

## DISCUSSION FORUM

# Moral categories in the financial crisis

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and Cornelia Woll

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Karl Marx observed long ago that all economic struggles invite moral struggles, or masquerade as such. The reverse may be true, too: deep moral–political conflicts may be waged through the manipulation of economic resources and the design of policy devices. Using the recent financial and Eurozone crises as empirical backgrounds, the short papers presented here by Philippe Steiner, Cornelia Woll, Wolfgang Streeck and Marion Fourcade propose four different perspectives on the play of moral judgments in the economy and call for a broader and more systematic scholarly engagement with this issue. Focusing on executive compensation, bank bailouts and the sovereign debt crisis, the discussion forum builds on a roundtable discussion held at the opening of the Max Planck Sciences Po Center on Coping with Instability in Market Societies (MaxPo) in Paris on November 29, 2012.

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## Introduction

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The collapse of the investment bank Lehman Brothers on September 9, 2008 opened the black box of modern financial markets to the world. It exposed finance's vast and complex machine, until then largely invisible to the wider public and

poorly mastered by even its most skilled practitioners. With that, the technical became political. Esoteric terms such as collateralized debt obligations, credit default swaps, haircuts, yield spreads and write-downs were catapulted to public fame. The obliviousness of regulatory institutions became a topic for dinner conversations.

The new forms of scrutiny also exposed finance as a social activity subject to considerable dishonesty and recklessness. Expert reflections about executive pay, bank rescues or sovereign debt default were laden with statements about good and bad incentives, moral hazard and loopholes. The public responded with categorical distinctions between the ruthless and the clueless, the corrupt and the honest, the lazy and the industrious, the profligate and the frugal, the greedy and the rest, what is right and what is not. Vindicating Marx's statement in the *Economic and Philosophical Manuscripts* of 1844 that '[political economy] is—for all its worldly and debauched appearance—a truly moral science, the most moral science of all' (2005, p. 361), such arguments continue to saturate specialist debates and political negotiations about the most appropriate responses to the banking and sovereign debt crises. Are financial executives really *worthy* of the outsized compensations they have enjoyed so far, or do enormous bonuses offend common decency (Steiner, 2012)? Is there a *just* interest rate and is it *ethical* to protect the right of creditors to receive interest payments? Should some lending practices be described as *predatory*, and made illegal? Is it *morally acceptable* to bail out imprudent financial institutions using taxpayers' money, when imprudent individual borrowers are left struggling? People's *sense of justice* may be seriously hurt, as Swedberg (2013) points out. Is it *fair* to protect the holdings of foreign creditors (e.g. German and French banks, for the most part) while citizens suffer to repay? Does Greece *deserve* to be saved, given its government's lies about the true state of its national debt? Does the fact that Cyprus is a money-laundering platform *justify* a harsher treatment of the population that supported, implicitly or explicitly, the island's conversion into a fiscal paradise? Is it *right* that the European Central Bank—an unelected body—drastically varies its assistance to Italy depending on the government in power there?

Competing visions of fairness, moral tolerability, right and wrong courses of action are written all over economic struggles. Ordinary attitudes about the economy—for instance, about the 'market', or about poverty—mobilize socially and historically situated conceptions of justice or human nature, sometimes explicitly couched in religious or political terms (Steenland, 2010; Steenland and Schrank, 2011). To the extent that they are gendered beings with a distinctive history, a social position, a nationality, social scientists are not immune from these collective forces (Bourdieu, 1988). Notwithstanding the externality cherished by experts, policy struggles (including what to investigate, and how; or the criteria by which to evaluate policy options) always imply political choices—that is, choices about the distribution of economic power in society. Thus some scholars (Lebaron, 2000; Nelson, 2001) have described economics, or its different intellectual currents

(Keynesian, Chicagoan, Marxist, etc.), as belief systems. As Alan Wolfe (1989, p. 6) put it, ‘even those social sciences that pride themselves on rigorous value neutrality, insisting that they are only describing how people do act, not advocating how they should, contain implicit (and often explicit) statements of what people’s obligations to one another should be.’ But the point is not merely about the scholastic biases of different disciplines. It is much broader. Economies are shaped by the moral dispositions and beliefs of the individuals who govern them as much as they are governed through techniques and numbers (Lascoumes and Le Galès, 2005). These dispositions, in turn, stem in part from a symbolic metamorphosis of political and economic interests, both individual and collective.

