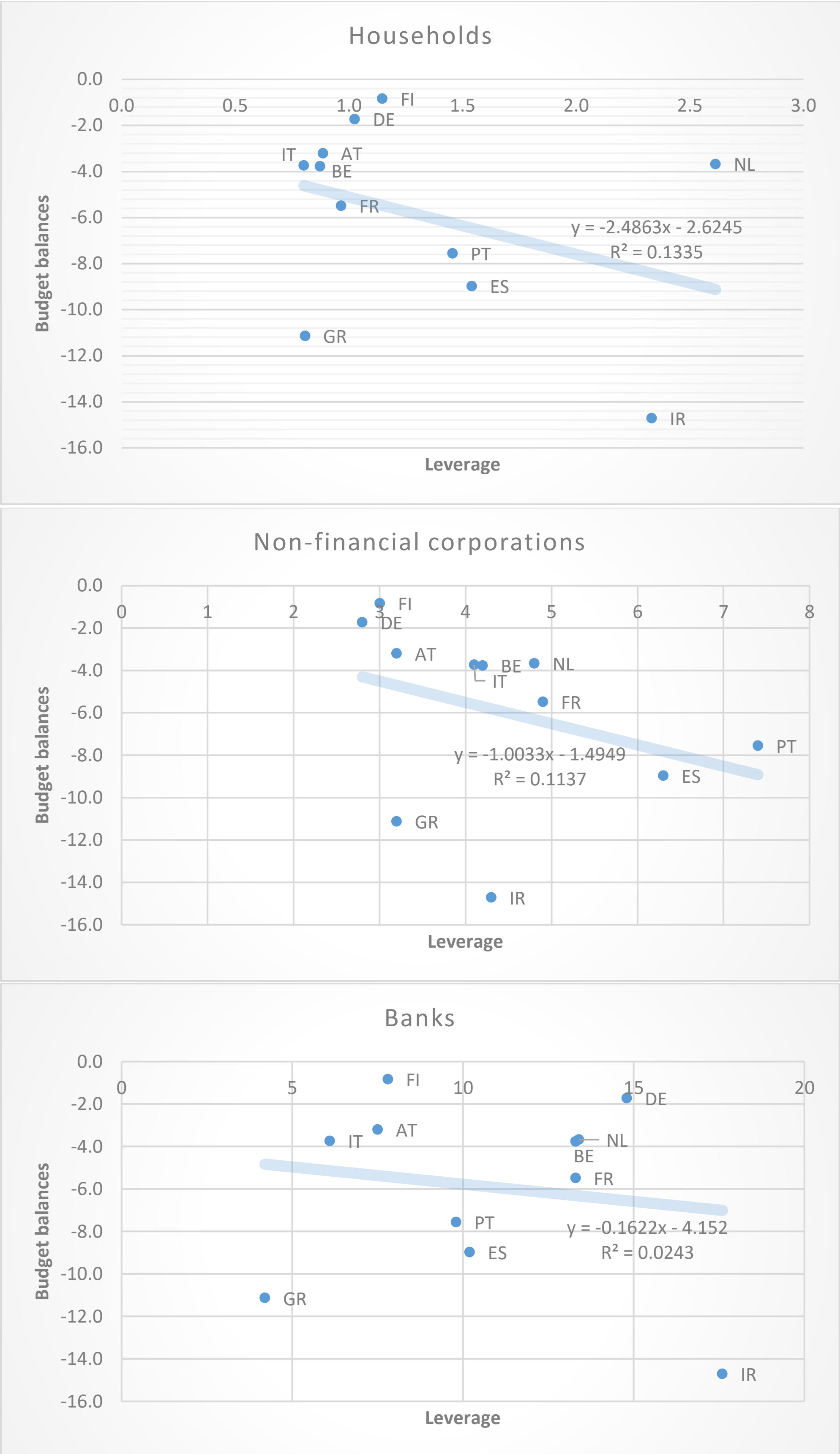
The vulnerability of the economy came from private sector leverage. Leveraging originally meant the process by which banks borrow to acquire assets, with their loss-absorbing capital as safety net when assets lose their value. A capital requirement of 8% allows for a leverage of 12.5, ie to hold €12.5 of assets, financed by credit that is 'secured' by €1 of own capital. This implies that a fall in asset prices by 8% wipes out the loss-absorbing capital. This notion can be extended to non-financial borrowers: leverage means the ratio between debt accumulated and the net assets that serve as security for the lender. The classic example is a mortgage credit that is less than 100% of the conservatively estimated value of the underlying real estate. But we do not have time series estimates of households' and non-financial corporations' net assets, ie the net value of a country's housing stock or its fixed capital stock. Leverage for non-financial entities is therefore measured as the ratio between debt and the income out of which they can service that debt.

If governments bailed out the private sector when it became over-indebted, we should see that the higher private leverage was, the higher the subsequent budget deficit had to be.[5] Fig.3 plots the leverage of the three private sub-sectors in 2007 against the cumulative budget balance of governments in 2008-12. The regression lines are shown for illustrative purposes only, there are too few data points to be statistically robust and the fit is poor (ie the R^2 low). But they illustrate that cumulative budget deficits responded most weakly to bank leverage and strongest to household leverage[6], which does at least not contradict the hypothesis of social risk management.

[5] Since the budget deficit is a negative number, the correlation should be negative.

[6] This is indicated by the fact that the coefficient on x is stronger (-2.48) for households than for banks (-0.16) even if one takes into account the different measures of leverage for the two sectors.

Fig.3: Private sector leverage in 2007 (ratio) and cumulative government balances in 2008-12 (in %)



Source: OECD National Accounts 2015 for leverage, AMECO for budget balances

Note: For households, the OECD defines leverage as the ratio of household debt to net disposable income (Eurostat uses debt to gross income). For the non-financial corporate sector, the OECD uses the ratio of corporate debt to gross operating surplus. Bank leverage is measured as risk-weighted assets (that are largely debt-financed) to loss-absorbing capital.

