

A Global Perspective on the European Economic Crisis
Edited by Bruno Dallago, Gert Guri and John McGowan
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This volume is the 37th title in the series *Routledge Studies in the European Economy*. Edited by Bruno Dallago, Gert Guri and John McGowan this book is a collection of thirteen studies answering the question: where is the EU headed? The 2008 financial and economic crisis has been continuously providing topic for scholars for more than eight years now. Since the book was published the questions it raised became even more relevant in light of recent events, not to mention anything else but Brexit.

This book is a follow-up to another thirteen studies in a *Routledge Studies in the Modern World Economy* volume entitled *Crises in Europe in the Transatlantic Context: Economic and Political Appraisals*. From the transatlantic context our book jumps to global perspective to examine the connection between internal EU actions and institutions and the external factors that influence the reaction to the crisis. Thus the structural and systemic nature of the European crisis is seized in two dimensions. On the one hand, the European macroeconomic and political landscape and challenges with special regard to the Eurozone. On the other hand, the interaction of the EU with the challenging global context. The potential explanations come from an interdisciplinary approach and from a group of authors from different countries.

The recent shock of the Eurozone opened a new chapter in the EU history. The editors claim that the EU “is being perceived as a threat to the financial and monetary stability of the world, a dead weight over economic expansion, and increasingly as a political risk” (p.1.) They argue that the trouble is huge if we consider that after 70 years of peace-building the fault-lines along European nations became more and more evident. They cite Anne-Marie Slaughter¹ (2014), who says that the European project “cannot survive if supported only by economic rigor and rules. What can continue to justify a political entity after the urgent realities and convictions that drove its establishment have faded to the pages of history and civics books or, at best, are the subject of grandparents’ stories?” This motto runs through the studies of the volume and the question raised here is answered from several very different aspects. All the thirteen studies share the persuasion that relevant the answers are of vital importance regarding the future of the European Union.

The thirteen studies form two parts in the book. The first part contains eight analyses under the title “The European Project: Moving forward with dry eyes”. The introductory chapter of this part by Steven Rosefielde starts with good news. The good question to ask is not “Will the project survive?” (by the way it will, he says) but rather “Should Europe cling to its current supranational project?”. Thus the level and shape of supranationality is a key factor concerning future of the EU according to Rosefielde, who says that the answer should depend

¹ Former director of policy planning in the US State Department, Professor Emerita of Politics and International Affairs at Princeton University

on an analysis on opportunity costs and contexts instead of wishful thinking. May a further evolution toward supranationality violate the credo of the EU? May the slowdown of EU growth be partially caused by supranational regulation? Are the values of EU identity challenged by recent Russian course of development? It is time for economic theorists and policymakers to take an objective look at the EU dream, Rosefielde suggests.

Chapter 1 (The European Union in stormy seas: beginning of the end or end of the beginning) by Klaus Gretschmann claims that the irreversible character of the European Union is very much questioned today. The author argues that the EU is on life support. His chapter aims to analyse the imperfections the recent crises shed light on and whether these imperfections lead us to the beginning of the end or to the end of the beginning of the European integration. In order to get to the latter state, the peoples of Europe should be convinced that the project have refreshed rationale and new vision for the future, says Gretschmann.

Chapter 2 (Signalling imbalances in the Economic and Monetary Union) by Nicola Acocella starts with sweet memories from the beginning of the EMU project: the expectations towards the Economic and Monetary Union were high and appeared to be mostly come true until the beginning of the crisis. The question this chapter aims to answer is how the crisis of private markets transformed into a sovereign debtor crisis in the EU and why it lasted longer than in the USA. The author suspects that the roots of the crisis is to be found in the institutional architecture and policies of the EU irrespective to the external shock. The ability of the Eurozone to cope with the asymmetries and imbalances and the different structural conditions of the member states were most probably overrated. The author highlights that trust in European level institutions and policies were high and could even compensate for the lack of trust in the national government. However, this supranational level was not empowered with policy instruments needed to reform national labour markets or public administration. Acocella mentions the role of noisy market signals which contributed to the prolongation of the crisis. The incomplete institutional setting of the EMU resulted in imperfect signalling, moral hazard and adverse selection of decisions makers.

