

Chapter 1

Introduction: A New Era? Permacrisis and the Challenges to Financial Stability, Economic Growth, and Democracy



Dimitris Katsikas, Maria Antonieta Del Tedesco Lins,
and Andrea Ribeiro Hoffmann

Contents

Introduction.....	1
Permacrisis in Europe and Latin America.....	2
Objectives and Structure of the Book.....	4
Finance, Growth, and Democracy in the Era of Permacrisis.....	12
References.....	15

Introduction

We live in a world shuddered by multiple and profound crises. From the global financial crisis and the Eurocrisis that followed, to the pandemic, Russia’s invasion in Ukraine, the consequent energy and inflation crises, the continuously evolving climate crisis, and the brewing tension among the world’s major powers, the last few years have been marked by political and economic instability, leading many to talk about a new era in the world’s history. New concepts have emerged to describe this era. ‘Permacrisis’ is one of these concepts. For Collins English Dictionary, permacrisis was the word of the year 2022. It refers to ‘an extended period of instability and insecurity, especially one resulting from a series of catastrophic events’.

D. Katsikas (✉)
National and Kapodistrian University of Athens, Athens, Greece
e-mail: dkatsikas@pspa.uoa.gr

M. A. Del Tedesco Lins
Institute of International Relations, University of São Paulo, São Paulo, SP, Brazil

A. Ribeiro Hoffmann
Institute of International Relations, Pontifical Catholic University of Rio de Janeiro,
Rio de Janeiro, RJ, Brazil

This is different from the traditional conception of crisis derived from the Greek word *κρίση* (judgement), which denotes ‘a moment of opportunity’ (Turnbull, 2022), i.e. when an event shakes the status quo forcing us to consider new options for action. The traditional notion of crisis then is characterized by temporality; on the contrary, permacrisis implies that ‘crisis-as-context ceases to be a crisis ... and becomes a fundamental feature of the system’ (Henig & Knight, 2023:3). In other words, we are now living in a ‘new normal’, which is more volatile and unpredictable than the past (Zuleeg et al., 2021).

Tooze’s (2022) definition of ‘polycrisis’ also implies a new context, in which ‘the whole is even more overwhelming than the sum of the parts’. Implicit in these concepts is the idea that the world is now different; globalization and technological progress have created an interconnected and interdependent world, where separate, peripheral crises interact and reinforce each other. These interdependent shocks are likely to occur with higher frequency, because of recent structural changes which seem to represent a break with the recent past. In international economics and politics, we witness the rise of a multipolar world and, along with it, a multiplication and intensification in the conflicts of interest and tensions over international issues. One of these issues is the climate crisis, which has also been accelerating continuously crashing through new thresholds towards a tipping point with unpredictable implications. Technology’s impact on our lives has also increased dramatically, particularly since the COVID-19 pandemic, creating new challenges for the economy and the labour market in particular.

While this new turbulent era is best conceptualized at the global level, its implications are manifested at the regional and local levels, and more often than not, they materialize in different ways, given the variation of socio-economic contexts and institutional legacies across the globe. In this context, in this volume we focus on how permacrisis has been experienced and dealt with in Europe and in Latin America. To do so we propose to employ the analytical lens of comparative regionalism, a perspective that examines and compares regional processes and organizations in all the regions of the world from an equal foot in terms of methods and theories, i.e. trying to avoid ‘Eurocentrism’ in the studies of regionalism and regional organizations (Katzenstein, 1996; Fawcett, 2004; Shaw et al., 2012; Acharya, 2012; Solingen, 2014; Börzel & Risse, 2016).

Permacrisis in Europe and Latin America

The examination of Europe and Latin America has theoretical interest because they represent two very different types of processes of regional integration and establishment of regional organizations. The most striking difference is the centrality of the European Union (EU) in Europe, against a plurality of regional organizations in Latin America, which has expanded even further particularly since the 1990s (Bianculli, 2016). A comparative analysis helps us identify the strengths but also the

potential weaknesses of regionalism to deal with the challenges of the permacrisis era.

Europe, where talk of a polycrisis in public discourse first appeared (Juncker, 2016), has perhaps suffered more than any other region from repeated shocks. In addition to global crises like the pandemic and the climate crisis, the EU has also had to deal with shocks of a distinctly regional nature (e.g. Brexit and the 2015–2016 Mediterranean refugee and migration crisis) or with shocks whose impact was felt much more intensely in Europe (e.g. the global financial crisis and the subsequent Eurocrisis or the Russian invasion in Ukraine and the ensuing energy and inflation crises). Academic literature has already started to investigate the implications of this new reality for EU's integration dynamics (Zeitlin et al., 2019; Jones et al., 2021; Ferrara & Kriesi, 2022; Anghel & Jones, 2023). Despite Jean Monnet's oft repeated dictum that European integration will progress through crises, the evidence shows that integration deepening is not inevitable after a crisis, and even when it occurs, it is often incomplete and ambiguous (Jones et al., 2016, 2021). On the contrary, it is widely acknowledged that the recent crises have posed a significant challenge for the EU, as they test the Union's institutional and policy limits and strengthen the politicization of the integration process, already on the rise after the Maastricht Treaty (Hooghe & Marks, 2009; Zeitlin et al., 2019). On the positive side, the experience from multiple crises may lead to institutional and policy learning, as demonstrated by the comparison of EU's different responses to the Eurocrisis and the pandemic (Wolff & Ladi, 2020). Having said that, different crises have different characteristics and raise different coordination and policy challenges. It is not surprising, therefore, that EU's successful reaction to the pandemic was not replicated in the case of the war in Ukraine and the ensuing energy crisis, demonstrating the need for more comparative analysis of crisis responses (Anghel & Jones, 2023).