There are three, and only three, ways in which the private sector of a country can reduce its debt, or 'deleverage', ie reduce its liabilities relative to the loss-absorbing capital (banks) or relative to income available for debt service (non-financial private sector). It can (a) shift it to foreigners through a current account surplus, (b) to the government via a rising budget deficit/ decreasing surplus, or (c) it can default on its debt partially or fully.

A current account surplus can be achieved via higher exports, lower imports or both. It requires becoming cheaper relative to other competitors and / or restraining domestic demand, so that it becomes less profitable for firms to sell to the domestic economy. This can be achieved by lower unit labour costs and prices inside a monetary union and/or through a weaker euro in trade with the rest of the world. What wages, prices and the effective euro exchange rate cannot do will have to be achieved by austerity and recession, ie restraint of domestic demand to lower imports.

Government can allow the private sector to reduce their debt by assuming some of the debt itself. Bank bailout programmes did, with various instruments, exactly that. The most radical public act of private sector deleveraging was taken by the Irish government that simply took over the entire obligations of its oversized banking system: what was contracted as private debt became public debt almost overnight. This rescued saving households as well. A more conventional and less self-defeating way is keeping up or even expanding public demand for goods and services despite falling tax revenues, to ensure that firms still have demand for households' labour and households still have demand for firms' output, stabilizing profit expectations and current incomes. Or the government keeps on paying unemployment benefits at a replacement rate at which households can still serve their obligations. This allows firms and households to generate a surplus out of current income and pay down their debts incrementally.

Default is the ultimate option if an export surplus is hard to achieve and the government tries to avoid accumulating debt by cutting expenditure and raising taxes. In Europe, debt write downs were used reluctantly during the crisis, as Martin Sandbu (2015) criticized most prominently. While his case is convincing, a default always implies the loss of claims by somebody else. Bankruptcy laws and limited liability try to establish a hierarchy of claims, ie the distribution of losses.[7] If a bank fails, its shareholders and creditors lose, in particular households lose savings to the extent that they are not compensated by deposit insurance. If non-financial corporations become insolvent, employees can lose part of their occupational pension entitlements if not their last wage; losses are also inflicted on other firms that sold goods and services on credit and banks that gave the defaulting firm credit. If households default on their mortgage or other debt, it is banks and other firms, including utilities and landlords, who lose their claims. In a systemic crisis, default can have amplifying effects, as the Lehman crash illustrated. This makes those who have the institutional role of preserving stability, notably central banks, inherently opposed to default as a way out of debt.

The last graph showed that before the crisis, the Netherlands and Ireland entered the crisis with the highest household debt, Portugal and Spain have extreme levels of non-financial corporate debt

[7] Banks and non-financial corporations often have limited liability that exempts the private wealth of their owners, while public and private households, including family firms, have unlimited liability. This makes bank and corporate restructuring legally easier and less destructive for the defaulting entity, increasing their risk bearing capacity. [#later, why governments are forced to the rescue of those with unlimited liability?]

while Ireland (again) and Germany excelled in bank leverage. In other words, countries differed markedly in the composition of debt. This does not bode well for the privatized-Keynesianism and the buying-time narratives which make us expect that the pattern is either fairly uniform or different for Northern and Southern Europe only. The responsive risk management hypothesis suggests that there may be much more diversity even within these country groups: at a minimum, it should depend on the political demand for deleveraging that increases with the level of private debt, on the one hand, and on the fiscal capacity to allow the private sector to deleverage, on the other.

To explore these competing hypotheses, I look at the deleveraging patterns in pair-wise comparisons. The pairs are chosen following the logic of a most-similar systems design: they combine countries that comparative political economists would see as similar in terms of varieties of capitalism, foreign or domestic demand-led growth models, and welfare state regimes.

- Italy and Spain are two large, EU average income countries; but Italy got into the crisis with high public debt, Spain with low while it is the reverse as regards private and, in particular, household debt.
- Greece and Portugal are two small, below-EU average income members with numerous imbalances, above all twin deficits; but Greece had low private sector debt while Portugal had considerable debt in both sectors and the highest of all in the non-financial corporate sector.
- Germany and the Netherlands are two ideal-type corporatist Northern European economies with high and rising current account surpluses, but the Netherlands has one of the highest gross household debt levels in the OECD while Germany had above EA-average bank leverage;
- Ireland and the UK are traditionally liberal political economies that both have huge banking sectors and high household debt; but Britain had sustainable government finances thanks to the Bank of England buying up to 40% of each bond issue while the Irish sovereign had underwritten bank debt that was double of GDP.