The introduction chapter announces Chapter 3 (On the crisis of the EMU: failed construction, failed implementation or failed crisis management?) by László Csaba as “perhaps the most optimistic paper” in the volume (p. 13). It might be true as the author states at the beginning that “the single currency has proven to be an unprecedented success in its own terms” (p. 68). The question arises: what is the reason than for the huge dissatisfaction with the EMU? It was made clear from the very beginning that the convergence of national fiscal positions and the ability and/or willingness of national decision-makers to implement the required reforms is the clue to the whole EMU project. Consequently, postponing reforms has counterproductive outcomes. The approach of the Union handling these issues can be described as the rule of “discipline for money”. At the same time we should also take into consideration that the initial view was that members will follow the common EMU rules in their own interests without any supranational enforcement. In light of the crisis, the question occurs whether we need more strictness or on the contrary, austerity politics failed. This question is basically bad, says Csaba, because it takes our mind off more important issues:

whether real structural reforms and good governance has been introduced. A successful fiscal adjustment is more about quality than quantity.

Chapter 4 (The European crisis: testing the trust foundations of an economic and monetary union) by Simona Piattoni emphasizes how trust is fundamentally important in case of a project like the EMU, especially in times of crisis when rational arguments cannot keep the members together. She states that the way the costs and benefits of the Maastricht commitments are presented to the public may undermine the credibility of those obligations and also shakes the trust base of the decision on Eurozone membership. Trust is both a precondition and an objective of the EU, the whole project was founded upon the restoration of trust among former enemies. "Trust is the oxygen in the EU's bloodstream" as Grabbe (2012) expressively writes. Piattoni argues that the crisis exposed to view that this probably everlasting contract of the single currency was founded upon "conditional and guarded trust", which is rather fragile and may scamper away in case of any difficulties (p. 85). The author calls "responsible responsiveness" the notion that takes shape in the European Semester and may be a sign of strengthening trust foundations. "Responsibility is also just", she writes.

Chapter 5 (Assessing the Europe 2020 strategy) by Paolo Pasimeni includes econometric analysis with the purpose of strengthening the evaluation of the performance in the Europe 2020 strategy. Pasimeni has created a synthetic composite index with which he quantifies, measures and monitors the progress made by member states from 2003 to 2012. Using the eight indicators proposed by the European Commission and calculated at national level by Eurostat, Pasimeni develops three thematic indices based on the three pillars (smart, sustainable and inclusive) of the Europe 2020 strategy. Aggregating the three sub-indices, he generates the overall Europe 2020 index. The author found great differences in performances both among countries and across time. While searching for the potential success factors, Pasimeni got at institutional economics and the role of formal and informal institutions as the most significant factors, which harmonizes with the findings of previous chapters as well.

Scott Greer and Holly Jarman in Chapter 6 (Reinforcing Europe's failed fiscal regulatory state) argue that "the EU has long been a nearly ideal case of a 'regulatory state', capable of regulating but not redistributing or even paying the costs associated with implementing its rules" (p. 122). The authors see a potential danger in recent fiscal regulatory developments, as they warn that domestic budgets and workers will bear the costs of the tightened fiscal regulatory scheme. In their view European integration should not be a product of the crisis. At the same time we see that the new fiscal governance system, which was created as an answer to the crisis, means a major increase in EU power. Greer and Jarman's main anxiety is that it preserves a fiscal regulatory approach that has historically failed to solve the problems of the Euro. Furthermore there is not much evidence that it would produce growth, they claim.

Chapter 6 (The monetary union and migration) by Bruno Dallago throws light on human resources. Beyond the secular stagnation EMU is facing with, there is another long run challenge: the demographic factor. The forecasts Dallago cites (see: Buttonwood 2014) count with a decline of 96 million workers over the next four decades, which may lessen to 40 million with the compensation of immigrants (p. 144). Labour market operations are

essentially important for a monetary union approaching an optimum currency area: price and wage flexibility influence adjustment processes. Since labour mobility in the Eurozone is relatively (i.e. in relation to the USA) low and prices and wages are relatively rigid, the adjustment process cannot go through prices and wages. Hence it goes through unemployed masses, falling production and decreasing market shares. May be that is why immigration within a monetary union is a more sensitive issue than in a sovereign country. Dallago points out that bidirectional link appears between high-skill emigrations and economic development, and it can cause both vicious and virtuous circles.

Chapter 8 (The future of the German model after the labour market reforms) by Joachim Möller examines how the labour market model of the “German” variety of capitalism can survive in face of recent hardships, starting with the fall of the iron curtain up until recent globalization pressure. Möller makes a detailed study of the so called Agenda 2010 labour market reform program, countermarked by Chancellor Schröder, and raises the question whether this program has thrown the baby out with the water, i.e. whether it sacrificed fundamental characteristics of the “German model” in order to modernize (p. 168). Although the German model has become much less egalitarian than before, the Agenda 2010 has rather strengthened the German variety of capitalism, the author claims. The 2008 financial and economic crisis was a big test for the reform agenda as well and the German labour market got off cheaply according to the data.