The concept of 'permacrisis' applies perfectly to Latin America as well. For four decades, the continent has faced successive crises, most of them originating from macroeconomic imbalances. Although the effects of the global financial crisis were less severe than those of the crises in advanced economies, the region was not immune to the pandemic and the effects of the war in Europe. In Latin America the impact of the pandemic has been in fact particularly hard: despite having 8.4% of the world's population, it had 26.7% of deaths by COVID-19, and extreme poverty increased from 27.8% of the population in 2014 to 32.1% in 2022 (CEPAL, 2023). In some of the countries of the region, the decrease in the quality of life of the middle classes and the increase in inequalities opened space for extreme political proposals, putting democracy at risk. The persisting political polarization within and among countries has hindered the consolidation of a solid consensus on the revival of regionalism, despite the change of regime in Brazil from former President Bolsonaro to a third mandate of President Lula and the latter's intention to foster Latin America integration (Ribeiro Hoffmann, 2023).

Our focus is on finance and its connections to growth and democracy. This choice is deliberate and lies at the heart of the Jean Monnet Network 'Crisis-Equity-Democracy for Europe and Latin America', which funded the research conducted for the book. Scholars involved in this research network have argued that finance

plays a crucial role for economic growth and stability but can also become a destabilizing factor, as the global financial crisis and subsequent episodes of financial turbulence have aptly demonstrated (De Souza Guilherme et al., 2021). The most recent episode occurred in the USA, in March 2023, when three of the four largest banking failures in US history occurred, marked by the fastest run on deposits ever recorded; its resolution required a major intervention by the Federal Reserve and government authorities to prevent a financial meltdown (Beams, 2023). We have also argued that the political spillover from the global financial crisis and its handling catalysed a resurgence of populist and nationalist rhetoric and politics, which (reinforced by subsequent crises) has driven democratic deterioration across the globe to a tipping point (Freedom House, 2023).

Objectives and Structure of the Book

From a comparative regionalism perspective, this book has three main objectives: First, to critically analyse and evaluate the response of regional organizations and governments in the EU and Latin America to the crises that have shook these regions in recent years. This analysis takes place at two levels: one political and one economic. On the politics front, the *first part* of the book examines the challenges to democracy stemming from the recent crises, employing a regional perspective. More specifically, the chapters on Latin America, while acknowledging that democratic crises are not something new in the region, identify new challenges to democracy and examine their impact on regional and interregional relations. In this context, in the first chapter, Monica Herz and Andrea Ribeiro Hoffmann examine the rise of far-right regimes in the region focusing on Bolsonaro's government in Brazil. Their analysis shows that Bolsonaro's government contributed to the decay of democracy in Brazil, led to disengagement with the multilateral system, and undermined regionalism in Latin America while weakening relations between the EU and LAC.

José Briceño-Ruiz, in his chapter, stresses the fact that democratic crises have occurred with high frequency for several decades in Latin America. However, he, too, highlights the novel features of recent democratic crises in the region. He shows that democratic crises are now less likely to come from traditional military coups d'état than political strategies of democratically elected governments, such as polarization, undermining of the opposition, impeachments and more generally lawfare tactics, and non-traditional military interventions. The continued challenges to democracy and the ensuing political instability undermine the ability of Latin American countries to address the new challenges of permacrisis, like climate change, immigration, and shifts in the international economic and political order. The author focuses on the role of regional institutions and in particular that of the Organization of American States (OAS) in helping to address the democratic crises that Latin American countries have experienced since the 1990s. He argues that despite some initial successes, gradually the effectiveness of the organization in

handling such crises has declined, making the coordinated response of the region to the challenges of permacrisis more difficult.

Finally, Tiziano Breda focuses on another recent trend, inspired by El Salvador's president Nayib Bukele, and his hard-line policies on criminality. The success of Bukele's approach in reducing crime exercises an increasing appeal for many other politicians in the region that seek to emulate it. The problem is that the policies adopted by Bukele, while successful, often violate human rights, depend on the concentration of power in the hands of the executive, and 'are nurturing a growing movement of punitive populism'. While Breda's analysis shows that this policy paradigm has remained mostly rhetorical until now in other countries, it could have a long-term impact on actual policies in the region, eroding the quality of democracy.

