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Europe

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Europe

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A Diary of the Euro Crisis in Cyprus: Lessons for Bank Recovery and Resolution

Panicos Demetriades. London: Palgrave Macmillan, 2017.
£31.99/\$49.99. 215 pp.

Central banks are politically vulnerable because they are institutions, and thus need to have both structure and purpose to function effectively. Central bankers are vulnerable because they do not like to be embarrassed, maligned or threatened – particularly when such actions extend to their families. Both are vulnerable because they extend loans, but also withhold credit, actions that create both friends and enemies. All this suggests that central banks are more political than is commonly believed.

These are the insights that emerge from the diary kept by Panicos Demetriades during the 2013 Cypriot banking crisis, when he was governor of the Central Bank of Cyprus (CBC). His book is essential reading for anyone who wants to understand the politics that surrounds so-called ‘politically independent’ central banks. It is also a cautionary tale about the unintended consequences of participating in Europe’s single market. Demetriades is sceptical of both Europe and the euro. Nevertheless, he is quick to recognise that only the smooth functioning of the eurozone prevented an already bad situation from getting worse.

Demetriades explains that the ‘business model’ of Cyprus was always flawed. Politicians and bankers colluded to specialise in a particular form of offshore banking that relied on excessive risk-taking and regulatory forbearance. It was a confidence game that grew out of the personal relationships tying together the centre-right of the political spectrum and the largest Cypriot banks. The president of Cyprus, Nicos Anastasiades, felt personal responsibility for the Bank of Cyprus; the finance minister, Michael Sarris, was the former head of the Cypriot bank Laiki; and one of Demetriades’s predecessors as central-bank governor, Afxentis Afxentiou, who governed the CBC for two decades, had millions of euros – as did members of his family – at risk.

It is no surprise, therefore, that many top politicians and business leaders in Cyprus took it personally when the CBC had to wind up Laiki and restructure the Bank of Cyprus, then the country’s two largest banks. In response, Anastasiades publicly blamed Demetriades. The government dismissed the deputy governor of the CBC and rewrote the rules regarding board membership and responsibilities. Meanwhile, Demetriades and his family received credible death threats. Ultimately, Demetriades recognised that he could no longer run

the bank effectively. When he resigned, it was clear that Anastasiades had ‘got what he wanted’ (p. 177).

As Demetriades tells it, the European Union played only a supporting role in this drama. EU membership enhanced the ability of Cypriot banks to attract deposits. Participation in the single currency ensured those banks remained liquid even as they grew far beyond the underlying Cypriot economy. Once the crisis struck, the EU played a more ambivalent role. The European Central Bank was supportive, but only within limits. The Eurogroup was determined to test a new formula for banking resolution despite the fact — and probably because — this would help to break the Cypriot business model. The damage to the CBC as a central bank, and to Demetriades as the central banker, was collateral to this objective. Demetriades makes it clear that European institutions could have done more to protect his and his institution’s political independence, but chose not to. That neglect is another political vulnerability to add to the list.

Banking on Markets: The Transformation of Bank–State Ties in Europe and Beyond

Rachel A. Epstein. Oxford: Oxford University Press, 2017.

£55.00/\$70.00. 214 pp.

The close relationship between governments and banks is as old as it is strong. In that sense, there is little about Panicos Demetriades’s story (see previous review) that surprises. Governments rely on banks to create money, finance debt and service the national economy. That reliance is particularly strong when the country faces economic crisis. In such moments, governments may have to call upon banks for vital support, offering their willingness to protect them from foreign competitors and domestic regulators in exchange. Policymakers may opt to liberalise capital markets to take advantage of access to savings abroad, while promising not to endanger the control and influence that banks wield.

This state–bank symbiosis is what Rachel Epstein explores in her fascinating study of how the recent economic and financial crisis unfolded in the countries of Central and Eastern Europe. Epstein notes that governments like to protect their banks, because having control over (or access to) cooperative national financial institutions makes policymakers feel less vulnerable. Somewhat paradoxically, however, such economic nationalism actually puts policymakers at more risk, particularly when the domestic economy depends heavily on access to capital from abroad. Those governments that allowed large foreign banks to take controlling positions in their domestic markets, by contrast, turned out to be less vulnerable to capital flight than conventional wisdom would suggest. Rather than fleeing, these large foreign banks chose to hunker down and absorb their

losses. Moreover, they did so out of strategic self-interest: having fought hard to gain access to new and potentially lucrative markets, the large multinational banks were more concerned to maintain a presence than to repatriate their assets.

Epstein's story about the experience of Central and Eastern European countries does not dismiss the conventional wisdom about states and banks altogether. Governments that allow foreign financial conglomerates to dominate their domestic markets get neither the developmental outcomes in periods of stability, nor the cooperation in times of crisis, that domestic banks could offer. In essence, governments have to trade policy discretion for a more stable financial funding model. Not all governments are willing to accept that bargain. Indeed, the transition from communism to capitalism may have offered a unique environment for policymakers to reconsider state–bank relations in ways that more vested interests would find abhorrent. The story of Cyprus looms large in the background of Epstein's analysis even if it is not a case she chose to analyse; the parallel case of Slovenia gets more attention (and leads to a similar disastrous outcome as the government tries to hold on to its domestic banks).

