

KRYZYS NA ŚWIECIE – ŚWIAT W KRYZYSIE

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Towards institutional crisis theory

This paper aims to compare the approach of political science and that of the economy to the phenomenon of crisis. The author focuses on the analysis on the following issues: (1) the developmental challenge; (2) the structural challenge; (3) crisis management; and (4) the political legitimacy of anti-crisis measures. The major case studies analysed in the paper include the Eurozone crisis and the Asian crisis between 1997 and 1998.

Keywords: developmental challenge, structural challenge, crisis management, political legitimacy

W kierunku instytucjonalnej teorii kryzysu

Celem artykułu jest dokonanie analizy zjawiska kryzysu jednocześnie w perspektywie politologicznej i ekonomicznej. Autor skupia się na czterech aspektach: (1) wyzwaniach kryzysu dla rozwoju, (2) strukturalnych aspektach kryzysu, (3) zarządzaniu sytuacją kryzysową, (4) wyzwaniu dla legitymacji politycznej w czasie kryzysu, zwłaszcza w odniesieniu do stosowania środków antykryzysowych. Studiami przypadku w badaniu są kryzys strefy euro oraz azjatycki kryzys finansowy z lat 1997–1998.

Słowa kluczowe: wyzwania dla rozwoju, strukturalne czynniki kryzysu, zarządzanie kryzysem, legitymacja polityczna

The paper aims to compare two perspectives, namely that of political science and that of economy, in an approach to crisis phenomenon. I have focused on an analysis of four elements of a crisis, which have been adopted in our project,¹ namely: (1) the development challenge, (2) structural problems, (3) management

1 The paper recapitulates the research deployed within the framework of the project of the National Science Centre – Poland, No. 2013/11/B/HS5/04170, whose results were published here: *The aspects of a crisis. An analysis of crisis management from an economic and political perspective*, ed. M. A. Cichocki, T. G. Grosse, Natolin European Centre, Warsaw 2016.

of the crisis, and (4) the problem of the weakening legitimacy of a specific crisis-stricken system.² An analysis of these four aspects – made simultaneously in the sphere of economic and political science – comprises an innovative methodological approach to the evaluation of crisis reality in order to research ways of overcoming crises by state authorities. The four aspects of the analysis I have proposed include an attempt to view a crisis from various perspectives, which are interrelated and not always possible to be clearly separated. All four dimensions are also related to institutional theory, which is the scientific basis of this research. In the article I attempt to draw a major conclusion in each of the four areas mentioned above, and then to make a theoretical synthesis. My core case studies include the Eurozone crisis and the Asian crisis of 1997–1998.

The starting point for further reflections will be discussed in the reiteration of the definition of a crisis. To begin with I wish to stress that there are various types of crises and the same is true of their scale, dynamics and duration; this follows on from objective economic indicators and also from social perceptions and dominant cultural values in a given community.³

Returning to the definition, I recognise that in the case of the major crises we deal with, the highlighted dysfunctions and limitations of a given system may follow from any inherent institutional gaps or internal contradictions.⁴ A crisis is manifested via several emerging economic problems, which lead to a loss of political stability. In my interpretation this refers to the four main aspects to be examined. (1) This initially signifies a disturbance or even suspension of any existing economic development processes, which then brings about political consequences. (2) A crisis in economic terms contributes to the weakening of potential in the international arena of a given political entity (e.g. a state) and (3) disturbs prior processes in its internal policies, which – incidentally – hamper the possibility of managing the crisis. (4) Another manifestation of a crisis in the political sphere is compromised by the weakening of the legitimisation of the political authorities, which may impact on those in power or even lead to a serious threat of an entire political system. It is, therefore, important to analyse a crisis simultaneously from both an economic and a political science perspective.

2 *Między polityką a rynkiem. Kryzys Unii Europejskiej w analizie ekonomistów i politologów*, red. T.G. Grosse, Uczelnia Łazarskiego, Warszawa 2013.

3 M.A. Cichocki, *From crisis to strategy – against the backdrop of the EU*, [in:] *The aspects of a crisis...*, p. 155–177.

4 *International encyclopedia of political science*, vol. 2, ed. B. Badie, D. Berg-Schlosser, L. Morlino, Sage, London 2011, p. 489–493.

Development challenges

According to the new institutional economy approach, properly designed public institutions can exert a positive impact on economic development processes, e.g. better defined strategic targets and then better designed public policy instruments, including regulatory ones.⁵ According to rational choice institutionalism, the shape of the designed institutions is a reflection of the interests of the dominant political actors.⁶ According to these assumptions, the design of the single currency regime in Europe resulted from political bargaining between EU member states; in these negotiations the decisive voice belonged to the richest and most competitive states, which later also derived the greatest economic benefits from the European currency system. The asymmetry of political power within the Eurozone led to an uneven distribution of benefits and costs. Exactly the same rule became manifest during the crisis as part of the anti-crisis policy undertaken by Eurozone policy-makers. What is more, the aforementioned institutional dysfunctions were not fundamentally overcome during the crisis and the costs of the said crisis were largely transferred onto troubled states, at the same time having a much weaker position in the political system.⁷

Marek Cichocki associates crisis phenomenon with a strategy designed to overcome the crisis.⁸ The author demonstrates that the most important aspect of such a strategy is the dimension of social and political mobilisation, while it is much less about the possibility of implementing all of the provisions outlined in such a strategy.⁹ It seems that such an anti-crisis strategy may be referred to attempts at restoring development on the basis of prior mechanisms and sources or at finding new development opportunities, both in the economic and political domains. Cichocki points out two general anti-crisis strategies: defensive and offensive. The former tries to defend the *status quo*, i.e. restore the arrangement of political and economic forces that would enable a return

5 D. Acemoglu, J.A. Robinson, *Why nations fail. The origins of power, prosperity, and poverty*, Crown Publishing, New York 2012; T. Legiędź, *Nowa ekonomia instytucjonalna a zmiany paradygmatu rozwoju gospodarczego*, "Ekonomia" (Wrocław University of Economics and Business) 2013, nr 4 (25), p. 77–91.

6 P.A. Hall, R. Taylor, *Political science and the three institutionalisms*, "Political Studies" 1996, vol. 44, p. 936–957; K. Shepsle, *Rational choice institutionalism*, Harvard University Press, Cambridge 2005.