The current financial and economic crisis in Western economies offers many empirical sites for sharpening our theoretical frameworks in this direction. If this short symposium offers a programmatic call to recognize the relevance of moral judgments when analyzing economic processes, its more immediate objective is to analyze different ways in which moral categories have been mobilized in the financial and Eurozone crises. We begin at the micro-level, with individuals, and scale up gradually, toward organizations, specific countries and interstate relations.

In the first piece, Philippe Steiner analyzes the reconfiguration of the ‘moral economy’ surrounding income inequalities in light of repeated revelations of outlandish executive pay in the French media and the consciousness-raising activities of the so-called 99%. These events, Steiner suggests, have prompted a better grasp of the reality of income inequality (people continue to vastly underestimate the income of a CEO, but less than they used to). But—and perhaps paradoxically, given the public outrage over these issues—their *tolerance* for income inequality has increased, too (in France, the desired inequality ratio between a worker’s wage and a CEO’s has jumped from 6.3 in 1999 to 18 in 2010).

Next, Cornelia Woll’s analysis of bank bailouts underlines the dilemma between the collective problem of systemic risk and the individual one of moral hazard. None of the solutions adopted to face the crisis has been able to solve both problems at once, she argues; to avoid systemic risk, governments have committed large amounts of public money to save the culprits of the financial mess, increasing the moral hazard problem. Woll argues that we need to enhance the collective moral responsibility of the financial industry so that banks will be able to cooperate among themselves and participate in their own rescue as a group.

In the subsequent piece, Wolfgang Streeck offers a powerful indictment of the European Commission and financial elites in his interpretation of the unfolding of the Greek economic tragedy. European institutions actively encouraged the Greek credit binge, Streeck argues, first on the supply side (by lowering fiscal transfers to Greece and turning a blind eye when the country sharply cut its taxes) and then on the demand side, by indicating that Greece’s public debt was worth that of *any* other Eurozone member state (which caused financial markets to rush for Greek bonds). The notion that such irresponsible dealings would have to be erased through the pain

and suffering of ordinary citizens (who, as democratic voters, are now held responsible for their governments' disastrous choices) is deeply troubling and a warning sign that Europe's economic designs may benefit no one but the most powerful.

Finally, Marion Fourcade examines the cultural and political consequences of the economic morality plays being acted in the corridors of Brussels and Washington. She reminds us that debt, whether contracted interpersonally or at the collective level between formally equal parties, is always a relationship of power, which establishes hierarchies in material resources and moral character. When one party struggles to fulfill its obligations, moral regulation intensifies. She argues that Eurozone troubles are not only contributing to a rapid divergence in economic trajectories between North and South, they are also awakening old civilizational complexes, the cruelty of cultural stigma (as applied to entire populations) and the ghost of Europe's violent past.

All too often, policy-makers and intellectuals delude themselves into believing that moral judgments can be safely separated from 'objective' benchmarks of economic action; all too often, we take as given the idea that profit must be maximized (Beckert, 2006), or that debt must be repaid (Graeber 2011; Streeck, 2013). We fail to recognize that these injunctions, like *all* economic processes and actions, are the outcome of contingent human struggles. We must recover our ability to see morality at work in economic processes, in other words to better understand the moral and symbolic work that economic instruments and tools perform, and, conversely, the economic work that moral categorizations do. The political fights that have accompanied blame attributions and punishments (or lack thereof) for the crisis, the seemingly irreversible race for economic virtue among governments, the soul-searching of institutions, such as the IMF, caught in their own contradictions and self-doubts are powerful reminders that economic sociology and political economy have a lot to contribute to current economic debates. Showing the political implications of some recent morality plays across a range of domains is the ambition of the symposium, which brings together a roundtable discussion held at the opening of the Max Planck Sciences Po Center on Coping with Instability in Market Societies (MaxPo) in Paris on November 29, 2012.