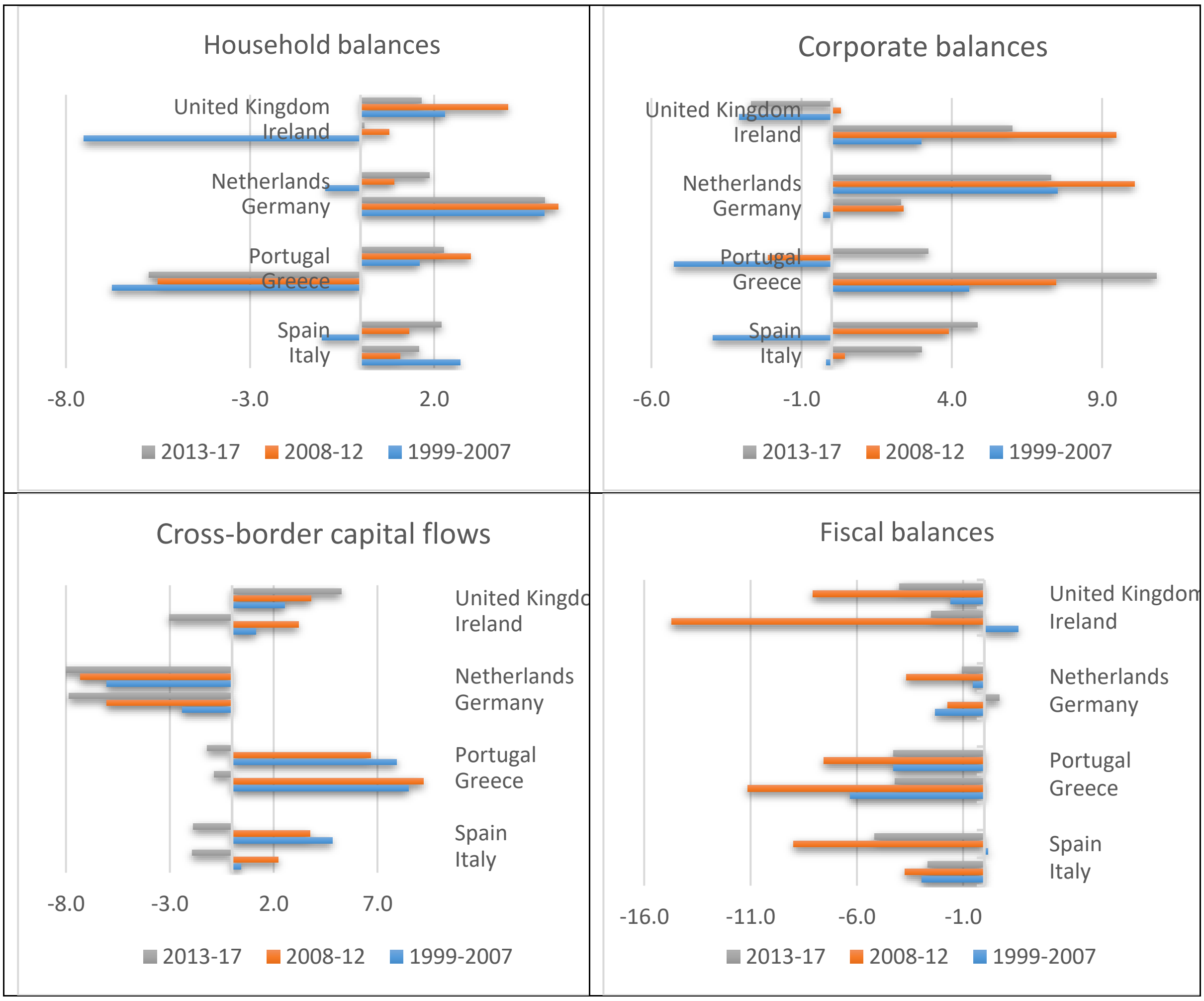
We should note that the fiscal constraints limit public risk management responsive to middle class demands for social protection. The Greek crisis had alerted governments to the fact that they could become targets of a bond market sell-off if their public finances looked out of control. This came too late for Ireland, where the government had decided, in October 2008, to guarantee all liabilities of its banking system. Where governments have high debt, while households do not, as in Italy or Greece, we may even see a reverse debt shift. If there is fiscal democracy, middle class attitudes to budget deficits should make a difference to how elected governments respond. Table 1 summarises what the responsive risk management hypothesis suggests for household debt deleveraging.

Table 1: Hypotheses regarding debt shift from households to public

Constraint Demand for debt shift	High public debt	Sustainable public debt
High household debt	**Limited debt shift**: Portugal, Ireland	**Big debt shift:** the Netherlands, Spain, UK
Low household debt	**No or reverse debt shift**: Italy, Greece	**No debt shift**: Germany

The following graph shows the financial flows in these countries that capture the average annual changes in net debt for each sector as a percentage of GDP, for three time spans: pre-crisis (1999-2007), crisis (2008-12), and post-crisis (2013-2017). A positive entry for the private sector indicates deleveraging that must have a corresponding negative entry for the foreign sector (cross-border capital, outflows are the reverse of a current account surpluses) and/or the public sector (budget deficits). But there is no automatism: the private sector may not succeed in achieving a surplus if other economies or the government try to contain their indebtedness successfully. National income then has to fall to the level at which the respective deleveraging decisions are compatible and it may actually mean no deleveraging for the private sector, notably because households become too poor to save. This is merely Keynes' paradox of thrift reformulated as a paradox of deleveraging.

Fig.4: Deleveraging of private sector (positive net savings) to foreign or government sector (deficits), annual averages for 1999-2007, 2008-2012, 2013-17



Source: AMECO, net lending and borrowing of sectors, own calculations.
Note: The sector balances in Ireland do not add up to 0 but to -1.8% and -1.3% of GDP in 1999-2007 and 2008-12, respectively, and to 0.6% in 2013-17. I could not find the source of this statistical discrepancy.

The pairwise comparison for pre-crisis times (blue bars) shows that the household in each pair were exactly opposite: on average, households became every year more indebted in Spain while they saved net in Italy, Greek households became more indebted (from a low level) in contrast to their counterparts in Portugal, Dutch households in contrast to their German neighbors, and Irish households added a whopping 7.5% to debt every year while they saved in net terms in Britain. The corporate sector was exactly the reverse in each country although net investment in Germany was almost nil. The opposite signs of household and corporate balances is striking and cast doubt on Crouch's characterization of the last decades as 'privatized Keynesianism': where household debt increased, investment by the corporate sector was negative while the accelerator-multiplier process should have stimulated it.

In the crisis, we see a noticeable private-to-public debt shift for households (orange bars positive for households, negative for fiscal) particularly in Portugal and the UK. In Ireland, the Netherlands and Spain, households hardly manage to deleverage while their corporate sector, presumably banks, do so massively. In Greece, both households and the public sector get more indebted while only the corporate sector deleverages. In Germany, the private sector deleverages, shifting debt to the foreign sector (the Netherlands manages to do that as well) and to a smaller extent to the government. Nothing changes in Italy, which under the circumstances is a kind of achievement.

Adjustment in the post-crisis era (grey bars) works in all EA countries via the successful debt shift to the rest of the world: by 2013-17, all EA countries succeed in acquiring claims on the rest of the world. The notable exception is the only non-EA country, the UK.[8] This corresponded to deleveraging of the private sector, and in particular households, everywhere except Greece (where only corporations keep on disinvesting massively). Countries record receding budget deficits, Germany's balance even becomes positive and that of the Netherlands almost balanced. Ireland and Spain use their budget balances flexibly although the restraint after 2013 has also limited the extent to which highly indebted households in these countries can deleverage – they became arguably too poor to save. Greece, Portugal and the UK recorded high public deficits still post-crisis; in the Southern European countries this is partly due to falling GDP in the denominator, a clear sign of austerity.