7 T.G. Grosse, *The Eurozone crisis*, [in:] *The aspects of a crisis...*, p. 11–56.

8 M.A. Cichocki, *From crisis...*

9 M. Dobry, *Sociologie des crises politiques*, Presses de Sciences Po, Paris 1986, p. 19–20.

to a previously pursued development mode. In the case of the Eurozone, this would translate into maintenance of the prior division of power and distribution of economic benefits within the system. On the other hand, an offensive strategy is tantamount to expansion towards new growth factors and such reconstruction of the political system that would secure improvement of its internal controllability and growth of its international power. In the case of the European Union, this would mainly translate into an “institutional breakthrough” towards a political federation or at least into deepening the political integration within the Eurozone. It seems that the anti-crisis strategy in Europe was a defensive one, so it largely aimed to restore the *status quo*.¹⁰ However, it significantly modified the prior model governing the functioning of European integration, something I call the systemic tendency towards asymmetric confederation.¹¹ It is based on the expansion of intergovernmental governance and growing power hierarchy between the biggest and richest states and those immersed in troubles – or located in the peripheries.

Regardless of the undertaken anti-crisis strategy, one can also imagine an (unintentional) outcome of the crisis that will have a disintegrating dimension for the economic regime or political system already in place. Thus, it will close any opportunities for further development, at least within the earlier institutional framework. With regard to economic theories, this is a scenario of the so-called creative destruction of Schumpeter,¹² in this case, aiming to replace the old development model with a new one. In the case of the European Union or Eurozone, this could translate into the replacement of one regional integration formula with another one (or new ones). At least in its assumptions it could secure opportunities for a more stable internal and geopolitical development for the new arrangement.

Regarding the economic development model, we can also approach it in the context of the Asian crisis of 1997. Piotr Koryś asserts that the majority of South-East Asian states based their development on an exogenous model, which was challenged by the crisis.¹³ The aforementioned model was based on liberalisation of the financial markets with a powerful inflow of foreign

10 T.G. Grosse, *Overcoming crisis in the process of European integration*, [in:] *Crisises in the process of European integration and approaches to their management*, ed. K.A. Wojtaszczyk, ASPRA-JR, Warsaw 2015, p. 61–80.

11 Idem, *Introduction*, [in:] *European Union policies at a time of crisis*, ed. T.G. Grosse, Scholar Publishing House, Warsaw 2017, p. 9–32.

12 J.A. Schumpeter, *Capitalism, socialism and democracy*, Routledge, London 1994, p. 82–83.

13 P. Koryś, *The Asian crisis*, [in:] *The aspects of a crisis...*, p. 57–89.

capital, together with a superficial economic competitiveness in the said countries. It was related to a cheap workforce as well as the relative weakness and stability of the local currency in the initial prosperous period. The development force of the model, i.e. the opening up to foreign capital inflows, in 1997 became the cause of the crisis resulting from the sudden outflow of said capital. The superficial competitiveness disappeared in the situation of local currencies' appreciation on the wave of the investment inflow before 1997, including speculative investments. The strong inflow of external capital in the said period in Asian states created the same side effects as those we observed just before the outbreak of the crisis in the slowly developing states in the south of the Eurozone. The pressure on pay rises and inflation increased, while the speculative bubble of certain assets grew; there was also a leapfrog growth in lending volume and private debt, largely in foreign currencies. Disturbances in the financial area in both of the aforementioned crises rapidly translated into the real economy resulting in problems for the political system.

It is worthwhile pointing out that the approach to development policy in Asian states jointly combines the openness of globalisation and economic liberalism with state interventionism, as well as with selective protectionism and industrial policy targeted at export promotion.¹⁴ Some experts point out that the development model preferred in Eastern and South-Eastern Asia quite swiftly became differentiated into countries which based their competitiveness on cheap production costs, visible particularly in the south-east of the continent, and states such as Japan, South Korea, Taiwan, and later also China, which shifted their development model towards innovation and advanced technologies. These were different strategies governing the use of endogenous resources for the promotion of economic growth based on export¹⁵. The capital needs of dynamically developing economies together with pressure from the International Monetary Fund (IMF) and the US government in the 1980s and 1990s led to the liberalisation of capital flows in that part of the world while at the same time opening the door to external investors.¹⁶ The main problem was brought about by an excessive inflow of short-term

14 *The developmental state*, ed. M. Woo-Cumings, Cornell University Press, Ithaca 1999.

15 T.B. Pepinsky, *Political business and external vulnerability in Southeast Asia*, [in:] *Two crises, different outcomes*, ed. T.J. Pempel, K. Tsunekawa, Cornell University Press, Ithaca–London 2015, p. 140; R. Doner, *Success as trap? Crises and challenges in export oriented Southeast Asia*, [in:] *Two crises, different outcomes...*, p. 163–184.

16 S. Greenville, *Capital flows and crises*, [in:] *The Asian financial crisis and the architecture of global finance*, ed. G.W. Noble, J. Ravenhill, Cambridge University Press, Cambridge 2000, p. 39–40.

and speculative capital in the mid-1990s. Economists point out that the shared feature of both crises was the inflow of external capital, which excessively stimulated consumption, external debt, and financial speculation, while being inadequately targeted at investments in production or building the competitive advantages of local economies.¹⁷

The Asian crisis, in particular, challenged the development strategy aspect that was based on an excessive liberalisation of capital flows which enabled the inflow and then the sudden outflow of funds focused on fast profits. Post-crisis reforms did not, in each case, bring about fundamental change to the development model. The most successful in overcoming the crisis were such states as South Korea or Taiwan, who maintained the prior opening to globalisation and export promotion strategy and combined it with actions targeted to a greater extent on the building of an endogenous basis for economic development, primarily for strengthening the innovation of domestic companies and building the potential of the local scientific and research sector. It seems that in the case of the aforementioned states this was more a correction of an earlier model than its thorough reconstruction. Both these states had earlier been building internal potential for development, largely based on exports to foreign markets. One outcome of the crisis in the case of the majority of the states of the discussed region was compromised by the limitation of capital flows, as well as a lack of improvement in the quality of financial supervision and regulations, resulting in a reduction in the scope of financial speculation. Moreover, capital reserves in central banks and the banking sector were increased in the case of another contingent crisis.¹⁸ Another consequence was brought about by an impulse for closer economic and political cooperation in the region, also in monetary terms, which was manifested through bilateral contracts related to currency swaps and the so-called Chiang-Mai initiative.¹⁹ There was one more major outcome: a stronger link between most states of the region and the Chinese economy. Therefore, the Asian crisis brought about significant changes of a structural nature in the region, both economic and geopolitical.