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## High wages in the financial crisis

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In this short piece, I will focus on the moral issue raised by the existence and persistence of high levels of remuneration—which President Barak Obama in his 2010 State of the Union Address called 'obscene'—during a period of financial and economic crisis. I do not intend to go beyond a mere description of this moral issue in the French context.<sup>1</sup>

The present crisis is not only a crisis in both 'real' and 'virtual' economies, it is also a crisis in the moral dimension of prevailing economic opinion. This is

<sup>1</sup>This piece is based on my last book, *Les rémunérations obscènes* (Steiner 2011). In that book I traced the moral dimension from a systematic content analysis of *Le Monde*, a major French national newspaper, and *Sud-Ouest*, a regional one. Here, I will limit myself to the first newspaper.

The moral discourse on Greek public finances focuses on ‘the Greek citizens’ and their presumed duty to pay off debt taken up by their past governments, supposedly to enable their voters to enjoy an easy life on unearned income. It aims primarily at pensioners and workers, in both the private and the public sectors, and functions as a deplorably successful ideological tool wielded by the ‘market forces’ and their bureaucratic-political running dogs, in Greece as well as in Brussels and Washington. The aim is to suck the Greek people dry and strip them of everything they may have gained for themselves in three decades of democracy. I am convinced that the story does not end here and that Greece is no more than a testing ground for the same treatment to be applied to other European countries. The personnel to perform the sucking are already in place while the instruments are being continuously refined in the Greek operating theater.

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# The economy as morality play, and implications for the Eurozone crisis

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The economy is always and everywhere the theater of a morality play, where moral worth is being negotiated alongside economic worth. People interpret differential rewards in the economy both as a ‘functional requirement’ and as a ‘normative

imperative' flowing from equity considerations: those who put in more work *should* be better compensated (Sachweh, 2012). Even when routinely contradicted by the reality of social inequalities, this moral belief is so strong that those who find themselves at the bottom of the economic scale, or in a situation of financial distress, are often suspected of low effort, innate mediocrity or moral weakness. Always in want of money, but never trusted with it, the poor in particular are the object of enormous suspicion, which seems to justify special controls and obligations.<sup>1</sup> Moral hierarchies are brought into alignment with economic hierarchies through the frequent and ordinary 'shaming of those who fail' (Sayer, 2005, p. 959): big and small acts of contempt, obliviousness, condescension, disrespect and coercion waged in everyday life as well as through the operation of institutions that deploy considerable resources and ingenuity to tell the 'deserving' apart from the 'undeserving'.<sup>2</sup>

Conversely, the position of the economically powerful is, at least partly, naturalized as the outcome of merit, talent or moral strength. Further symbolic qualification may come in the form of self-confidence, bodily appearance and hexis, linguistic and social skills, and cultural capital. Embodied dispositions and attributes operate as implicit resources that anchor social hierarchies and make them more legitimate—not only in the eyes of the dominant, but in those of the dominated as well. This is, quite simply, what Pierre Bourdieu (1984) called symbolic violence. To be sure, rich individuals may elicit animosity and contempt, too, particularly when they are perceived as haughty and distant (e.g. see Prasad *et al.*, 2009), or abusing their power, or having inherited—rather than earned—their wealth (Beckert, 2008). But the asymmetry remains: the social psychology literature has documented, time and again, that even young children learn early on to make much more positive attributions about the 'moral character' of the rich versus the poor (Skaftø, 1989).