The chapters discussing Europe are somewhat more optimistic, despite the challenges facing the EU, not least the rise of populist, Eurosceptic, and far-right parties in recent years. Bettina Guilherme examines comparatively the handling of the Eurozone debt crisis and the pandemic, from a legitimacy point of view, focusing in particular on the role of the European Parliament (EP). In contrast to the Eurozone crisis, when intergovernmentalism dominated negotiations, during the pandemic, the EU reverted to its traditional 'community method' of legislation. The latter includes an active role for the European Parliament, which, during the pandemic, was able to contribute substantially to the design of the Recovery and Resilience Facility (RRF), EU's flagship fiscal initiative to combat the pandemic and its economic and social consequences. Moreover, the EP was able to promote transparency and the rule of law in the governance arrangements agreed. While far from perfect, the EU's response to the pandemic crisis endorsed solidarity as a guiding principle, improving thereby its legitimacy vis-a-vis the European citizens.

The next chapter by Dimitris Katsikas picks up where Guilherme's chapter left off by examining in more detail the popular legitimacy of the EU during the permacrisis era. The author seeks to assess the impact of permacrisis as 'an extended period of stress and insecurity, on European citizens' support towards European integration'. To do so, Katsikas employs Easton's (1975) concept of diffuse support and uses Eurobarometer data to examine the impact of consecutive crises on it over the last 15 years. Moreover, given that different crises have led to different rifts within the EU, he separates the data into three groups of countries: (a) southern Europe, (b) eastern Europe, and (c) northern/western Europe. The findings show that overall, public support for the EU has increased during this period, despite the significant decline observed during the Eurozone crisis, across all groups of countries. Therefore, the democratic legitimacy of the EU appears strengthened. However, the data also reveal potential problems; the share of people who do not trust the EU or are dissatisfied with the way democracy works in the EU has risen over time, while there is evident variation in the responses among the three geographical groups during different crisis episodes. Overall, therefore, despite the positive results, there are signs of heightened politicization of the EU and therefore support for the idea of an intensifying constraining dissensus, which could prove an obstacle to further integration initiatives.

On the economics front, the *second part*, focusing on the EU, examines fiscal and financial stability and resilience. These aspects are considered crucial, given the significant problems of the European banking system and the limitations of the Union's fiscal capacity, both significant factors for the deterioration from the global financial crisis to a full-blown Eurocrisis in the previous decade. More specifically, the chapter by George Andreou examines the EU's fiscal reply to the pandemic, the NextGenerationEU programme and its main component, the RRF, already mentioned above, and their uneasy co-existence with the more standard arsenal of the EU's fiscal tools and particularly the so-called cohesion policy. Andreou shows how the NextGenerationEU and the RRF are part of an EU tradition of resorting to the establishment of new ad hoc, off-EU budget tools in response to external shocks. While these tools proved crucial for economic and social resilience during the pandemic, their co-existence with EU's cohesion framework, with which they share, to a certain degree, similar objectives and priorities, poses numerous challenges in terms of fragmentation and duplication of proposed investments, implementation arrangements, funds, and levels of governance. Moreover, their shorter implementation period and lighter bureaucratic burden may even impact adversely the timeline of implementation of the 'normal' cohesion policy programmes.

Similar concerns over the effectiveness of policy interventions, this time in the area of finance, are expressed by Mikael Mäkipää, David Howarth, and Scott James. In their chapter they focus on the reforms that were promoted in the aftermath of the global financial crisis (GFC), to address the too-big-to-fail (TBTF) problem in the banking sector, which led to public bailouts, contributing thus to the deterioration of public finances and the Eurozone crisis that followed. The authors engage in a comparative examination of several European countries (the UK, France, Germany, the Netherlands), the EU level, and the USA, across a range of regulations including capital requirements, liquidity and resolution rules, and structural reforms. While acknowledging that many changes were made, the authors argue that with the exception of structural reforms (i.e. reforms relating to the organizational set-up of banks, particularly with respect to investment and non-investment activities and the ring-fencing of the latter) in the USA and the UK, the reforms promoted cannot effectively tackle the TBTF problem. Structural reform proposals in the EU were not implemented, while many of the other regulations outlined in the Basel III package were watered-down when transposed into EU law. The authors argue that this is due to national authorities' concerns over competitiveness and the lending ability of their domestic banking sectors. As a result, the systemic threat posed by the TBTF problem remains unresolved.

The final chapter in this part, by Dimitris Katsikas, examines in more detail one of the areas discussed by Mäkipää et al. In particular, the chapter focuses on one of the most important innovations of the Banking Union, EU's flagship reform, the adoption of the *bail-in* principle in the resolution of failing banks. The bail-in principle was introduced to eliminate publicly funded bailouts, break the link between banks and sovereigns, and instil discipline in financial market participants. Katsikas examines the implementation of the bail-in principle, in two major banking crises, in Cyprus and Italy. The analysis of the way the bail-in principle was implemented

in these crises shows the significant political economy constraints at play. In both cases, bail-in requirements were not fully implemented, and even in cases where some burden sharing did take place, certain investor categories were compensated. Even in the case of Cyprus, where an extensive bail-in was implemented, this was limited to certain categories of investors and banks. In both cases, public bailouts were not averted. What is more, it is shown that these political economy constraints have been largely internalized in the new regulatory framework, which allows multiple resolution options, involves many actors, and allows local authorities substantial leeway.