The evidence for the responsive risk management to households is therefore mixed: as expected, it benefitted households primarily in the UK, post-crisis also in Spain and Portugal. In the latter two cases, this responsiveness was thwarted by weak or weakened fiscal capacity that had to be replenished by bailout programmes. Contrary to my hypothesis, highly leveraged household sectors in the Netherlands did not benefit from the government as debtor of last resort while the corporate sector, notably banks, did (as they did primarily during the crisis years in Spain). This also holds in Ireland which is compatible with the hypothesis under conditions of severely constrained responsiveness. Greece was a negative outlier even worse than Ireland: households kept on getting more indebted amidst worsening public finances and a collapse of corporate investment. By 2017, the private sector in all EA countries had managed to shift some debt to foreigners through current account surpluses, which suggests that governments ended being the debtor of last resort. The rest of the world was the biggest source of private post-crisis deleveraging in Ireland and the Netherlands, but also in Germany where deleveraging was hardly necessary. It is remarkable that the only non-euro country in our sample, the UK with its ability to devalue its currency, could not benefit from a debt shift to the rest of the world but relied entirely on the public sector. But overall, figures 2 and 3 told us that not all debt shifting benefitted banks only.

What about saving households who did not need to deleverage but needed the rescue of banks for their own interests? Were the rescues of saving households merely a by-product of bank bailouts? A new database on deposit guarantees, collected under the auspices of IMF and World Bank, provides some evidence that there was responsive risk management. They conclude that 'authorities and financial regulators reacted to the extraordinary circumstances of the crisis by expanding the coverage offered in existing deposit insurance arrangements or adopting deposit insurance

[8] The UK non-adjustment is quite striking, given that so many critics of the common currency, Streeck (2014: 181-4) included, believe in easy adjustment through devaluation; the British Pound was weak against the euro in 2013, strengthened in 2014-15 and fell from mid-2016 to very low levels so that it devalued overall during 2013-17.

where it was not already in place.' (Demirgüç-Kunt, Kane and Laeven 2014: 3; fig.12) This was extremely effective: 'in Europe, despite diverging macroeconomic fundamentals between the core and the periphery of the eurozone countries, insured bank deposits remained remarkably stable in most countries.'[9] By contrast, 'runs on uninsured deposits and non-deposit liabilities were widespread' ' (Demirgüç-Kunt et al 2014: 15). For our country case, table 2 summarises relevant data.

Table 2: Key features of deposit insurance (2010/2013) and changes since 2008

	IT	ES	GR	PT	DE	NL	EI	UK
Total deposits/ GDP, 2010, in percent	99.6	141.5	126.0	118.6	102.5	154.4	128.1	138.6
Administered publicly/ privately/ jointly	priv	priv	joint	pub	joint	pub	pub	pub
Funded publicly/ privately/ jointly	priv	priv	priv	join	priv	priv	priv	priv
Gov't backstop to deposit insurance	✗	✗	✗	✓	✗	✗	(✓)	✓
Funding ex ante/ ex post	post	ante	ante	ante	ante	post	ante	post
Size of deposit insurance fund/ covered (or eligible) deposits, 2010	0	0.37	1.31	0.99 elig	0.37 elig	0	./.	0
Increase in statutory coverage since 2008	✓	✓	✓	✓	✓	✓	✓	✓
Gov't guarantee on deposit insurance since 2008	✓	✗	✗	✗	✓	✗	✓	✗
Gov't guarantee on bank deposits since 2008 (limited/ unlimited)	✗	✗	✗	✗	✓ lim	✗	✓ unlim	✗

Key: IT-Italy, ES-Spain, GR-Greece, PT-Portugal, DE-Germany, NL-Netherlands, EI-Ireland, UK-United Kingdom
Note: Covered deposits are obtained from eligible deposits when applying the level of coverage
Source: Database in Demirgüç-Kunt, Kane and Laeven (2014)

All eight European countries have explicit deposit insurance schemes which is compulsory for resident banks. Deposits are sizeable relative to GDP, a rough measure of the ability to pay, in all countries. There has been harmonization of deposit guarantees in the EU since 1994 which was overhauled during the crisis. There is still considerable diversity. First of all, in terms of who is in charge: does the public sector incur responsibility through public administration (yes in half of them, notably three of them are the Netherlands, Ireland and the UK which have a more liberal disposition) while funding is almost everywhere through private fees levied on banks; and an explicit government backstop should insurance funds run out is also given only in Portugal and the UK; the Irish government helps if a shortfall that has to be made up by banks would exceed their annual payment. Three European countries, Italy, the Netherlands and the UK have the rare feature of collecting the fees after a crisis from surviving banks, justified by economists as reining in moral hazard. But it may be unsettling in a crisis that there is no fund to cover insured deposits – the Netherlands and the UK experienced bank runs by depositors. Hence, the Netherlands switched to ex ante funding from 2015 onwards, while Italy introduced a government guarantee on deposits. The changes in the crisis were noticeable: all member states increased their coverage during the

[9] Exceptions included bank runs on Northern Rock in the UK and DBS in the Netherlands, a slow flight from deposits in Greece and a run on Cypriot banks after a tax on insured deposits was announced; it stopped when the tax was revoked (Demirgüç-Kunt, Kane and Laeven 2014: 15).

financial crisis because this was an EU-wide harmonization measure. Additional government support was less forthcoming, Germany and Ireland being the noticeable exceptions (Woll 2014: 119, 145).

4 Social risk management of central banks

There is discernible evidence for the responsive risk management hypothesis but it is not overwhelming. One explanation could be that the debtor of last resort was itself in need of support, or desperate to avoid getting in that situation. The capacity of governments to come to the rescue of households – to indebted households via counter-cyclical demand management, to saving households via bank rescues, in particular deposit guarantees -- was severely limited.