The second part of the book widens the perspective of the analysis and puts the EU into a global context. The introduction (The external context and the European Union: between threats and opportunities) by John McGowan writes that the EU has always been “an oasis of peace, prosperity and stability in a troubled world” (p. 179). The recent crisis has highlighted how complexly interrelated these achievements are and how quickly the weakening of one of them undermines all the others as well.

Paul Marer in Chapter 9 (The euro and eastern Europe: six insiders, six outsiders – why so?) tries to find the reason of being “euro insiders and euro outsiders in eastern Europe” (p. 194). After a cost–benefit analysis, Marer formulates two hypotheses to explain country choices. After a country by country analysis, he concludes that every insider has had at least one overridingly important political or economic reason to adopt the euro. At the same time in the outsider countries the expected political and/or economic benefits of the single currency have proven to be smaller than its costs. Marer labels the attitude of the outsider eastern European countries as “drifting”, since all of them has a treaty obligation to introduce the euro one day. The unfulfilled Maastricht criteria is not considered as “a real reason” to stay out, because if a country has an overridingly important political or economic reason to join the Eurozone, it would have met the criteria, as it has happened in the Baltic states, says the author. A ground for comparison is to be found in Csaba (2009:104-107) where Csaba still describes the Baltics as “from miracle to debacle”.

Chapter 10 (Global value chains, changing division of labour, and the regulation of work in EU28 and Euro-Med) by John Pickles provides a highly interesting approach. His starting point is that contemporary economy is regulated by huge intra-firm value chains which resulted in a new regional division of business and employment. As a consequence, the conditions of the

contemporary context of Europe have changed basically compared to those that inspired the creation of the EU and even the euro. Thus the current crisis of the EU is not about unemployment or indebtedness but more about deep structural problems and uneven development. The eastern enlargement of the EU and even the Euro-Med partnership are built largely on intra-firm regional production networks, resulting in uneven exchange relations, asymmetries of power and value-channels that benefit the core firms and regions. Thus this integration is far from a stable, high-value and harmonized one which was envisioned at the beginning of this process.

In Chapter 11 (The euro as a house of straw: why Europe's crisis is (still) linked to American housing) Herman Mark Schwartz describes the Eurozone as a fabled straw house that was blown away by the wolf appearing as the American financial crisis. Schwartz claims that the EU has a tendency towards secular stagnation resulted from aging, dual labour markets, female exclusion and a conservative central bank. At the same time the EU has a double reliance on North American and Chinese growth because of an unbalanced internal structure: northern Europe having a permanent trade surplus with southern and peripheral Europe while the latter relies on trade surpluses with North America that help to reduce its deficits with northern Europe. As Schwartz explains, this external growth reduces the tendency towards secular stagnation mentioned above. He deems it necessary to "decouple Europe from the United States and China" (p. 226) through changes in political institutions.

The last two chapters deal with Russia. The one is Chapter 12 (Where goes Russia: the risks of a continental divide) by Eric Brunat. "Since the end of the 1990s, with the aim of consolidating power and restoring the status of the country in the world, many political, geopolitical, economic and institutional choices have diverted Russia from the road to full and sustainable development" (p. 248), he claims. Half of the Russian federal budget comes from the export revenues of crude oil and natural gas. Beyond this fundamental determinant, the present state of the Russian macro-economy and the chances for (re)emergence are affected by two incidents and their consequences: the international financial crisis and the conflict with Ukraine. The latter influences heavily the EU-Russian relations as well, resulting in sanctions and counter-sanctions. Brunat argues that some kind of Finnish type of neutrality of Ukraine would be beneficial for every party.

Chapter 13 (Russia, the European Union, and the Ukrainian Crisis: a European or a Eurasian affair?) written by Jacob Kipp continues the vein of thinking Brunat has begun. The Euromaidan Revolution has fundamentally changed Russian policy towards the EU. He claims that the EU has proved to be unprepared for the ethnic conflict that environed the signing of the association agreement with Ukraine. What is more, considering the aftermath of the conflict, the "European Union has lost credibility as a security player in Europe" (p. 260). The EU has always seen Russia from its own viewpoint, e.g. after the Cold War it had to transform to a "normal state" with the same values as the Euro-Atlantic community. Kipp says that now (not for the first and not for the last time either) the European identity is questioned: where does Europe end and Asia begin?

The volume was published in the pre-Brexit era. Brexit undoubtedly has put the whole European integration into a new context and present readers cannot disregard Brexit when reading this book. However, Brexit has not nullified the findings of the analyses. On the

contrary, as Dallago (2016:132) writes, it offers another important opportunity to rethink the EU. “Need to be clear about what the EU can do, and what is for the Member States to do, to make sure we can deliver on our promises” - as the Bratislava Declaration² puts it.

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² Bratislava Declaration and Roadmap. European Council 16/09/2016
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