In the *third part*, focusing on Latin America, given the region's past record and future development challenges, we examine the interaction between politics, finance, and economic growth. The chapter by Maria Antonieta Del Tedesco Lins serves as an introduction to the region's turbulent recent economic and political history. Del Tedesco Lins focuses on the experiences of the three largest economies in the region, Argentina, Brazil, and Mexico, during the past 15 years, demonstrating how they are trapped in a state of economic stagnation, from which they seem unable to escape. This situation is the result of structural deficiencies in the economy, but it also reproduces socioeconomic inequalities in a vicious cycle, which seems to get worse, given recurrent external shocks, such as the pandemic. The author argues that beyond economic fundamentals, we also need to look at political factors and, in particular, the interaction between political instability and the underlying economic dynamics. The joint discussion of economic and political developments shows that political turmoil impacts adversely the economy and obstructs the effective handling of external shocks. The latter remain unresolved, gradually feeding into economic and institutional structural weaknesses reproducing and sustaining a permanent state of stagnation.

Given the importance of trade for economic growth in Latin America, the chapter by Julieta Zelicovich focuses on the impact of permacrisis on the governance of trade relations with the EU. She shows how the challenges of permacrisis, like climate change and the need for sustainable development, have driven changes in unilateral, regional, and interregional trade rules. In this context, Zelicovich identifies three new key mechanisms that have been shaping interregional trade governance in recent years: the modernization of existing free trade agreements and conclusion of pending negotiations, the establishment of a new type of trade-related cooperation sectoral agreements, and unilateral reforms. These mechanisms do not show the same dynamics, and they carry different political economic implications. In particular, the weak regional coordination in Latin America and the vulnerable state of many economies in the region, Zelicovich argues, have allowed the push for extra-territorial application of unilateral reforms and the pursuit of bilateral over interregional or sub-regional agreements, by the EU, rendering the interregional trade relations increasingly asymmetrical.

The chapter by Giselle Datz focuses on another chronic problem of the Latin American region: sovereign debt crises. Datz shows that starting from the Brady plan, which was catalytic for the resolution of the debt crisis of the 1980s, the adoption of ad hoc, market-based solutions to the problem of sovereign defaults in Latin

America, and elsewhere, has failed to provide the necessary systemic institutional solution and has, indeed, created more coordination problems between public and private actors involved in the process of debt restructuring. Therefore, even when such crisis episodes have been successfully handled, the broader problem remains, and new episodes plagued by dysfunctional restructuring negotiations always emerge. In this sense, as the author concludes ‘the past thus remains an insufficient prologue to a future where sovereign debt restructurings are a predictable part of permacrisis’.

The second objective of the book is to contribute to a better understanding of the promised benefits and risks of digital currencies and fintech, more generally, for economic growth, financial stability, and inclusion. The standard of information and transparency in these markets is very asymmetric across different levels (local, regional, global) and actors involved (individuals, companies, private financial institutions, central banks, and regulators), with both economic and political consequences. In this sense, digital currencies and fintech can be seen as a way to address some of the issues that have led to crises in the recent past but could also be a new source of crises themselves. In the *fourth part* of the book, several chapters engage with this cutting-edge problematique, from both theoretical and policy perspectives, with some of the chapters discussing regional aspects.

In the first chapter of this part, Christian Ghymers discusses the potential benefits of one of the most promising innovations in digital finance, the introduction of central bank digital currencies (CBDCs). For Ghymers, CBDCs offer significant benefits, such as ‘significantly faster, safer, cheaper payments than cash or bank accounts, particularly for cross-border payments’. Moreover, they are expected to reduce bank profitability and make monetary policy more efficient. But the most important contribution of CBDCs for Ghymers is their potential as a ‘game changer’ of the international monetary system. Through their technological features, which can eliminate the difference between domestic and cross-border transactions, the creation of a safe, cheap, multilateral system of payments can become a reality. Ghymers does not stop there and proposes to go one step further. Taking full advantage of their technological potential, the adoption of CBDCs could lead to the creation of a global safe asset, an e-SDR, to be issued by the IMF, which would become the international lender of last resort. This would allow the management of global liquidity multilaterally, ensuring global stability and rectifying the asymmetric dollar-based and crisis-prone international monetary system.