Nevertheless, there are signs elsewhere in Europe that bank–state ties are undergoing a process of transformation. The creation of a European Banking Union with a single supervisory mechanism, regulatory rulebook and resolution board goes a long way toward constraining the instruments of national control. A pooled mechanism for deposit insurance, resolution funding and direct bank recapitalisation could liberate European banks even further from the tutelage of national politicians. It is still too early to tell whether Western European governments will find themselves as estranged from their home-grown financial institutions as are the governments of Central and Eastern Europe. What is clear is that the old relationship between states and banks deserves careful reconsideration. Epstein's book is a critical first step in that direction.

The End of Europe: Dictators, Demagogues, and the Coming Dark Age

James Kirchick. New Haven, CT: Yale University Press, 2017.
£12.99/\$17.00. 273 pp.

The End of Europe starts off by announcing that 'Europe today is breaking apart ... and slowly heading down the once unfathomable path to war' (pp. 1–2), and ends by insisting that 'such a collapse would usher in nothing less than a new dark age' (p. 230). In between, it focuses on four key points: Russia is meddling; democracy is fragile; Muslim immigration is subversive; and the left is anti-Semitic. And yet the book is not a rant. Indeed, it is subtle, informative, well written and even persuasive. True, there are occasional errors of fact, and even

more attempts at manipulation: the author's decision to highlight a 14-year-old Palestinian refugee's musings about a world without Israel is but one illustration (p. 134). Nevertheless, this is journalism, not scholarship. The book is meant to be read, not studied. James Kirchick is skilled at his craft, which involves stirring readers' emotions to hold their attention.

There is no prize for guessing where Kirchick falls on the political spectrum, or what the broad contours of his world view are. Robert Kagan's appearance in the acknowledgements foretells the author's claim that 'so allergic are Europeans to the use of military force, and so anemic are their resources, that the thought of picking a side [in Syria] and seeing it through to victory was unimaginable' (p. 131). Then again, the predictable bits of this book are the least interesting. They are also unprovocative, except perhaps for the uninitiated. The relevant arguments have already been made in the debates surrounding previous books by authors like Kagan and Christopher Caldwell.

What Kirchick adds to his themes — and what makes this book worth reading — is his reflection on the role and creation of collective memory. This represents a genuinely new field of scholarly interest, one that is attracting a great deal of attention because of its real-world implications. Readers do not have to agree with Kirchick on the set pieces of his argument to share his horror at the prospect of Hungary repainting its role in the Holocaust in vibrant new hues. This rewriting of history is not just an offence to the memory of those who suffered, it is also an open door to those who would repeat the same atrocities. Moreover, the process involves much more than the building of monuments or museums. Kirchick finds a similar revisionism in the failure to protect the remaining Jewish population in France, in the institutionalised anti-Semitism of the British Labour Party — which he calls 'the most influential anti-Semitic institution in the Western World' (p. 141) — and the use of the term 'Nazi' to vilify the political opposition in Ukraine.

Kirchick's repeated references to the Holocaust should not mislead readers into thinking that his message is confined to the fate of the world's Jewish community. His point is that, if people can rewrite the history of such a high-profile, unambiguously horrific episode, then there is no telling what they could do to histories that are nuanced and subtle. Russian President Vladimir Putin, for instance, might press his case that Russians can only survive under authoritarian rule because that has always been their fate; and that democracy is a failed experiment and always has been. If we do not push back against the rewriting of clear-cut, painful histories, then we should not be surprised if we lose sight of the bolder and more beautiful accomplishments of Western civilisation at the same time.

Memory Laws, Memory Wars: The Politics of the Past in Europe and Russia

Nikolay Koposov. Cambridge: Cambridge University Press, 2017. £22.99/\$29.99. 321 pp.

Memory and history are not the same thing. Memory exists in the present, history in the past. Memory evolves (active voice); history is revised (passive voice). Sometimes memory can and should be manipulated to ensure that the lessons of the past are never forgotten. History, on the other hand, should not be manipulated. Instead, historians should be left in peace to practise their craft. These are just a small handful of the insights that emerge in Nikolay Koposov's fascinating study of the rationale for writing 'memory laws' and the unintended conflicts these laws can create.

Following Koposov's argument in this book is no easy task. This is partly due to the multiple agendas that underlie it. The author is a historian, and hence is at least as interested in recounting how legislators came up with the idea of writing laws concerning the ways in which people remember (celebrate, revere and reconcile themselves with) the past, as he is in presenting an argument about how this kind of legislation leads to conflict. Anyone looking merely to dip into this book is advised that the conclusion is much tighter than the introduction. More conventional readers should know that its principal argument only emerges on page nine; the definition of 'memory' shows up on page 48; and the prose that surrounds these analytical building blocks consists of tightly interwoven digressions containing distractingly interesting observations.