17 A. Turner, *Between debt and the devil. Money, credit, and fixing global finance*, Princeton University Press, Princeton–Oxford 2016, p. 151; T.J. Pempel, *Two crises, two outcomes*, [in:] *Two crises, different outcomes...*, p. 27.

18 W.W. Grimes, *Currency and contest in East Asia. The great power politics of financial regionalism*, Cornell University Press, Ithaca 2009.

19 The Chiang Mai initiative was initiated by a series of bilateral swap contracts at a meeting of the ASEAN+3 group on 6 V 2000. Then it evolved towards a multilateral agreement within the said group. The agreement takes advantage of part of the currency reserves of central banks; in 2012 it concerned a total amount of USD 240 billion.

Structural dimension

Structural aspects of the crisis refer mainly to the economy and concern a dysfunctional configuration of production factors, or – more widely speaking – an improper level of growth and a lack of economic competitiveness. According to some economists,²⁰ the recent global crises, and mainly the Great Recession initiated in 2008, are manifestations of the structural problems with the neoliberal capitalism formula, which is characterised by growing social inequalities, excessive deregulation of financial markets, speculative financial institutions and underinvestment of the production sphere. A good example of structural problems was produced by the development model preferred by some Asian states in the 1990s. It was based on the liberalisation of capital flows, the stabilisation of exchange rates of local currencies to USD and additionally by quite shallow competitiveness following on from cheap production costs accompanied by a growing current account balance deficit (particularly in the south-eastern part of the region). Such a development model was initially functional, but later proved to be a structural trap, which brought about excessive debt, appreciation of local currencies, inflation and declining competitiveness, and eventually resulted in a monetary, financial crisis and the contraction of the real economy.

In addition to the structural dimension in the economy, one can also analyse the structural dimension in the geopolitical sphere. The Asian crisis brought about serious changes in this respect, mainly related to the growing position of China in the region and the weakening influence of Japan and the USA. A fundamental role was played by economic processes, including the replacement of Japan by China as the country with a core role in the economic exchange in the region. They also added serious implications to the geopolitical structure in this part of the world. Another consequence was generated by the intensification of economic and political cooperation within ASEAN,²¹ in connection with China, Japan and South Korea (ASEAN+3).²²

20 D.M. Kotz, *The rise and fall of neoliberal capitalism*, Harvard University Press, Cambridge 2015. Critical opinions about the liberalisation of capital flows, austerity policy applied during crises instead of fostering economic growth were put forward also by leading IMF economists; see: J.D. Ostry, P. Loungani, D. Furceri, *Neoliberalism: oversold?*, “Finance & Development” 2016, vol. 53, No. 2, p. 38–41.

21 The Association of Southeast Asian Nations (ASEAN) established on 8 VIII 1967 in Bangkok, whose base is located in Jakarta. The members are: Indonesia, Malaysia, the Philippines, Singapore, Thailand (the founding states), Brunei, Cambodia, Laos, Myanmar (Burma) and Vietnam.

22 T. J. Pempel, *Two crises...*, p. 36.

The Eurozone crisis can also be analysed in the structural dimension. In economic terms, strong macroeconomic differences became manifested within the Eurozone, including deepening disparities related to the competitiveness of particular economies. The structural reforms forced by the crisis encountered resistance, with the main burden of economic adjustments being transferred onto trouble-stricken countries. At the same time, the deterioration of the economic situation strongly influenced geopolitics, both internally within the EU, as well as in external relations.

The leading theory for structural analysis in international studies is referred to as structural realism.²³ According to this approach, international relations create systemic relationships and power hierarchies between particular actors in the regional and global arena. The basic element of the said structure is arrived at by the distribution of power or of geopolitical potentials between particular entities. Disturbance of the geopolitical factors is the cause and, at the same time, a manifestation of international crises. A crisis is also an opportunity to rebuild the international system, to establish new power relations. In the case of the Eurozone, the structural disturbances took place in at least three dimensions even before 2008, and they intensified during the crisis. First, between the great powers and particularly between a weakening France and an increasingly powerful Germany. The problems of the single currency, even in the transitional period, led to making Germany a state with almost hegemonic status in Europe. Second, disproportions between core and periphery states within the said system deepened while some states previously recognised as core states experienced a significant decline in their international positions, as well as in their influence over EU and Eurozone policies. On the one hand, an example of such a country is Italy, which gradually lost its economic significance and became immersed in internal problems. On another hand, the geopolitical role of the United Kingdom in European Union policies was declining, mainly because it remained outside the Eurozone, but also because it increasingly distanced itself from integration processes. Thirdly, the relationship has deepened between the asymmetry of political power and distribution of the costs and benefits from European integration between particular member states. The aforementioned process was dramatically accelerated in the crisis for the benefit of the richest states, having the biggest political influence in the EU. It became an opportunity to exert structural pressure by the biggest

23 K. Waltz, *Theory of international politics*, Addison-Wesley Publishing Company, Reading 1979.

states on those of the crisis-stricken, mainly in the economic dimension, which also resulted in the deepening of hierarchies within the political system. This was the pressure of a geo-economic nature, whereby economic instruments were used on the basis of the existing asymmetry of power, to additionally deepen the said asymmetry.²⁴

The institutional theory, particularly its rational choice school and historical school, may also offer a good explanation for the structural changes in the Eurozone. According to both aforementioned currents of thought, institutions are tools for the realisation of interests in the strategic dimension, and they also reflect the asymmetry of power between particular actors, e.g. states. Because their own potentials differ, these are mainly the countries with the biggest resources that contribute to the shaping of international institutions, doing this in accordance with their own rationalities and interests.²⁵ In line with such an approach, the anti-crisis institutions in the Eurozone were designed by the most influential states, and first and foremost in conformity with the interests and preferences of their domestic constituencies, leaving much less importance for the rationality of the functioning of the entire Eurozone or election preferences in the most crisis-stricken states. I called the described phenomenon the asymmetry of rationality which, in my opinion, brought negative consequences for crisis management.²⁶