Some had to replace bond market finance with concessionary funding that came with intrusive policy conditionality, especially on permissible budget deficits: Greece, Ireland, Portugal and Cyprus. Spain requested and received only a bank restructuring programme, which increased government debt, however, and made the government reluctant to engage in further fiscal stimuli which it had pursued in 2008-9, more vigorously than any other EA member (Schelkle 2012c: 43). High public debt countries like Belgium and Italy, and even France, had to demonstrate to credit rating agencies and member states in the Council that they could get a grip on their fiscal situation. In January 2012, Standard & Poor's stripped Austria and France of their AAA ratings and downgraded the bonds of seven more EA countries. This could have tangible consequences for the interest costs of public finances, with an uncertain prospect of a self-fulfilling bond market attack. The two countries in our sample for which this 'limits to responsive risk management' explanation seems a bit forced are Germany and the Netherlands. The German government came to the rescue of households pre-emptively, while the Dutch government did the exact opposite, ie relatively little despite excessive household debt.

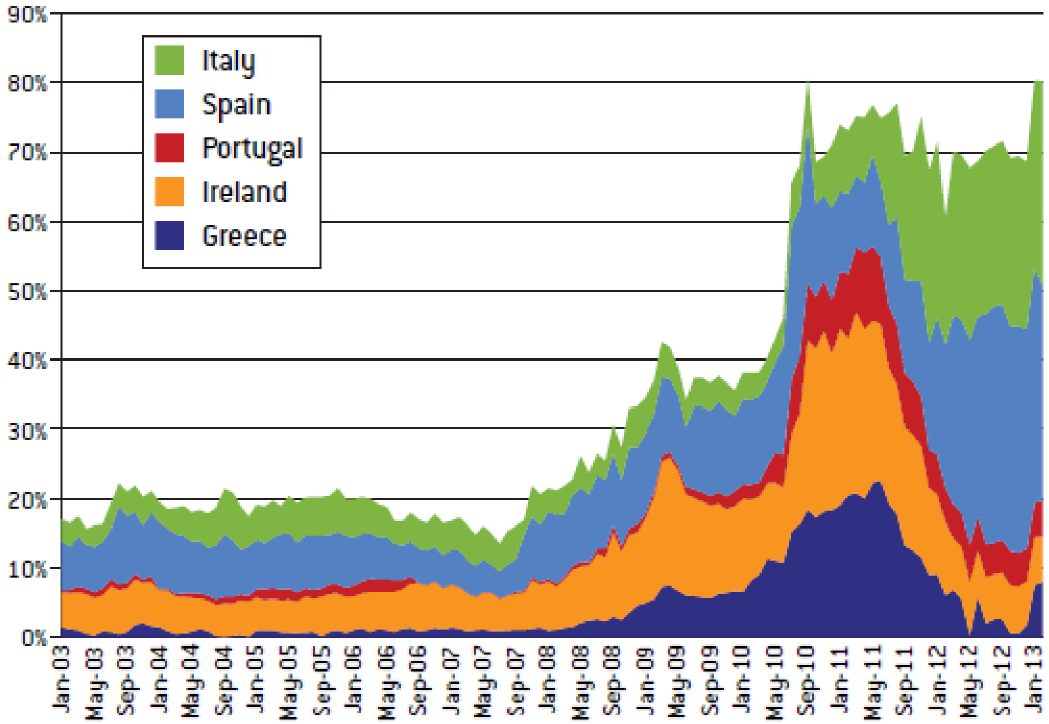
The extraordinary monetary policy measures of the ECB provided some relief for sovereigns under actual or anticipated duress. Initially ECB interventions were launched to provide liquidity to banks and keep their refinancing costs low, but for some national financial systems it became more important to keep up government bond prices so as to keep bond yields low.[10] The ECB's interventions thus acted as a stop gap for the diabolic loop between weak banks and weak public finances: after governments had come to the rescue of their banking systems and the economy as a whole, market investors got worried that banks holding large amounts of their government's bonds may become insolvent and refused to deal with them in interbank markets, which then squeezed the liquidity of these banks. This called for more action of already overstretched governments. Once the ECB accepted almost any bonds as collateral against which it provided liquidity in open-ended amounts, governments could get to some extent off the hook.

This was of particular value to Italy with its enormous refinancing needs and Spain that had refused to take budgetary support from the Troika because of the humiliating conditions attached. The following graph from Bruegel illustrates how important ECB support was. It shows the share of five EA member states, the so-called periphery, in ECB main and long-term refinancing. Before the 2007-8 financial crisis, banks in these countries were underrepresented at the discount window of the ECB because they were awash with capital inflows. When they were locked out of wholesale interbank markets, Ireland (5/2010-9/2011) received about 25% of the ECB's massively expanded balance sheet, Italy (9/2011-1/2013) about 30%, Greece (1/2010-1/2012) roughly 20% and Spain (1/2012-1/2013) a whopping 35%. Not only did this provide liquidity for banks resident in these countries, it

[10] When bond prices fall, eg due to a fire sale of panicking bond investors, bond yields shoot up because the fixed coupon (promise to pay for a bond with a fixed face value) increases relative to the (much lower) price at which bonds are traded.

also allowed domestic banks to offload the perceived risks of their government bond holdings by pledging them to the ECB.