In the next chapter, Stephan Schulmeister deals with the darkest aspects of digital finance, examining the rise and features of cryptocurrencies and, more specifically, the bitcoin. Schulmeister does not engage in a technical analysis of bitcoin but rather tries to examine its emergence as part of the great transformation of capitalism that has been taking place since the 1970s into financial capitalism. Bitcoin and other cryptocurrencies, which have no intrinsic value and are not connected to other currencies or valuable commodities (like stablecoins), thus lacking price limits dictated by fundamentals, rely on psychological and speculative drivers and as a result display very high volatility. After reviewing the literature, Schulmeister argues that most bitcoin transactions are related to trading and speculation, have little impact on

the real economy, and are being used to fund illegal activities. As such bitcoin and other cryptocurrencies constitute for Schulmeister the ‘incarnation of finance capitalism’, taking the process of financialization to the extreme, deepening the separation of finance and the real economy, and through their pronounced volatility and speculative drive continuously sustaining financial instability as a constituent feature of permacrisis.

The next chapter by Maria Antonieta Del Tedesco Lins and Andrea Ribeiro Hoffmann returns to the CBDCs. Their aim is to examine the potential economic, social, political, and international repercussions of CBDCs, by focusing on the case of a particular country: Brazil. In recent years Brazil launched a highly successful instant payments system called Pix and plans to launch a central bank digital currency, Drex, in 2024. The authors argue that there are significant potential benefits domestically, in terms of costs and inclusiveness, provided however that a robust regulatory framework, which ensures transparency and privacy protection, is created. While Brazil seems to be moving fast domestically, it has been less active at the international level, particularly vis-a-vis other countries and organizations in the region. Given the significant opportunities and challenges that lay ahead for the international monetary system, as a result of both the increased geopolitical and geoeconomic rivalries among great powers, particularly between the USA and China, and the ongoing digitalization process, there is a need for more international cooperation on the future of digital monetary relations. For the authors, Brazil should exploit this opportunity by engaging more actively with other countries and international organizations in the region and also with the EU.

The next two chapters by Anastasia Kotovskaia and Panagiotis Barkas echo the argument of Del Tedesco Lins and Ribeiro Hoffmann about a balanced approach between market innovation and regulation, this time for fintech. Both chapters demonstrate how through the use of technological and financial innovation, and data science, fintech companies have emerged as a dynamic force in modern finance, delivering new products and services. Beyond the obvious benefits of increased consumer choice, which translates into cheaper and faster services, fintech holds the promise of financial inclusion for populations previously excluded from the traditional banking system, particularly in developing countries. Kotovskaia in particular argues that fintech can narrow the gender aspect of financial inclusion, as women often face higher barriers to accessing financial services. Moreover, discussing Latin American countries, Kotovskaia believes that the region has the potential to become one of the biggest fintech markets in the future, a development which could substantially improve financial inclusion in the region. All these benefits notwithstanding, the author calls for caution, as she analyses several risks associated with fintech, particularly those relating to vulnerabilities in data management and protection, cybersecurity, and operational resilience. Barkas engages with the same topic, but he focuses more on consumer protection and the risks that arise from market failures and psychological and cognitive factors that affect consumers’ financial decisions. To do so he relies on the use of concepts and tools from microeconomics and behavioural economics, which describe, and offer suggestions to address, the aforementioned challenges. Also, the author stresses the importance of synergies in

promoting responsible and effective regulation, both within borders, through the collaboration of governments, companies, the academic community, and civil society but also internationally between national regulators and international regulatory organizations, as the enhanced financial interconnectedness and interdependency, which brings the world of fintech, entail more contagion and consumer-related risks of a transboundary nature.

The third objective of the book is to promote the mutual understanding about the challenges of permacrisis in Europe and Latin America and advocate for their cooperation at the multilateral and bi-regional levels. This objective is particularly important for our Jean Monnet Network and very topical, given the EU CELAC Summit 2023 that took place on the 17th and 18th of July, in the context of which our network participated in the fifth Academic Summit of the Permanent Academic Forum LAC-UE at the University of Alcalá, 6–8 July 2023. The past experience and future prospects of both multilateral and interregional EU-CELAC cooperation for tackling the permacrisis challenge are reviewed in the *fifth and final part* of the book.

More specifically, the first two chapters put forward innovative proposals for addressing, at the multilateral level, some of the key challenges of permacrisis. Christian Ghymers kicks off this part with an ambitious proposal for reforming the international financial and monetary system, which he deems necessary to secure the funding that is needed for de-carbonization. Ghymers describes the huge amounts required over the next several decades for de-carbonization investments and the related transition costs and shows how current financing levels are wholly inadequate to cover these expenses. It is not simply a matter of political will and political economy considerations; the author argues that the way the financial and international monetary systems operate imposes structural constraints on the international community's ability to mobilize and disperse geographically, as needed, the necessary funds. Accordingly, Ghymers proposes a financial international public intervention to complement current taxes on CO₂ emissions. This will provide positive incentives ('bonus') for new de-carbonization investments, thereby reducing their high ex ante uncertainty and making them viable. Ghymers also proposes a safe asset at the multilateral level and the corresponding upgrading of IMF into a global lender of last resort, an initiative which, if combined with the transition to new CBDCs, could lead to the creation of an e-SDR, as outlined also in a previous chapter by the author.