Management problems

The concept of maintaining controllability of a crisis situation seems to be of fundamental significance for crisis management. This can be understood as the ability to control a crisis and influence it in such a way as to solve the sources of the problems and not just their symptoms, as well as consequently aiming to recover from the difficulties encountered while restoring development processes. One of the elements of controllability appears to be understood as power over oneself, i.e. the fact that a given entity has adequate resources and political power to be able to perform anti-crisis measures effectively. I propose referring the analysis of controllability of a crisis

24 T.G. Grosse, *Summary. Towards regional disintegration theory*, [in:] *European Union policies...*, p. 281–306.

25 *Between power and plenty. Foreign economic policies of advanced industrial states*, ed. P.J. Katzenstein, University of Wisconsin Press, Madison 1978; S. Saurugger, *Theoretical approaches to European integration*, Palgrave Macmillan, Houndmills 2014, p. 93.

26 T.G. Grosse, *The Eurozone crisis...*

to the external dimension with internal determinants. Once again one shall focus first of all on the institutions that might restrict or facilitate crisis management, both those defined in the context of external influence on policy-makers and those treated as internal determinants.

Restrictions for crisis management can be established, e.g. by external political pressures, which impose reforms or other internal adjustments aimed at overcoming pressing problems. Other external restrictions on management may be brought about by the impact of ideas, values or international regulations, which e.g. may enhance exogenous development (or block the possibility to channel the economy towards endogenous development). Norms such as these can lead to a reduction in the controllability of a crisis, particularly when sources of the crisis are to be found in the dysfunction of the existing development model.

The Asian crisis was an example of the aforementioned external determinants. The IMF influenced the applied anti-crisis policy through stabilisation loans granted in exchange for reforms expected by this institution. These reforms were very difficult for the states receiving financial support, as they transferred the burden of economic adjustments onto local authorities. They also upheld the exogeneity of the economic models in the said countries, putting stress on the openness of those economies to liberal financial markets, while also supporting privatisation and attracting foreign investors. As Piotr Koryś points out, the local elites in many states responded with efforts aimed at regaining autonomy from external pressures, which resulted either in the swiftest possible exit from IMF aid programmes or even in the rejection of any external support as well as the conditions related to recovery measures.²⁷ As an example, Malaysia tried to restore its internal autonomy through a strong turn towards protectionism: the protection of internal markets, together with control over capital flows and import substitutions. It is worthwhile pointing out that the aforementioned Chiang-Mai initiative was supposed to improve the region's independence from the IMF's conditionality and to enhance the bargaining position of particular states in potential future negotiations with the IMF or other financial institutions.²⁸

Koryś thinks that the states of the region that had better economic and political institutions, including, among other things, more deeply and firmly

27 P. Koryś, *The Asian crisis...*

28 T.J. Pempel, *Soft balancing, hedging, and institutional Darwinism. The economic-security nexus and East Asian regionalism*, "Journal of East Asian Studies" 2010, vol. 10, issue 2, p. 209–238; W.W. Grimes, *Currency...*

established democracies, coped better with overcoming the crisis.²⁹ It seems that the autonomy of those states was also of great importance, and particularly the possibility to influence the exogenous economic model features towards stimulation of endogenous development factors, while maintaining openness to the regional and global economies. Success was secured particularly by such policies that built the competitiveness of the local economy on the basis of technological innovations accompanied by the building of safeguards against speculative investments.

During the Eurozone crisis we observed the same struggles of crisis-stricken states against external pressures from international institutions (the IMF, the European Central Bank – ECB, and the European Commission). These institutions imposed a strategy for overcoming the crisis, which largely transferred the adjustment costs onto the aforementioned states while offering them very limited scope to negotiate recovery measures. All states, therefore, aimed at the swiftest possible exit from aid programmes, but more precisely from the necessity to implement the restrictive political conditions accompanying the loans granted. Subsequently, this was an effort on the part of those states which wanted to regain their internal autonomy, while aiming to relax the austerity measures imposed by the international institutions and the states who financed the aid programmes to the greatest extent. An extreme example of attempts to regain autonomy was Greece, which in the summer of 2015 openly revolted against the anti-crisis policy dictated by the Eurozone. This was manifested by the announcement of a referendum, whereby the society rejected such a policy. Nevertheless, the Greek government neither regained autonomy in crisis management nor did it reject the austerity policy imposed by external actors.

External support may improve state institutions and imitate the best foreign models with a view to overcoming the crisis and strengthening the power of the state.³⁰ On the other hand, a negative perception of external pressures by society and local elites may greatly hamper imposed top-down changes of this type. What is more, external pressure may also lead to the introduction of desirable reforms, but may also serve external economic and political interests.

The concept of isomorphism applied in institutionalism addresses the aforementioned issues. It investigates the possibility of transferring

29 P. Koryś, *The Asian crisis...*

30 T.G. Grosse, *Koncepcja state capacity i jej odniesienie do współczesnej praktyki politycznej*, "Studia Polityczne" 2007, nr 20, p. 35–62.

an institution from one economic and social context to another. The same institutions are not always equally effective though, for example: in the differences between states with strongly developed regulatory systems and legal cultures against those with weak structures of the rule of law together with widespread corruption.³¹ Therefore, the isomorphism concept attaches stress to institutional contexts, including in particular the local political and social culture in which a given solution is applied.³² Equally important is the ability to adapt external institutions in accordance with local development interests and with a view to maximising any benefits for the local economy and society. Not, e.g. to build competitive advantages for foreign entities unilaterally benefitting from such transfers of norms. Such action may result in a lack of institutional adequacy, which is evident in some integration processes in the EU, i.e. a match between international norms and local institutional determinants and economic interests in the member states.³³

Therefore, having internal autonomy contributes to controllability of a crisis because it allows better matching of an anti-crisis strategy to local determinants, together with social and local interests. This is of fundamental importance for proper definition of the goals for such a strategy, as well as the selection of the best instruments for its implementation. This also allows for better respect for the rules of democracy, and for adjustment of the costs of overcoming a crisis for the endurance of the local society, and for selection by such a society and its elites of such a strategy of exit from the crisis that creates the greatest chances of returning to a stable economic growth path.