## Hierarchy and debt

Economic transactions and interactions are a powerful vehicle for the crystallization of moral categories precisely because they are a key mechanism through which individuals and human collectives obtain or are recognized positions in the social structure. But nowhere is the entanglement between social position, economic worth and moral worth more obvious than in the case of debt, where the

<sup>1</sup>Piven and Cloward (1971), for instance, have described the insidious surveillance strategies developed by welfare officials to make sure recipients of public assistance programs *really* deserved help.

<sup>2</sup>Much research suggests that the cultural boundary between the 'deserving' and the 'undeserving' is strengthened through racial or ethnic stigmatization. Thus the weakness of solidaristic feelings and institutions in the USA has often been related to the country's brutal racial history, which has resulted in the seemingly intractable situation of a large black underclass (Quadagno, 1996; Gilens 1999; Lamont, 2000). In Europe, weakening support for the welfare state has also been understood as a byproduct of negative attitudes toward immigrants (Senik *et al.*, 2009; Eger, 2010).

economic standing and character of borrowers are simultaneously constituted as the precondition of the economic relationship *and* as its essential stake. Thus Max Weber (1978) saw the distinction between debtors and creditors as a primordial principle of social differentiation and a point of origin for the constitution of 'economic classes': that distinction structured society into groups with unequal economic trajectories. But it also differentiated between people of unequal moral worth. To be sure, lending was always a morally suspicious business, and it was stigmatized accordingly throughout history. In a fully developed credit economy, where lenders are large and impersonal, however, the moral burden of the relationship falls disproportionately on the shoulders of the borrower. As David Graeber (2010, 120) puts it,

During the time that the debt remains unpaid, the logic of hierarchy takes hold. . . . But always there is the assumption that the situation is somewhat unnatural, because the debt really ought to be paid. This is what makes situations of effectively unpayable debt so difficult and painful. Since creditor and debtor are ultimately equals, if the debtor cannot do what it takes to restore herself to equality, there is obviously something wrong with her.

And thus a bad debtor will be punished through the very instruments of her sin: having lost her 'credit', she will find that money is more expensive now, or more difficult to obtain altogether.

Just like there is an economic and moral ordering among people, there is an economic and moral ordering among nation-states. Debt stands at the core of it, too. Insisting that money is owed—in the form of tributes, reparations and the fulfillment of contractual obligations—is how political entities have historically asserted their superiority against vulnerable others, be they defeated enemies, rebellious colonies, or simply weaker economic partners.

### **Tough love**

Since the widespread institutionalization of sovereign (government) debt in the 1800s, the economic position of political entities known as states is translated through the conditions this debt faces on international financial markets. The price of a country's sovereign debt (the interest rates its bonds command on these markets) appears as an objectified measure of some sort of underlying moral worth in the eyes of investors, encapsulating the country's ability and willingness to repay. Because these evaluations are both hard to pin down and highly speculative, however, variations in the terms of credit faced by states may be extremely brutal, driven by rapid swings in collective sentiment as much as by changes in fundamentals (see, for instance, the 2009 un-hinging of interest rates

on Greek debt in Wolfgang Streeck's article in this symposium). Thus nations may find themselves in the situation of being all but priced out of private financing (in other words, the risk premium is so high that they cannot borrow anymore). This is when the institutions of last resort intervene, the International Monetary Fund first among them; with the crisis in the Eurozone, the European Union and the European Central Bank have also stepped in. But with such interventions the nature of the moral regulation changes. Instead of the mechanical disciplining of the market (in the form of country credit ratings, the up and down movements of the interest rate on sovereign debt bonds and the price of insurance for these bonds—or sovereign credit default swaps), an alternative arsenal may now be rolled out in exchange for affordable credit, with conditionality and surveillance at its core. As *The Guardian* recently phrased it, 'you could think of the IMF as a global payday loan company for countries who have got into trouble and can't meet their financial commitments – the difference being that instead of charging sky-high interest rates, it demands radical economic reforms' (Aitkenhead, 2012).