Stephan Schulmeister also puts forward a novel -but simple to implement- reform of the global financial system. Schulmeister argues, in line with the discussion of permacrisis in this introductory chapter, that the transformation of the global financial system during the last several decades has contributed to the constant sense of uncertainty and the recursive episodes of financial instability, which are constituent features of permacrisis. In contrast to the still dominant efficient market hypothesis, Schulmeister shows that the modern financial system follows a series of 'bull' and 'bear' swings, which increase volatility, dampen the real economy, and prevent the uninhibited funding necessary for the green transition. According to Schulmeister, this model of operation is due to the dominance of algorithmic trading and technical analysis, at the expense of the proper analysis of fundamentals. To remedy this

problem, the author advocates replacing the current continuous trading model with electronic auctions that will take place at specific intervals during the day, e.g. every 3 h; this would slow down asset trading and reduce volatility, as it would eliminate short-term profit-seeking through the exploitation of high-frequency price data and would force traders and investors to consider more seriously market and asset fundamentals in their decisions.

The need for multilateral and interregional cooperation is the focus of the next chapter by Nicola Bilotta. Bilotta discusses the new emerging reality in the international monetary system which he argues is characterized by three developments: economic dislocations, geopolitical tensions, and digitalization. These developments could lead to international monetary fragmentation if different economic blocs establish parallel, non-complementary systems. According to the author, CBDCs offer an opportunity to overcome such challenges, if countries cooperate to establish interoperable institutional arrangements. While cooperation needs to be promoted multilaterally, Bilotta also argues in favour of increased cooperation between the EU and LAC in the framework of the EU-LAC Digital Alliance, as they share a common interest in shaping the new digital global financial and monetary architecture according to their own principles, while strengthening their autonomy vis-a-vis the USA and China. According to the author, this should be seen as a strategic move, which would enable the participating regions and countries not only to improve and facilitate interregional transactions but also to influence, through their combined market weight and the ability to withhold access to their network of CBDCs, the shaping of global rules and standards.

The final chapter of this volume, co-authored by Andrea C. Bianculli, Laia Brossa, and Jacint Jordana, reviews six decades of interregional relations between the EU and Latin America. More specifically, the authors examine the evolution of these relations since the 1960s, through the analysis of the policy instruments used to organize these relations. In doing so, they introduce a novel database which catalogues and categorizes the policy instruments used during this period. This database constitutes a distinct and valuable original contribution of the Jean Monnet Network 'Crisis-Equity-Democracy in Europe and Latin America'. In their analysis, Bianculli, Brossa, and Jordana show that agreements, particularly those relating to trade, have been the most frequently used policy instrument. It is worth noting that agreements tend to be bilateral, throughout the period under examination. On the other hand, interregional agreements, which have been sought by the EU since the 1990s, never really took off. The clearest example of the challenges they face, due to their deeper agendas and the involvement of numerous actors with different interests, is the agreement between the EU and Mercosur that has been negotiated for more than 20 years. The authors note that shocks such as the Eurozone crisis have affected the EU's ability and appetite for funding. Moreover, in the context of an increasingly intense global competition, the idea that certain Latin American countries should be 'graduated' and not benefit from developmental aid or preferential treatment arrangements has also shaped preferences in the EU. On the other hand, in today's increasingly multipolar world, characterized by great power rivalries and the decline of multilateralism, the EU aims to strengthen and rebuild relations with

Latin America, as demonstrated by the recent EU-CELAC Summit and the provision of €45 billion for investment through the Global Gateway platform, mostly on renewable energy and digital services. Clearly, developments in the international order open up new opportunities for cooperation between the two regions, as discussed by several chapters in the volume.

Finance, Growth, and Democracy in the Era of Permacrisis

The era of permacrisis poses tremendous challenges for all regions and countries in the world. Some of these challenges require immediate response, as was the case during the pandemic, while others demand a continuous effort to address problems and build resilience, as is the case with the climate crisis. In this book we invited several authors, with different backgrounds, to examine some of these challenges from an interdisciplinary and comparative perspective with a focus on Europe and Latin America. As outlined in the previous section, some of the chapters engaged with the way different shocks were handled by governments and regional organizations, while others emphasized the conditions which produce the shocks. All of them provide valuable insights into the challenges we face, and most of them offer suggestions on how to address them more effectively.

Without attempting to provide a full analysis of the findings and suggestions of the book's 20 chapters, we engage here in a brief discussion of the evidence provided, to draw some common interpretive threads. One such thread is the importance of highlighting the structural shifts and transformations that have led to the various shocks examined in the book. Finance, in line with our Jean Monnet Network's rationale, has emerged as an area which is crucial in this respect. The transformation of finance over the last few decades, through processes such as globalization, securitization, financialization, and, more recently, digitalization, has not only changed the nature of the global financial system but of capitalism itself. As was shown by different chapters in this book, this transformation has significant and broad repercussions in the context of permacrisis.