The second aspect of crisis management analysis is comprised of internal determinants. Historical institutionalism draws attention to the role of history in a political decision-making process, including that which refers to crisis situations. They are path-dependent, which means that past institutional choices – including those related to norms, ideas or regulations, as well as procedural or organisational solutions – influence later decisions.³⁴ This fundamentally limits the possibilities for managing a crisis, which requires

31 P.J. DiMaggio, W. W. Powell, *The iron cage revisited. Institutional isomorphism and collective rationality in organizational fields*, [in:] *The new economic sociology. A reader*, ed. F. Dobbin, Princeton University Press, Princeton–Oxford 2004.

32 M. Granovetter, *Economic institutional as social constructions. A framework for analysis*, "Acta Sociologica" 1992, vol. 35, issue 1, p. 3–11.

33 T.G. Grosse, *W objęciach europeizacji*, Instytut Studiów Politycznych PAN, Warszawa 2012, p. 69–70.

34 P. Pierson, *Politics in time. History, institutions and social analysis*, Princeton University Press, Princeton 2004.

overcoming prior systemic contradictions and dysfunctions, i.e. institutional creativity instead of imitating past solutions. This concerns, in particular, a crisis of a systemic nature, which disavows the fundamental functioning principles of a given arrangement, and consequently requires the introduction of new rules or institutions. The overcoming of such a crisis is almost impossible under the old institutional arrangement or with reference to old recipes and previous methods and actions. European integration processes are examples of a strong path – dependency, making all changes incremental and distributed across time, rather than deep-rooted. The integration process prompts the gradual layering of successive institutions³⁵ when rarely a punctuated balance³⁶ or an institutional breakthrough³⁷ takes place. Sometimes old institutions or configurations of interest related to them preclude any change or aim to uphold (rebuild) the political *status quo*. Schumpeter's creative destruction, therefore, is not a method of overcoming European integration problems. The described trends tend to compound management in the EU with regard to serious crises, because they lead to the undertaking of minimalist and partial actions, of a temporary or reactive nature, rarely responding to the real causes of the crisis, focusing to a greater degree on their manifestations or the postponing of problems.

Historical institutionalism argues that institutional change does not always bring about expected results, and even then, it is highly unpredictable. There are too many factors influencing changes and in consequence policy-makers designing new institutions do not fully control the results of their undertaken actions.³⁸ Some researchers at times even challenge the possibility of attaining the goals of an anti-crisis strategy owing to the complexity of the reality, with several variables and dynamics of social and political processes.³⁹ Accordingly, crisis management is a great challenge, although in the case of the Eurozone there was the additional problem of improper definition of the goals, as well as the instruments of anti-crisis policies. Policy-makers decided this was a crisis of excessive debt of some monetary union states and applied austerity policy

35 C. de la Porte, E. Heins, *A new era of European integration? Governance of labour market and social policy since the sovereign debt crisis*, "Comparative European Politics" 2015, vol. 13, issue 1, p. 8–28.

36 V. Lowndes, M. Roberts, *Why institutions matter. The new institutionalism in political science*, Palgrave Macmillan, New York 2013, p. 112–120.

37 T.G. Grosse, *The Eurozone crisis...*

38 J.P. Olsen, *Change and continuity. An institutional approach to institutions of democratic government*, "European Political Science Review" 2009, vol. 1, issue 1, p. 3–32.

39 M.A. Cichocki, *From crisis...*

instruments. But the real sources of the crisis were mainly systemic macroeconomic disparities in the zone, including in particular the difference in economic competitiveness levels and development models between core and periphery states of the monetary regime. The proper goal should rather be aimed at overcoming these differences, and anti-crisis instruments should be brought in by the stimulation of economic growth and structural changes towards the improvement of competitiveness in the south of the Eurozone. The erroneous crisis diagnosis led, then, to the inappropriate design of the strategic goals, as well as the implementing measures.

However, it seems that this was not an incidental situation but rather a function of the political arrangement in place in the monetary union. Such a definition of the goals for exit from the crisis were related to a calculation of the implementation costs of various strategic variants, together with a broader view of benefit distribution within the monetary union, and finally of the social approval for a given anti-crisis policy. The aforementioned calculations were made by entities with the greatest influence over the decision-making process and, first and foremost, with regard to the interests of their own economies, fiscal situations in their states and domestic constituencies. The interests of politically weaker states, particularly the troubled ones, were much less reckoned with. The lack of consent for stringent reforms on the part of the societies in those countries was not properly taken into consideration. What seemed equally important, was the particularistic interest of dominant states, mainly of Germany, and the rationality of the anti-crisis actions of German politicians, that prevailed over the interests of the entire Eurozone or the rationality behind the functioning of the monetary union. I understand the latter, first and foremost, as being aimed at overcoming the fundamental problems and contradictions of the said system together with the rebuilding of a long-term stable development under the monetary regime. I termed the described phenomena as asymmetry of rationality. It was the fundamental feature characterising the method of monetary union crisis management, while it also fundamentally hampered swift overcoming of the said crisis, rather contributing to an increase in political costs and unexpected side effects.

Legitimacy challenge

According to Seymour and Lipset, legitimacy involves the capacity of a political system to engender and maintain the belief that existing political institutions are the most appropriate and proper ones for society. The basic aspect

leading to engendering such belief is the effectiveness of the government or its actual achievements.⁴⁰ Legitimacy of any political system, therefore, is based on the effectiveness of the governance and utility of a given system, which covers both the qualifications of political elites in rule, and also – in a wider dimension – of the political institutions that elect a given governing party and enable the effective performance of governance thereto. Legitimacy authorises the political system, both the elites and political institutions, but also determines the efficiency of governance because it may either facilitate or hamper the implementation of political decisions. A particular test for any political system is highlighted by an economic crisis, which through the deterioration of social welfare and emerging economic and social problems exerts pressure on the reduction of political legitimacy. At the same time a declining legitimacy may contribute to difficulties when making and implementing anti-crisis decisions, particularly ones entailing costs, which for that reason are unpopular or even rejected by society.

So, a crisis is a difficult situation for politicians and the entire system, especially in the context of growing legitimacy problems. Particularly dangerous are such crises that are profound or systemic, i.e. ones that cannot be quickly overcome, which bring about even more dysfunctions and new challenges. Another type of danger is uncovered by the weak foundations of a given system's legitimacy. The fragility of legitimacy in times of prosperity is not a problem for a political power, but when a protracting crisis takes place, such fragility becomes a systemic challenge.