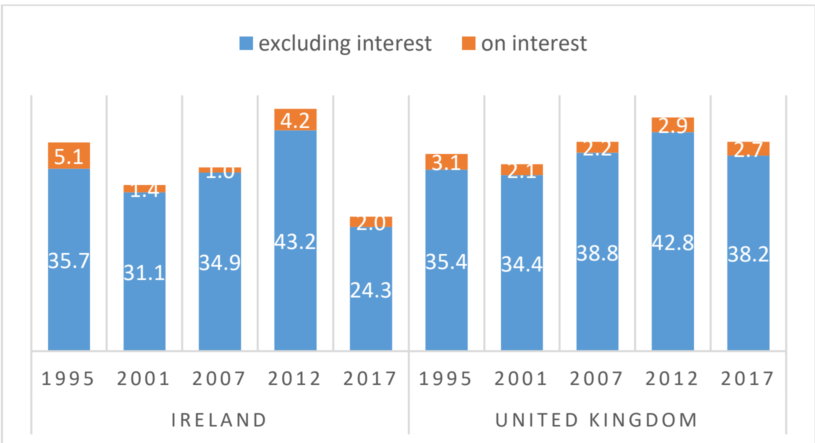
Fig.5: Share of 'periphery' countries in the ECB's refinancing operations, 1/2003-1/2013

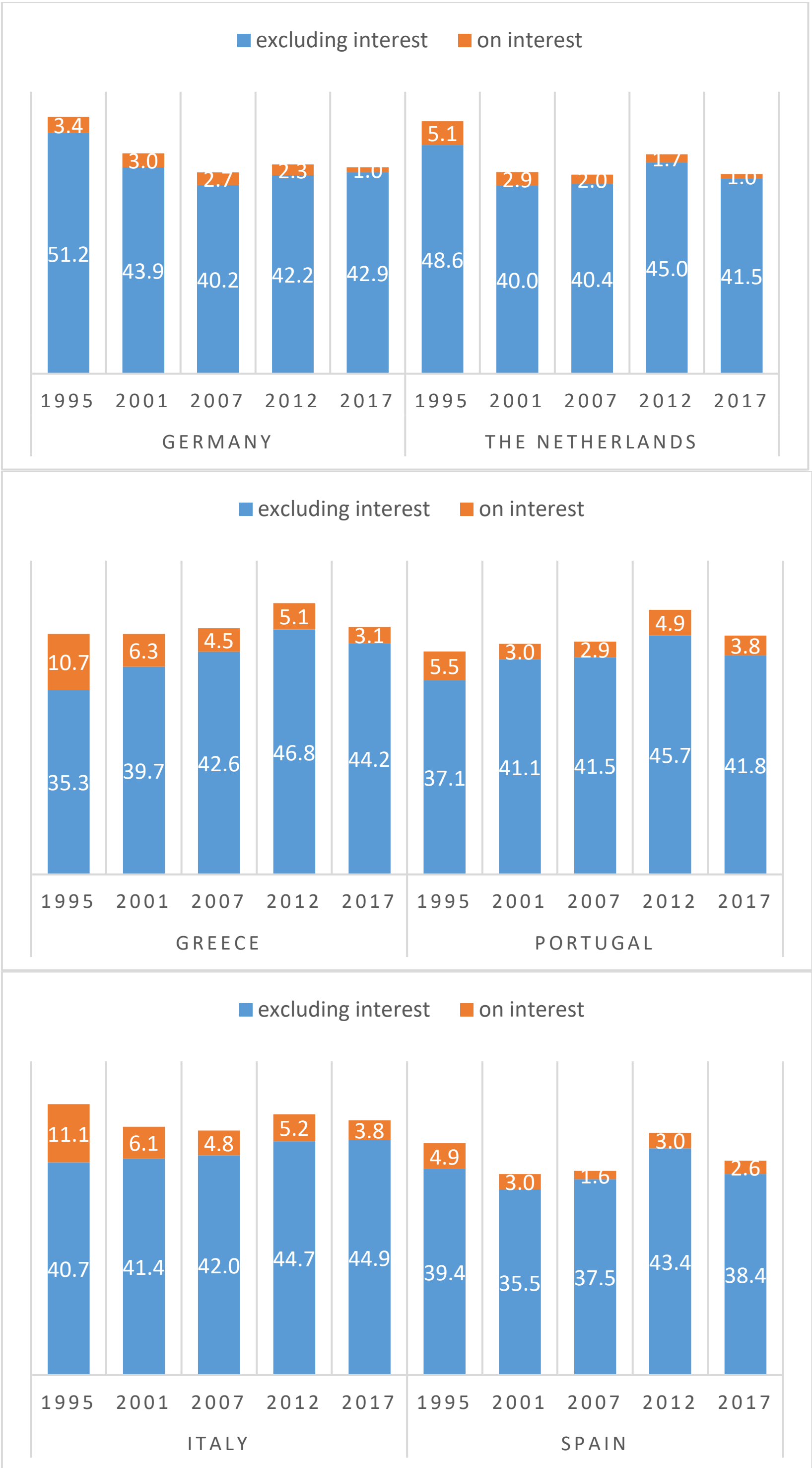


Source: Bruegel (updated from Pisani-Ferry and Wolff, 2012).

But ECB support for overstretched governments was not confined to 'periphery' countries. A common monetary policy since 2000, extraordinary liquidity support since mid-2007 and Quantitative Easing, a pre-announced bond purchasing programme since January 2015 on a truly astounding scale by the ECB and the national EA central banks. We can see what difference each of these changes in the monetary regime made for public finance in our country pairings in the graphs of fig.6.