Thus, for example, the chapters by Schulmeister demonstrate how innovations like cryptocurrencies and algorithmic trading increase volatility and risk, rendering thus the system crisis prone. At the same time, other structural shifts impede the resolution of crises once they erupt. Datz, in her discussion of the market-based solutions, promoted to deal with sovereign debt crises, Mäkipää et al. in their analysis of the TBTF problem and Katsikas in his review of the implementation of the bail-in principle, highlight and analyse the political economy constraints, which are endogenous in the way financial capitalism has evolved and which inhibit both the conclusive resolution of crises but also more ambitious regulatory reforms to avert similar crises in the future. As a result, crises often remain unresolved or are partially resolved, without addressing their underlying structural causes, a practice which in effect sets the ground for the next crisis episode.

Another, equally important side effect, highlighted by Ghymers, is the fact that in the way the international financial system operates, it is impossible to find the resources necessary to fund the green transition and to combat the climate crisis timely. It seems, therefore, that the structural transformations that have shaped financial capitalism have created strong endogenous constraints to our ability to deal effectively with the challenges of permacrisis, which can only be removed with an ambitious paradigm-shifting reform of modern-day capitalism itself.

On the other hand, this does not mean that until such a systemic change is accomplished, governments or regional organizations are helpless in the face of crises. The chapters by Guilherme and Andreou show that the EU's reaction to the pandemic was much better than that of the Eurozone crisis. Fast reflexes in an array of policy areas gave EU member states the necessary leeway to deal with the challenges raised by COVID-19, and an ambitious fiscal intervention with the Recovery and Resilience Facility provided the necessary resources to deal with its economic and social consequences. As a result, as Katsikas demonstrates, popular support and therefore the democratic legitimacy of the EU are now higher compared to the pre-GFC period. Of course, this does not mean that all is well with the EU; in the same chapters, Guilherme mentions some of the old political economy rivalries between member states that emerged once again during the pandemic; Andreou warns about the governance and implementation consequences of overlapping ad hoc arrangements with permanent institutional mechanisms, while Katsikas notes the rising share of citizens who are dissatisfied with the way the EU operates and the latter's increased politicization, which is bound to make crisis handling even more challenging in the future, as dissatisfied citizens increasingly turn to populist, Eurosceptic, and even far-right parties.

In Latin America, things seem to be even more difficult, given the absence of both a significant governance centre at the regional level and the burden of a long legacy of democratic and economic crises. Indeed, the chapter by Briceño-Ruiz demonstrates this mutually reinforcing vulnerability, between unstable national democracies and weak regional organizations, which are unable to intervene effectively to resolve them. What is more, these crises are increasingly characterized by new features, as Briceño-Ruiz demonstrates in his categorization of undemocratic political strategies. Even more worrisome is the rise of far-right ideology in the region as documented by Herz and Ribeiro Hoffmann. Focusing on the case of Brazil, the authors show that illiberal regimes not only affect domestic democratic and human rights but also shape external relations as well, undermining both regional and interregional cooperation, which makes it even harder to address the common challenges of permacrisis. In this context, certain states' efforts to deal with a crisis on their own can actually lead to further deterioration of democratic standards, as Breda demonstrates with Bukele's policy paradigm. The failure to cooperate regionally has also negative economic consequences. As Zelicovich shows in her chapter on the governance of interregional trade between Latin America and the EU, the former's lack of effective regional cooperation has allowed the EU to effectively dictate the terms of trade governance.

The comparative analysis of the two regions clearly demonstrates the existence of a strong tradition of regional cooperation and existence of regional institutions in both cases. However, while in Europe, the EU has become the leading institution and provided states with the ability both to manage more effectively recurring crises (through a process of institutional learning) and to shape the rules of multilateral and interregional governance to their advantage, in Latin America, a plurality of organizations has been created, with different memberships and mandates as well as relevance for their member states' foreign policies. The current status of what is practically a paralysis of most organizations, mainly in South America, with the possible exception of CELAC, shows how regionalism in Latin America has become a hostage of political polarization and has failed to become a stable platform for engagement and deepening of cooperation, even during acute crises that impacted all countries, such as the pandemic. Democratic crises in leading countries in the region, such as Venezuela under the governments of Chavez and Maduro or Brazil under the government of Bolsonaro, have contributed to this paralysis and the weakening of regional organizations, including Mercosur.

When assessing the potential of the EU and Latin American regional organizations to handle specific issues addressed in the book, such as digital and fintech challenges, it is clear that they have limited experience and capacity to foster cooperation in the case of Latin America. Lins and Ribeiro Hoffmann show how even in cases where countries are very proactive, such as Brazil, initiatives have been mainly limited at the domestic level and have not fostered common regional approaches. In the EU, on the other hand, there are legislative and policy initiatives undertaken at the regional level, primary among them the preparation for the launching of a digital euro in the near future. Moreover, as Barkas and Kotovskaia discuss, there are regulatory arrangements designed to facilitate the expansion of fintech in the EU but also to buttress consumer protection, including the privacy of data. Still, there is a long way to go yet, as technological innovations and artificial intelligence, foremost among them, set new challenges to regulatory authorities daily.