The core of the argument is worth untangling because of what it implies about the vulnerability of the popular imagination. Koposov suggests that the end of ideology robbed Western society of its purpose. If there is no utopia to be created, then there is no future. (The echoes of Francis Fukuyama's 'end of history' are manifest.) Nevertheless, progressives can strive to make the world a better place by remembering humanity's tragic failures and promising never to repeat them. Given that, in many ways, memory laws rose to prominence as Western governments prohibited efforts to deny, minimise or relativise the Holocaust, this particular genocide features prominently.

The Western project to protect the memory of the Holocaust was progressive, both in tackling persistent anti-Semitism and in underpinning a wider appreciation of universal human rights. The use of legal instruments to do so, however, opened up the possibility for abuse. Koposov shows how Central and Eastern European countries used similar legislative acts to privilege specific national histories. For many of these countries, the goal was to put fascism and communism on an equal footing as external sources of victimisation. In

this way, governments sought to whitewash their national experiences in order to escape, rather than reconcile themselves with, the lessons of the past. Often these countries — notably Hungary and Poland — were the most vigorous in rebelling against communism, and are the most prosperous in the region. At stake is whether these governments have embraced Western liberal democracy or distorted it.

For some countries, the manipulation of popular memory has a more openly anti-democratic agenda. The goal is not simply to escape responsibility for past failings, but also to relocate political agency (and the legitimacy that goes with it) from the individual or the cultural collective to the state. Koposov shows how Vladimir Putin, for example, is using the politics of memory to recast Russia as a 'state sovereignty' rather than a 'nation state'. In so doing, Putin is not only elevating himself above the Russian people, but also asserting the primacy of memory over history. In other words, what matters most is not what happened, but how the people feel about it today. This is a terrifying prospect, and not just for professional historians. Koposov has written a challenging book on a new and unfamiliar topic. It deserves to be widely read.

Communism's Shadow: Historical Legacies and Contemporary Political Attitudes

Grigore Pop-Eleches and Joshua A. Tucker. Princeton, NJ: Princeton University Press, 2017. £24.95/\$29.95. 336 pp.

Popular attitudes may be another form of memory. If so, they are surely closer to muscle memory than to narrative memory. This is the conclusion Grigore Pop-Eleches and Joshua Tucker draw as they look for the legacies of communism in the survey responses of people who lived under communist rule and try to explain why large, multinational surveys about attitudes toward a range of social and political institutions reveal that respondents who lived under communism or in post-communist countries are more sceptical about democracy, more critical of the market and more supportive of the welfare state than respondents who did not share in that experience. The difference cannot be explained by the conditions that prevail in post-communist countries: people living in such countries may be unhappy with their lot, but their unhappiness is not the source of their attitudinal uniqueness. Rather, the length of time they spent under communism and the intensity with which they were socialised to accept communist values appear to be of far greater importance.

Any socialisation that did take place was more likely to be a result of what communists did than what they said. Communists had much to say about gender equality, for example, and yet Pop-Eleches and Tucker found little evi-

dence that survey respondents in post-communist countries expressed more support for gender equality than respondents elsewhere. Indeed, once the authors control for variables related to living under communism or living in a post-communist environment, they find evidence to suggest that sexism may be even more prominent among Central and Eastern Europeans than elsewhere (although, to be fair, these findings are often not statistically significant). The point is simply that ideology matters less than experience in shaping attitudes, and communist regimes were no more respectful of gender equality in practice than their non-communist counterparts elsewhere. Incentives matter as well. People who experienced adulthood under communism were more likely to have been socialised than were people whose experience ended after childhood despite having been educated in communist schools.

What is less clear from this research is the extent to which these differences in attitude translate into differences in political behaviour. Pop-Eleches and Tucker place their work clearly in the 'behaviouralist' camp so as to distinguish the legacies they identify from the more widely studied persistence of institutions and political or social groups after the fall of communism. The scholastic nomenclature should not create confusion, however. We can speculate about how such attitudes will feed into policy, politics or protest, and yet the causal mechanisms are not self-evident. The dynamics of mobilisation are unclear, and cannot be understood without some consideration of both institutions and narratives.

Pop-Eleches and Tucker are well aware of the limitations of their contribution. This is refreshing at a time when scholars often seem only too eager to overstate their findings. What Pop-Eleches and Tucker offer is a new toolkit for taking advantage of the wealth of survey data that is being harvested both across and within countries. They also point to socialisation dynamics that are likely to emerge over time whenever the mixture of political, economic and social institutions that define society have a kind of underlying ideological coherence. This is a chilling prospect when the ideology boils down to 'the state is always right' (p. 299). Here both Nikolay Koposov and James Kirchick could easily join the conversation (see the reviews of their books above). Communism has cast a long shadow, and yet the shadow of post-communism may prove even darker.