Fig.6: Government expenditure as share of national GDP, 1995-2017



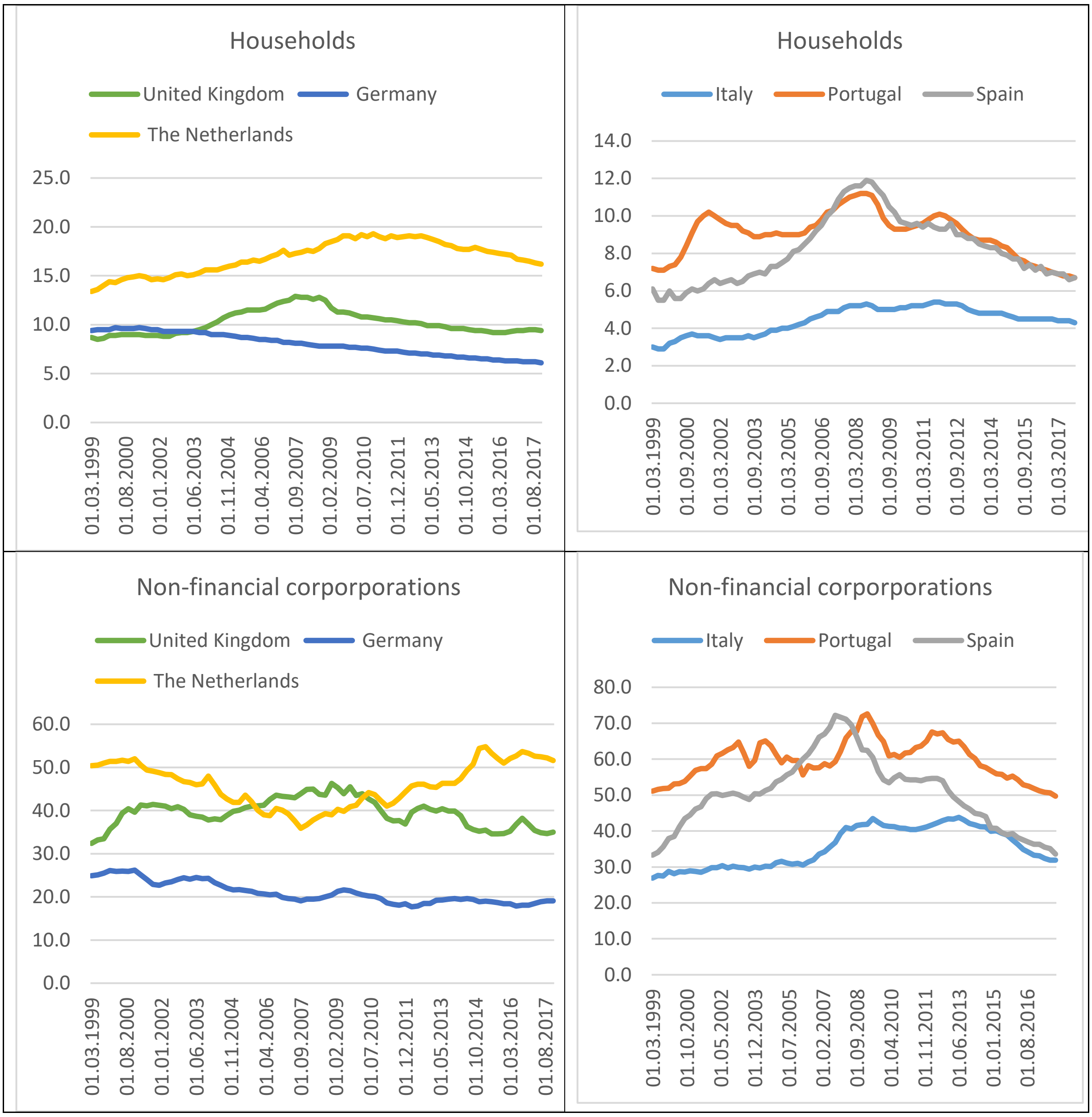


Source: Eurostat, AMECO database

Joining the euro made a difference even for a country like the Netherlands that had to spend more on interest than Germany with its higher post-unification stock of debt. Only at the height of the crisis in 2012 did Ireland spend more on interest than the UK. But no EA member state went back to its pre-euro 1995 levels of interest payments and the differentials were much more sizeable than for the UK.

Did this fiscal windfall from EA membership benefit the non-financial sector, households and non-bank firms, as well or was it just a boon for the debt state? The Bank for International Settlement (BIS) put together a new database on quarterly Debt Service Ratios (DSR) which it defines as 'the ratio of interest payments plus amortisations to income' of the respective sector. DSRs are available since the first quarter of 1999; it has no data on Ireland and Greece. Hence, the following graph shows the DSR for the two country groupings from the North-West and the South of Europe.

Fig.7: Debt service ratios of the non-financial sector as percentage of GDP, 1999-2017

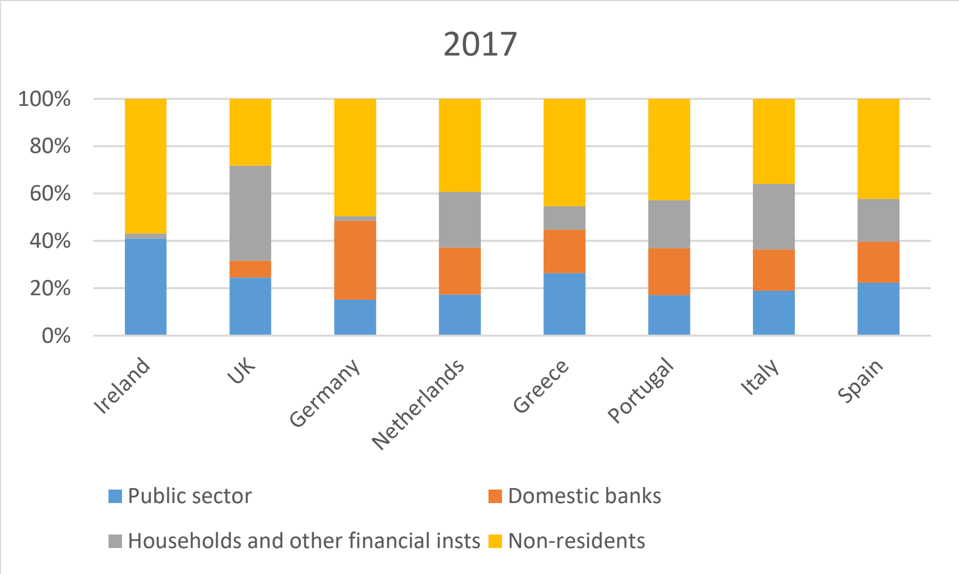


Source: BIS, https://www.bis.org/publ/qtrpdf/r_qt1509h.htm
Note the different scale on the left-hand axes.

There is only one overall trend observable: DSRs for households decline in all countries after 2008. In the other relevant respects, levels and change of household DSRs are very different. The Netherlands stands out for its high level and Germany for its low, steadily falling level; Spain and Portugal for their strong swings while levels are comparable with those of Germany. Not much of a pattern is discernible for the DSRs of non-financial corporations. The state-owned behemoths of Portugal make for high corporate DSRs although temporarily both the Netherlands and Spain exceed those of Portuguese enterprises. The UK as the only non-EA country is on both accounts in the middle. Again, these considerable intra-group differences do not support the notion that the North, represented by Germany and the Netherlands, and the South are distinct groups or that there is a secular trend.