We were dealing with the aforementioned challenges in the Eurozone. First, the crisis was a major one, it was neither adequately nor efficiently managed, which not only made it even more difficult to overcome the crisis, but it also gave rise to serious side effects and new problems. More crises emerged, including those of immigration and geopolitics in relations with Russia, which fuelled old problems as well as new ones. Secondly, since its establishment the European Union has struggled with the problem of legitimacy weakness, which is also sometimes defined as democracy deficit. Democracy was the basis for the legitimacy of political power in Western Europe after WW2. Democracy is the political system in all EU member states. Therefore, democratic values and procedures are the basis of political culture in Europe; this means that the political power of the European Union should

40 S.M. Lipset, *Political man. The social bases of politics*, Anchor Books, New York 1960.

also be authorised in reference to democratic criteria. But at the European level the latter are inadequately met.⁴¹

If permissive consensus for integration progress prevailed among European societies before the crisis, then economic difficulties brought about the phenomenon of constraining dissensus towards further integration.⁴² Dissatisfaction of the constituencies with protracting and accumulating crises was initially aimed at politicians currently in power at a national level, which led to a series of early elections and changes of government in several EU states. Later this dissatisfaction gradually became anti-systemic. It was aimed at the EU and existing political elites supporting European integration. This phenomenon was manifested in the popularity of new political groups, frequently euro-sceptical or challenging the existing integration processes, while suggesting among other things a restriction of EU regulations, partial denationalisation of EU policies, withdrawal from certain integration areas or even from the EU itself.

The political system that took shape in the EU is a two-tier one, i.e. it functions simultaneously at national and European levels.⁴³ The exhaustion of ideas upholding this system in EU societies was an element of the legitimacy crisis. Criticism aimed at the Union largely concerned management ineffectiveness, but it also pointed at the unfair distribution of power as well as the costs and benefits following from integration within the said system. Therefore, the double-dealing or hypocrisy of European ideas was identified, as they were increasingly masking the real political interests and processes, and much less serving the purpose of building a better political practice. Particularly stressed were the meagre democratic foundations for decisions made in the EU, as well as such actions of European institutions that undermined or limited democratic power in the member states. This is how the foundations for political legitimacy of the entire system were rejected. It was not by accident that the opponents

41 V.A. Schmidt, *The European Union: democratic legitimacy in a regional state?*, "Journal of Common Market Studies" 2004, vol. 42, issue 5, p. 975–997; T. Risse, M. Kleine, *Assessing the legitimacy of the EU's treaty revision methods*, "Journal of Common Market Studies" 2007, vol. 45, issue 1, p. 69–80; A. Follesdal, S. Hix, *Why there is a democratic deficit in the EU. A response to Majone and Moravcsik*, "Journal of Common Market Studies" 2006, vol. 44, issue 3, p. 533–562; T.G. Grosse, *Changes in Western democracy. A systemic crisis, or a chance to overcome it?*, "Politeja" 2012, nr 3 (21), p. 133–154.

42 L. Hooghe, G. Marks, *A postfunctionalist theory of European integration. From permissive consensus to constraining dissensus*, "British Journal of Political Science" 2009, vol. 39, issue 1, p. 1–23.

43 T.G. Grosse, *Dwupoziomowy system polityczny w Europie*, "Przegląd Europejski" 2012, nr 2 (25), p. 7–26.

of integration used the institution of a democratic referendum as their main weapon. This is how the European anti-crisis policy was challenged – e.g. in Greece with regard to recovery actions in the Eurozone (in 2015), in the Netherlands with regard to the Association Agreement with Ukraine, being an attempt to stabilise the geopolitical conflict (2016), or in Hungary with regard to methods for overcoming the migration crisis (2016). Referenda have also become methods to challenge staying in the EU, with the notable example of the United Kingdom (2016), but similar trends have also become increasingly more visible in other states, mainly in France and Italy.⁴⁴ The accumulation of the crises, therefore, that started back in 2008, brought about a relaunch of the “revolt of the masses”⁴⁵ in Europe or revolutionary sentiments towards the two-tier political system in the EU, as well as in defence of national democracy.⁴⁶

This has led to profound divisions between the old and new elites within particular societies and between EU states. Instead of performing a fundamental correction of anti-crisis policies, the pro-European mainstream responded to legitimacy problems by trying to marginalise euro-sceptical groups or by remaining silent about the decisions of voters that collided with anti-crisis measures or integration ideas.

The institutional theory analyses the issue of political legitimacy quite well, particularly from the perspective of constructivism and discursive institutionalism.⁴⁷ In the latter case, legitimacy is based on normative discourse, while its dominant values and ideas are the source of authorisation (or challenging) of the existing political system. According to Michel Foucault, discourse is a tool used to impose meanings, exert control over weaker or subordinated entities and to define the rules in a given political system.⁴⁸ The same also happened during the single currency crisis when narration coming from European institutions and major EU capitals stressed the necessity to respect prior commitments related to the observance of fiscal criteria and the need

44 Ipsos survey of April 2016 indicated that 58 per cent of Italians and 55 per cent of the French would like to have a referendum held on staying in the EU similar to the British one. See: *Brexit vote set to fuel more referendums*, “Financial Times”, 9 V 2016, p. 2.

45 J.O. Gasset, *The revolt of the masses*, W.W. Norton & Company, New York–London 1994.

46 T.G. Grosse, *A potential for revolution in Europe?*, [in:] *European Union on the global scene. United or irrelevant?*, ed. B.J. Góralczyk, Centre for Europe, University of Warsaw, Warsaw 2015, p. 203–223.

47 V.A. Schmidt, *Discursive institutionalism. The explanatory power of ideas and discourses*, “Annual Review of Political Science” 2008, vol. 11, p. 303–326.