The analogy between individuals and nations is tricky, however. First, countries technically have the capacity to tax their population, so government debt, unlike individual debt, is supposedly much less risky. [This, however, is mitigated by the fact that countries default on their debt all the time, and have been doing so for over two centuries (Reinhart and Rogoff, 2009).] Second, the rating process is opaque, shrouded in mystery and behind-the-scenes politics: against the mechanical objectivity of technologies of individual credit (especially scoring), country ratings come in the form of much less precise categorical statements—letter grades rather than numerical scores. Third, it is materially straightforward to hold individuals accountable for debts they have contracted. But the moral responsibility of a country's political leaders, let alone its banks, is not easily fungible into the moral responsibility of its citizenry. So the lenders of last resort are faced with a moral dilemma: politicizing blame (by targeting governments or private entities) or nationalizing it (by encompassing national communities). Often, the line between the two is very hard to tread.

The conditional 'helping hand' of the IMF interacts with political entities with a mix of coercion and training ['tough love' in the words of Christine Lagarde, the current head of the institution]. As such it is a deeply corrective mechanism, with inescapable moral effects. Aimed at governments, programs have an unmistakable civilizational purpose—conditionality is a cultural, inherently modernist, project to train, educate and profoundly reform those societies whose poor performance has exposed as inadequate, insufficient, incompetent and shackled by outdated institutions inimical to the flourishing of modern capitalism. Experts, including from our own ranks, have their own vocabulary to designate the typical flaws: rampant 'corruption', low 'state capacity', poor 'governance', 'rigidities' of all sorts and 'inefficient' policies. The more troubled the country, the longer the road to travel, and the tougher the conditions: in part this is because conditionality

is the translation, in economic terms, of a perceived civilizational distance as well as, certainly, of a real power distance.

There is no escaping the collective nature of this form of discipline. A country's fall out of favor on international markets is a profoundly meaningful event in its citizens' lives. And this is not simply because nearly everyone's material situation is affected by its ramifications. To be sure, people are being *economically downgraded*: if the currency is devalued standards of living will sink instantly; even in the absence of a devaluation, the lost margin of maneuver in the face of high borrowing costs and the stringent demands of the 'helping hands' on the fiscal front will force many states into austerity, as has been the case in Portugal, Ireland, Greece and Spain. Thus the intermediary classes in southern Europe, which were the big beneficiaries of the short-lived moment of economic convergence, cosmopolitanism and Euro-optimism before 2008, have suddenly found themselves thrown back in time—not only to bleaker economic perspectives, but also back to the confines of their nationality and its supposed backwardness.

### Spoiled identities

But there are other consequences. As the perspective of convergence across Eurozone economies recedes on both the financial and the real economy fronts,<sup>3</sup> it has been replaced by the notion of an unbridgeable cultural gap between the North and the South, which is skillfully exploited by Euroskeptics of all stripes. So the economically vulnerable also face a form of *moral downgrading*, which may take different forms. First, through the fusion and confusion of economic moralities between the individual and collective levels, the average citizen of the forsaken countries is emblematically represented, in the critics' discourse, as a fool; a tax evader; an imprudent borrower; or a freeloader enabled by a much too lavish state. The moral violence of such symbolic markers leaves no one undisturbed, and thus stigmatized citizens will emphatically deny them; resent them; and sometimes own up to them in an anxious search for absolution.

Second, the crisis-ridden countries of the Eurozone have found themselves lumped collectively into one general flawed category. This moral sinkhole absorbs and blends them together,<sup>4</sup> in spite of the fact that they may have very different crisis etiologies. Southern European countries, for instance, were nicknamed PIGS (for Portugal, Italy, Greece Spain) in the UK press in 2007. (They were the 'club med' countries before that.) In 2008 the epithet was made more shrill-sounding with the addition of another I for Ireland—PIIGS. This amalgamation may, in some cases, relieve the moral burden of individual countries by mutualizing

<sup>3</sup>See, e.g., Atkins (2012).