Who holds sovereign bonds now? If central banks' interventions were moderately successful, they should not simply substitute for diversified bond holdings but assure foreign bondholders that their investments are safe enough. The buying time narrative in the empirical operationalisation of Hager (2016a) would lead us to expect that at least the worst affected countries were abandoned by foreign capital since they could no longer be sure that they would get their investment back. Fig.8 compares the composition of bondholders before the EA crisis (2007), at its height (2012) and post-crisis (2017), using the data collected by Bruegel which started with Merler and Pisani-Ferry (2012).

Fig.8: Sovereign bondholders as share of total, 2007-2012-2017



Source: Updated Bruegel database of Merler and Pisani-Ferry (2018), own classification
Note: Irish data does not allow to distinguish between bond holdings of the central bank (classified as public sector) and domestic banks.

We can see that Ireland, and only Ireland, fits the expectations of Hager (2016a): bonds were held by foreigners before the crisis and then bailed out by its public sector – central bank and fiscal authority.[11] In the UK, the BoE started already in 2008-9 to buy large portions of the government's bond issues. Germany has consistently the highest concentration of bond holdings among its domestic banks, the rest is held by foreign investors and by the central bank, ever since the ECB started its Quantitative Easing program in 2015. Non-resident investors have certainly withdrawn from Southern Europe but this holds also for the Netherlands; the share of foreign bondholders are now similar to Germany and still higher than for the UK. In sum, there was no exodus of footloose capital even though some renationalisation of bond holdings has taken place. Institutional investors like pension funds and insurers, domestic and foreign, may hold government debt, not because they are so profitable but because they are safe as long as monetary policy backs up fiscal recovery.

The European System of Central Banks (ESCB) thus played an essential role in states' responsive risk management. Central bankers came to the rescue of governments presumably not because of a dramatic Keynesian conversion but because they are Keynesians whenever systemic stability is at stake. This quasi-fiscal role was spearheaded by the ECB against some resistance in the Governing Council and intensified in line with the --- real or perceived – tightening of the constraints on fiscal authorities that bond markets imposed. The ESCB alleviated these constraints by holding the assets that could otherwise be shunned by markets at short notice which simultaneously stabilised the prices of these assets, keeping rates of return low despite rising notional risk premia. Low debt service costs extended not only to governments but to the non-financial private sector insofar households and corporations were borrowers. For savers or individuals with net worth, these low interest rates amount to a tax in all but name. It is a form of contrived risk pooling through central banks.

[11] Ireland does not show how much is held by the central bank and how much by domestic banks, unlike the other countries in the Bruegel database. I show bond holdings under public sector because domestic banks' assets were all guaranteed by the Irish government in its fateful decision of October 2008. This may have changed by 2017 but QE has by then kicked in and asked national central banks to buy a lot of assets.

5 Conclusions

This paper asked with Moss (2002) whether the financial crisis generally and the euro area crisis specifically have added another task to governments' role as pervasive risk manager for households. To answer this question, it used a hard test for responsive risk management: systemic banking crises amidst high private debt, not rescues of single banks and their savers. My tentative answer to the question is: welfare states have tried to act as ultimate financial risk managers of and for households. After 2008, the lifebelt of public finances was thrown to households in a sea of private debt almost everywhere (fig.2) and while this was enough to keep household sectors above water, it could not, on average, lift them out (fig.1). The limitations to this role were primarily determined by their uneven debt bearing capacity.[12] Given the sheer size of financial markets and the debt they carry, national risk management is not sufficient and the logic of welfare states must be applied supranationally. The interventions of central banks and the ultima ratio of bailouts administered by the Troika are examples for this.

This perspective provides an alternative to the prevailing narrative that sees governments or society as a whole in the tight embrace of financial interests, either because growth depends on it (Crouch 2009a) or because political stability in financialized economies rests on it (Streeck 2014). While one can concede both of these motivations for governments' attitude towards the financial system, it does not follow that financialization in the sense of financial capture is a consistent explanation for government policies before and in the crisis. This article is compatible with a view that sees democracy as not inherently opposed to financialization, to the inequality this generates and the excessive debt accumulation it allows for. This contradicts the convenient Polanyian distinction of good democracy and bad financial capitalism (Matthijs and Blyth 2015, Streeck 2014) , on the one hand, and, on the other, the comforting social-democratic view of Iversen and Soskice (2019) that, in the long run, democracy will prevail and ensure economic prosperity for the majority.

The link between fiscal democracy and financial capitalism through the welfare state may turn out to be less favorable to democracy than the contradictions narrative has it (see also Bartels 2008). Democratic welfare states are not the victims of capitalism but its equal partner, also when both fail. This ambiguity is nothing new although insufficiently acknowledged (Schelkle 2012a, Lessenich 2019). The notion of financialization that this paper purports is that mass markets of consumption are underwritten by the state. Housing and homeownership have come within reach of broad sections of the middle classes in rich countries. Politicians and policymakers have responded to these aspirations before the crisis by instrumentalizing financial markets for the middle class welfare state. This is financialization as used in this paper. It is quite ironic that supposedly progressive, Neo-Marxist interpretations of capitalist crisis history should be so scandalised by this insight of Keynesian political economy, as the incisive review of Streeck's work by Tooze (2016) points out.

As regards further research, this paper suggests a possible explanation for the Funke et al (2016) finding that right wing extremist parties gain disproportionate support after a systemic financial crisis. My finding is that governments try to support the non-financial private sector but are overwhelmed by the task. This can be construed as capture by financial interests: the very fact that public finances are overstretched and governments conspicuously fail to bail out Main Street could disadvantage left-wing parties and nurture suspicions of a conspiracy against the nation. That the failure was not for want of trying makes no difference to those who see weakness as betrayal.

[12] The only exception to this finding was the Netherlands, where high household debt and sustainable public finances would have enabled the government to respond and help the deleveraging of households. The country has paid dearly for this, with a double-dip recession and the strengthening of the far-right.

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