48 M. Foucault, *Politics, philosophy, culture. Interviews and other writings, 1977–1984*, Routledge, London 1990.

to introduce austerity measures in states that lived above their fiscal and economic capacities. Consequently, the aforementioned arguments were intended to mobilise the implementation of the anti-crisis policy preferred by the EU policy-makers, primarily German politicians.⁴⁹

It is also worthwhile pointing out that narration during each crisis is by nature delegitimising because it indicates problems and dysfunctions that will sooner or later encumber the elites in power or any inadequately efficient political institutions, then hold them liable for the emerging troubles. As I have already mentioned, this mainly concerns the situation of a protracting crisis, as well as particularly affecting such systems that have fragile legitimacy foundations. As Koryś points out, democratic rather than authoritarian institutions were much stronger or more resilient to the economic crisis in Eastern and South-Eastern Asia.⁵⁰ This provided greater flexibility in responding to economic troubles in democracies, although at the same time resulted in a change of ruling parties with a rise in the popularity of extremist political groups. Nevertheless, this does not transform into anti-systemic movements, which are particularly dangerous for authoritarian regimes. It seems that authoritarian political systems also have more difficulty implementing anti-crisis policies. In this context, the pressure from international institutions, which may have a weak or no democratic mandate at all, can hamper political authorisation for such reforms.

The following conclusions can be drawn from the above analysis. These are politicians with a proper democratic mandate in a given political community who should manage a crisis. If this is done by civil servants and officials, particularly international ones, reforms may be more difficult to implement, arousing social resistance. If reforms are imposed top-down by external actors, e.g. by the International Monetary Fund, the European Commission or policy-makers from other states, political legitimacy of such a plan becomes reduced, and therefore the possibility of effectively overcoming a crisis also becomes weaker.

Conclusions

In conclusion to the reflections so far, I will refer to the institutional theory, particularly in the context of relations between power and institutions. Under the discussed theory, certain threads related to the notion of power have been

49 M. Matthijs, *Powerful rules governing the euro. The perverse logic of German ideas*, "Journal of European Public Policy" 2016, vol. 23, No. 3, p. 375–391.

50 P. Koryś, *The Asian crisis...*

addressed, although they do not always have the leading role or are adequately explained.⁵¹ Conclusions ensuing from prior considerations indicate that the power category is central, particularly for the understanding of crisis management. Of great importance for such management is power over oneself⁵², i.e. the ability of a given entity (e.g. a state) to make their own decisions enabling them to overcome a crisis and to be autonomous with regard to external pressures, which may impose a strategy for exit from the crisis that may be damaging for a given entity. The fundamental challenge for policy-makers is not just to overcome existing problems, dysfunctions or contradictions within a given system. The basic challenge is concluded by the adoption of an optimal path out of the crisis, one that will be relatively fast, entail minimum social and political costs, and will lead to the initiation of long-term economic growth processes and to the most beneficial development model. So the anti-crisis strategy is at the same time an attempt to optimise the crisis costs, reinforce or reconfigure the system of political power, and finally to build the institutional foundations (including those related to management, main economic processes and competitiveness factors) which will define the economic development model emerging from the crisis.

It seems that both for the Asian crisis and for the Eurozone crisis, it has been of fundamental importance which economic model will be in place once the biggest problems are overcome, what its long-term competitiveness and stability will be, and last but not least what the benefits and costs of its functioning will be. All these elements are determined by the power, and various categories of institutions (regulations, principles, procedures, ideas) which are subject to the political game, instruments of anti-crisis actions and elements of post-crisis architecture of the political system and the economic model. In the case of international relations, power is of a geopolitical and structural nature (in the understanding of hierarchic relations between particular entities). It is dependent on the potential of particular actors to perform strategic actions, to have control over crisis situation and influence other entities.

Institutionalism identifies two groups of actors: rule makers and rule takers. Both parties have their own interpretations of rules, norms, values and ideas.⁵³

51 P. Pierson, *Power in historical institutionalism*, [in:] *The Oxford handbook of historical institutionalism*, ed. O. Fioretos, T.G. Falletti, A. Sheingate, Oxford University Press, Oxford 2016, p. 124–141.

52 V. Lowndes, M. Roberts, *Why institutions...*, p. 78–79.

53 *Beyond continuity. Institutional change in advanced political economies*, ed. W. Streek, K. Thelen, Oxford University Press, Oxford 2005.

However, it is the distribution of power between them that determines which institutions will emerge and how they will be implemented later. Powerful actors seek to institutionalise their advantages – that is, they use their power to change the rules of the game to create further advantages down the road.⁵⁴ These rules include both formal and informal institutions, as well as public policies. The winners get to impose their policy preferences on the losers. This often means imposing arrangements to which the losers must adjust. The exercise of authority is not just an exercise of power; it is potentially a way of generating power.⁵⁵ A crisis is a unique opportunity to rearrange institutional frameworks for the benefit of the most powerful players. New institutions or policy regimes are often the main prizes awarded to the victors during critical junctures,⁵⁶ which are major events that disrupt the existing political and economic balance. In institutional terminology, critical junctures often refer to crisis situations and anti-crisis institutional reforms. In an international context, power overrules, and the making or implementation is most frequently of an asymmetric nature. This was the case, among other things, in the Eurozone crisis, which highlighted the prevalence of a small group of the most influential member states that determined the anti-crisis strategy along with the new institutions established to overcome the problems. Particular stress was attached to the execution of anti-crisis actions in the monetary union. Concentration of power refers to the actor-oriented institutionalism concept, according to which only entities with the largest potential may initiate strategic actions, including those of anti-crisis.⁵⁷ These are actors who on the one hand have the greatest resource of power over oneself, and on the other hand have the greatest capacities to influence others. In the case of the Eurozone crisis, the dominant actor was first of all Germany, with France lagging slightly behind. In critical situations, significant influence was exerted by an external actor, i.e. the United States of America, together with international institutions such as the IMF and ECB.

Another popular institutional concept is that of the principal-agent model.⁵⁸ This assumes a hierarchy of relations between particular entities, under which

54 P. Pierson, *Power...*, p. 130–131.

55 L. Gruber, *Ruling the world. Power politics and the rise of supranational institutions*, Princeton University Press, Princeton 2000.

56 J. Hacker, P. Pierson, *After the master theory. Downs, Schattschneider, and the case for policy-focused political analysis*, “Perspectives on Politics” 2014, vol. 12, issue 3, p. 643–662.

57 F.W. Scharpf, *Games real actors play. Actor-centred institutionalism in policy research*, Westview Press, Boulder 1997.