<sup>4</sup>See Eyal (2010) for the concept of 'moral blender'.

it: thus a citizen from Greece might find some comfort in thinking ‘we’re not the only ones’. But this kind of commonality is not necessarily reciprocated, or valued across the board, so solidarity has not really emerged within southern Europe. Mostly, the moral sinkhole has fueled centrifugal tendencies as people and governments have been striving to distance themselves from those in countries not (really) like them. Spain’s desperate efforts to avoid a European stability mechanism/IMF program is all about avoiding the stigma of being lumped together in the same category as Greece.

Third, unlike the many nations, such as Argentina, that have been externally disciplined in the past, the Eurozone morality play has been performed by democratically elected governments *with the backing, if not the active encouragement, of a large segment of their populations*. Individuals and politicians in the morally downgraded countries have to see themselves through the looking glass of a collective, pan-European (by and large a pan-northern European) stigma of incapacity and illegitimacy—not through the esoteric pronouncements of a remote and widely unpopular institution (the IMF). This is real, intersubjective stigma elevated to the international stage. Their identity spoiled, contrite elites and populations are expected to ‘manage’ it properly, which in the sociology of Erving Goffman (1963) essentially means that they have to quietly ‘accept’ the implicitly inferior status ascribed to them.

### Moral struggles

In the Portuguese and Irish cases, a silent form of heroic self-constraint has indeed prevailed, where each country has voluntarily engaged in a desperate, and very costly, race for economic virtue (so far: opposition to this strategy is mounting fast at the time of this writing, particularly in Portugal).<sup>5</sup> In the Greek case, however, the process has been much more brutal, externally driven and infantilizing, perhaps because the moral violation (the cooked national books, the tax evasion) was perceived to be more egregious in the first place. As a result, the divides between the nation and its outside, between the complying government and the defiant population, between the taxed and the untaxed, between public and private employees have been thrown into sharp relief, with each side projecting the moral responsibility for the fiscal mess onto the other. And thus rebellion and civic strife have set in.<sup>6</sup>

<sup>5</sup>The same painful processes even extend outside the Eurozone, for instance, in would-be member Latvia, deeply anxious to avoid falling back into the Russian orbit, and eager to demonstrate its European moral worthiness by tightening its belt.

<sup>6</sup>Italy, likewise, was mostly defiant—and barely governable—with populist movements riding on a wave of anti-German sentiment.

As the recent creation of an anti-Euro party in Germany attests, the dominant countries are not left untouched by these centrifugal forces: they, too, split over the possibility of greater pan-European solidarity, all the more since they are the main targets of public resentment by those populations on the losing side of the Eurozone. Perhaps the question of whether the cures proposed are economically effective or normatively justifiable is beyond the reach of this short piece. But pointing out the political importance of the moral–economic mechanics at work is not. These exhausting struggles provoke and nourish deep emotions, fuel nationalistic feelings and heighten boundaries with the outside, especially where foreign advisers and managers step in. These sentiments are hardened by the preexisting nature of national or regional bonds, and they revive long, and ugly, histories of international relations. These revivals have already brought about reverse moral struggles, from Greece toward Germany in particular, over debts long forgiven and moral obligations inherited from a time Europe had worked so hard to bury and forget.

The energy generated by these emotions and the social devastation that has accompanied the crisis management process so far have also driven attempts to assert or reclaim the high moral ground—through politics, mainly, of a more peaceful or more violent sort. These attempts include the rise of xenophobia, centrifugal forces brewing in Spain and Belgium and strong resistance to expanding the European federalist project into fiscal territory. The possible implosion of some states under the pressure of economic austerity raises the specter of a Europe of the pick-and-choosers, just the opposite of the great hopes that had nourished the European project at its birth. And the sacrifice of large and young fractions of the population on the altar of the moral responsibility to repay a debt most of them did not contract tragically feeds into a political radicalization that may estrange them further from the targets of their resentment.

These moral struggles and the different paths they inspire are not a distraction from some ‘real’ economic issues beneath. They stand at the economy’s core and at the heart of the Eurozone’s future—and, with it, the future of Europe.

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