Finally, several chapters have discussed the significance of multilateral cooperation for systemic changes at the global level, such as Ghymer's proposals for decarbonization investment incentives and the introduction of a digital SDR, Schulmeister's proposal for replacing algorithmic trading with electronic auctions, or Datz's proposal for a multilateral sovereign debt restructuring mechanism, and cooperation at the interregional level, as argued, among others, by Bilotta and by Bianculli et al. From the point of view of the Jean Monnet Network that funded and guided this research, we believe that promoting interregional cooperation between the EU and Latin America, mainly via interregional initiatives such as the EU-CELAC Partnership, but also bilaterally, with states such as Brazil—as long as such arrangements are not unduly asymmetrical in terms of their content—is key for promoting stability and growth in the context of permacrisis. Relations among the EU and Latin America have been based on common values regarding democracy and human rights, and these are preconditions for cooperation regarding inclusive growth and finance and the promotion of equity in the long term.

References

- Acharya, A. (2012). Comparative regionalism: A field whose time has come? *The International Spectator*, 47(1), 3–15.
- Anghel, V., & Jones, E. (2023). Is Europe really forged through crisis? Pandemic EU and the Russia – Ukraine war. *Journal of European Public Policy*, 30(4), 766–786.
- Beams, N. (2023). 2023: A year of financial turbulence. World Socialist Website, 29 Dec 2023. <https://www.wsws.org/en/articles/2023/12/29/xato-d29.html>
- Bianculli, A. C. (2016). Latin America. In T. A. Börzel & T. Risse (Eds.), *The Oxford Handbook of Comparative Regionalism*, 154–177. Oxford University Press.
- Börzel, T. A., & Risse, T. (Eds.). (2016). *The Oxford handbook of comparative regionalism*. Oxford University Press.
- CEPAL. (2023). *Panorama Social de América Latina y el Caribe 2022*. Publicación de las Naciones Unidas LC/PUB.2023/6. Impreso en Naciones Unidas. <https://repositorio.cepal.org/handle/11362/48518>.
- De Souza Guilherme, B., Ghymers, C., Griffith-Jones, S., & Ribeiro Hoffmann, A. (Eds.). (2021). *Financial crisis management and democracy*. Springer Cham.
- Fawcett, L. (2004). Exploring regional domains: A comparative history of regionalism. *International Affairs*, 80(3), 429–446.
- Ferrara, F. M., & Kriesi, H. (2022). Crisis pressures and European integration. *Journal of European Public Policy*, 29(9), 1351–1373.
- Freedom House. (2023). *Freedom in the World 2023: Marking 50 Years in the Struggle for Democracy*. Washington DC
- Henig, D., & Knight, D. M. (2023, April). Polycrisis prompts for an emerging worldview. *Anthropology Today*, 39(2).
- Hooghe, L., & Marks, G. (2009). A postfunctionalist theory of European integration: From permissive consensus to constraining dissensus. *British Journal of Political Science*, 39(1), 1–23.
- Jones, E., Kelemen, R. D., & Meunier, S. (2016). Failing forward? The Euro crisis and the incomplete nature of European integration. *Comparative Political Studies*, 49(7), 1010–1034.
- Jones, E., Kelemen, D., & Meunier, S. (2021). Failing forward? Crises and patterns of European integration. *Journal of European Public Policy*, 28(10), 1519–1536.
- Junker, J.-C. (2016). *Speech at the annual general meeting of the Hellenic Federation of enterprises*. European Commission. https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_16_2293
- Katzenstein, P. J. (1996). Regionalism in comparative perspective. *Cooperation and Conflict*, 31(2), 123–159.
- Ribeiro Hoffmann, A. (2023). In Anuario CEIPAZ 2022/2023. Policrisis y rupturas del orden global. <https://ceipaz.org/anuario-2022-2023/>
- Shaw, T., Grant, A., & Cornelissen, S. (Eds.). (2012). *The Ashgate research companion to regionalisms*. Farnham, UK: Ashgate.
- Solingen, E. (2014). *Comparative regionalism: Economics and security*. Routledge.
- Turnbull, N. (2022, November 11). Permacrisis: What it means and why it's word of the year for 2022. *The Conversation*.
- Tooze, A. (2022) *Welcome to the world of polycrisis*. Financial Times, October 28. Retrieved January 20 from Welcome to the world of the polycrisis
- Wolff, S., & Ladi, S. (2020). Pandemic politics and European Union responses. *Journal of European Integration*, 42(8), 1025–1193.
- Zeitlin, J., Nicoli, F., & Laffan, B. (2019). Introduction: The European Union beyond the polycrisis? Integration and politicization in an age of shifting cleavages. *Journal of European Public Policy*, 26(7), 963–976.
- Zuleeg, F., Emmanouilidis, A. E., & Borges de Castro, R. (2021, March 11). *Europe in the age of permacrisis*. European Policy Centre (EPC). Commentary.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution 4.0 International License (<http://creativecommons.org/licenses/by/4.0/>), which permits use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