58 B.G. Peters, *Institutional theory in political science. The ‘new institutionalism’*, 2nd ed., Continuum, London 2005.

those having the greatest power (or political legitimacy) make decisions and then delegate their implementation to agency institutions. The aforementioned model was developed in the context of research over European integration and aimed to explain relations between member states and the technocratic institutions in the EU.⁵⁹ With reference to the Eurozone crisis, the division into policy-makers and entities implementing political decisions largely overlapped with the divisions into lending states and those who became their debtors, who had to bow to the political will of the creditors. The role of technocratic (agency) institutions in the EU became largely that of instruments for the execution of that dependency. During the Asian crisis, the role of the principal and main lender was fulfilled by the IMF, although the most influential western states, with the USA in the lead, remained in the shadow of the said organisation.

Another concept indicates the concentration of power within political elites, as well as the elites in administration, the army and business.⁶⁰ However, in the case of a crisis, it is not only the elites but also societies that matter. This is most clearly visible with regard to the aspect of legitimacy. Economic difficulties undermined the legitimacy of power, and consequently contributed to bottom-up questioning of the elites in power or even of the existing institutional foundations of the political system. This might lead to a rejection of both hitherto elites and political institutions, something we may call the revolt of the masses or revolution towards the existing system.

The above reflections lead me to an attempt to outline a theoretical model explaining the relationships between power and institutions (see the chart). At the very core there is political power, which is of a structural character, so it should be understood in a geopolitical (or geo-economic) perspective. Political power enters relations with various categories of institutions (they are located around the central power box). I identified four fundamental types of institutions. First, there are organisations, including international ones, but also regulations, procedures and all other mechanisms serving the purpose of management. The second institutional category is comprised of ideas, norms and values, which are of fundamental importance for, among other things, legitimacy of power, but also

59 M.A. Pollack, *Delegation, agency and agenda setting in the European Community*, "International Organization" 1997, vol. 51, No. 1, p. 99–134; H. Kassim, A. Menon, *The principal-agent approach and the study of the European Union: promise unfulfilled?*, "Journal of European Public Policy" 2003, vol. 10, No. 1, p. 121–139; S. Billiet, *Principal-agent analysis and the study of the EU. What about the EC's external relations?*, "Comparative European Politics" 2009, vol. 7, issue 4, p. 435–454.

60 C. Wright Mills, *The power elite*, Oxford University Press, Oxford 1956.

for the mobilisation of societies in support of a specific policy, e.g. with a view to recovering from a crisis.⁶¹ The next institution is the economic development model, preferred development policy, political vision or strategy. Among other things, it is responsible for the distribution of costs and benefits within a given economic regime or political system, and is subsequently closely related to the political economy. And finally, the fourth category consists of interests, i.e. the perception of the benefits of particular actors or social groups, which is rooted in a specific political and economic arrangement, and consequently is of an institutionalised character.

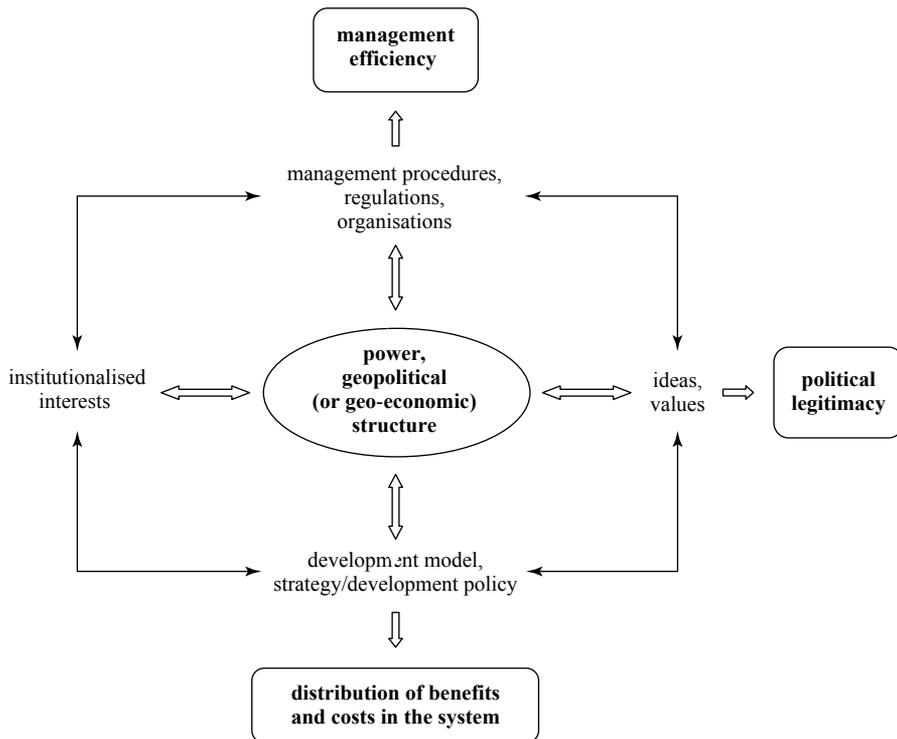


Chart. Power relation model with various institutional categories

Source: Own elaboration

The relationship between a power category and institutions is a bilateral one. As an example, power creates and uses institutions for the attainment of its own goals, including the reinforcement of an existing hierarchy of power

61 M. Blyth, O. Helgadóttir, W. Kring, *Ideas and historical institutionalism*, [in:] *The Oxford handbook...*, p. 142–162.

or the rebuilding (reconfiguration) of a specific political arrangement. A crisis becomes an excellent pretext for such actions, while at the same time institutions are a limitation on power. This concerns both the existing regulations and procedures, which may hamper an efficient decision-making process in the crisis. The situation is quite similar with norms and ideas, which narrow the scope for political actions, sometimes to the detriment of the effectiveness of the attainment of goals, including the capacity for efficiently overcoming a crisis situation. Equally, the development model can primarily be a source of benefits, only to change later into a development trap, which not only contributes to problems and costs but also constitutes a serious challenge to the political system. It seems that particular categories of institutions can interact with each other (e.g. ideas shape regulations, and interests influence the preferred economic development model).

We can define the crisis itself with a reference to the outlined model. A crisis could disturb the entire arrangement, together with regard to the power structure, development trajectory (economic model), distribution of benefits and costs within the system, management quality, satisfaction of social interests and aspirations, as well as that of guiding ideas, values and political legitimacy.

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