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1. What is the significance of the current crisis to the position and future of capitalism?

Financialization as an engine of economic growth has seen its day. Like inflation in the 1970s and public debt in the 1980s it has worked only for so long. After states had rescued the economy from the fallout of financial risk-taking, and the banking system from itself, 'financial markets' have lost confidence in states' ability to repay their debt and demand that their confidence be restored. States are under unprecedented pressure to demonstrate their capacity to make their citizenries sacrifice for the sake of financial rectitude. Financial markets have firmly established themselves as a second constituency in democratic capitalism, one that insists that its demands take precedence over those of electorates. The political question right now is whether capitalist democracies can be so reorganized as to satisfy the demands of their creditors. We are now seeing a concentrated effort of national political leaders, international organizations, and global financial institutions to structure the state system to make it once and for all compatible with the imperatives of global capital markets and the international finance industry.

2. What does the crisis mean to the social development of Europe?

I cannot remember European governments being nearly as clueless as today. Where is the next wave of economic growth to come from: more debt or more austerity? How to re-regulate the financial sector, in a global economy that seems to be addicted to continuous injections of synthetic money? At what level to act, nationally or supranationally? Governments' first priority today is and must be to regain the confidence of 'the markets', to avoid being punished by ever higher rates of interest on their debt. Regaining confidence requires a 'credible commitment' to cutting back social spending, and a robust capacity of states to defend institutionalized austerity against citizen protests. Successful fiscal consolidation is likely to mean higher rates of structural unemployment, lower social security and pension benefits, less support for families and

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immigrants, more privatization of public enterprises and services, higher inequality and the like. In this sense, fiscal consolidation continues and accelerates the process of liberalization that has been under way since the 1980s. It may take decades for an effective countermovement of citizens to get organized and try to take back the democratic state and its institutions from its now dominant second constituency, international finance.

I compare the present situation to the 1930s and the years immediately after 1945: periods in which the institutions of democratic capitalism had to be refounded to survive. Unlike after the Great Depression and the Second World War, however, I see no realistic ideas on how capitalism and democracy could again be reconciled. No New Deal is anywhere on the horizon, and no equivalent to the Postwar Settlement that inaugurated the trente glorieuses. Our thinking on political economy is too deeply infested with the neoliberal rational choice disease, and perhaps irreversibly so. I see another great transformation to be about to happen, one in which the conflict between capitalist and democratic principles of social and economic justice may for a long time if not forever be settled in favor of the former.

3. What have been the most distinctive features of the crisis in your country or region?

In Germany, the crisis meant an end to the slump of the 2000s, which had been caused by high real interest rates due to below-average national inflation combined with ECB nominal interest rates reflecting average inflation in the Euro area. Low growth and high unemployment are over for the time being. Now Germany benefits from low interest on its government debt and a domestic boom caused by an exchange rate that may be right for Euroland but is way too low for Germany. Moreover, the country from the 19980s onward wisely failed to heed the advice of nearly everybody to finally de-industrialize and rely more on 'services'. Now Germany has stuff to sell that the Chinese, the Russians and others want to buy: luxury cars, machinery and the like. Having been the sick man of Europa for a decade, Germany has now risen to be Europe's economic superpower.

Prosperity comes at a price, however, which in the German case is powerful pressures from other European states to bail out debtor countries and save the banking system, not just of Germany, but also of France, to avoid appearing no longer sufficiently 'European'. In effect this means the end of postwar Germany's hiding its might behind a rule-bound economic policy. Illusions of invisibility gone, German governments must now own up to their power and assume responsibility for the discretionary decisions they cannot avoid to make on whom to save and whom not. They must also extract from the German taxpayer what is in effect a national competitiveness tax to be paid, in various ways, to the weaker members of the Eurozone. At the same time, they must, through Brussels if possible, and preferably in tandem with France, exercise more or less direct control over the fiscal and social policies of debtor countries on the Mediterranean fringe, if only to placate the German electorate. Simultaneously they must impose strict austerity on the latter, to keep debt service affordable, and pray for the export boom to last forever.

4. Are the crisis and the reactions to it changing the social and political landscape of your country/region, alternatively Europe? Why or why not?

Neo-functionalism redux: European Monetary Union is currently turning into European Economic Union, which will give rise to a European Political Union of sorts, as expected by integrationists from Jean Monnet to Helmut Kohl. But the results are less than happy. Saving the Euro will require and produce the 'ever closer union' of European Sunday speeches, in the form of firmly institutionalized hegemony of the North over the South, and perhaps over the Southeast and parts of the East as well. Dependent states will receive subsidies in various forms, so they can pay their debt and keep their markets open to Northern exports. Transfers will ostensibly be to enable them to modernize and grow, but given their social structures and the ease by which national capital can exit to the USA and elsewhere, growth is unlikely to happen. United Europe may begin to resemble United Italy: with a prosperous North paying a unity tribute to a permanently depressed South, and a Cassa di Mezzogiorno located, this time, in Brussels. Note that the Cassa was in practice used to buy the political allegiance of Southern elites to the Italian state and its governments. Note also that Northern Italians have become increasingly impatient with paying for the South, the Lega Nord being more or less openly secessionist. Even more discontent can be expected of the Fins, the Danes, the Germans and others in a European 'transfer union', where the bond of nationalism that has kept Italy together in the twentieth century is missing and the Mediterranean countries, unlike Sicily in Italy, still retain some residual national sovereignty they can use to extract more transfer payments.

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