Crisis? Which Crisis?

Crisis. The word has been ringing in our ears almost daily since 2007, when the US subprime mortgage crisis came to a head, and now seems applicable to all too many sectors of our lives. This issue of the EUI Review takes a look at the causes, the consequences and the way politicians, regulators and citizens are confronting some of the more pressing crisis issues in Europe and beyond.

Harold James looks at the factors which have driven and interrupted cycles of globalization in the past, and discusses some of the effects the financial crisis might have on future trends in globalization. New generations of globalized Muslims are at the crux of Olivier Roy’s argument concerning the integration of Islam in Europe. For this author, debates on assimilation in Europe mistakenly assume that expressions of religiosity among second- and third-generation so-called migrants are tightly connected to an identification with traditional cultures. Susana de la Sierra discusses the crisis in administrative law.

Turning more directly to the financial crisis, Ramon Marimon explains how the 2010 currency crisis has changed the EU’s role in financial regulation and national fiscal policies, while Peter Mair discusses the political challenges European governments face in this crisis period. Elena Carletti discusses factors leading up to the financial crisis, its spread and how future crises might be averted, while Giancarlo Corsetti writes on the monetary aspects of the crisis. Giorgia Giovannetti and Dorothee Bohle respectively examine how effects of the financial crisis have played out in Africa and East-central Europe, while Sven Steinmo looks at the factors driving the variation in how countries have fared across Europe, and compared to the United States.
Globalization and the Financial Crisis
Marie Curie Professor - HEC 2006-2010 and Professor of History and International Affairs, Princeton University | Harold James

Globalization is a very old phenomenon. Some people even see the interconnections of the world at the time of the Roman Empire or of the twelfth century dynamism of the Chinese Song dynasty as early examples of globalization. In its modern form, globalization has also produced tremendous benefits in terms of poverty reduction and access to new opportunities in many countries.

But historically, globalization is also vulnerable to costly and destructive backlashes, as in the late eighteenth century, when it was interrupted by wars and revolutions, or in the early twentieth century, when the very integrated world of the late nineteenth century was pulled apart by the First World War and by the Great Depression.

I like to think in terms of globalization cycles, with long periods of increased interchange of goods, and flows of people and capital. But then something happens, and globalization is interrupted. People feel there has been too much interaction, they draw back from the global setting and look instead for protected areas in which they can be safe from global threat and global devastation. Politics looks for national rather than international solutions to pressing problems and concerns; and international cooperation becomes tense and difficult, if not impossible. At each stage in the globalization cycle, we tend to extrapolate and to think that this particular phase will last forever: whether it is the confident upswing, or the stagnation and anger of the downward movement of the cycle.

Globalization is not only a process that occurs somewhere out there—in an objective and measurable world of trade and money. It also happens in our minds, and that part of globalization is often more difficult to manage. To understand both the process and our reactions to it, we need a historical sense.

The late nineteenth century and early twentieth century form of globalization was driven largely by trade and migration flows, and when the backlash came in the 1930s it primarily involved trade and migration restrictions. The more recent wave of globalization was on the other hand driven by financial sector innovations that allowed vast current account imbalances to be recycled through increasingly internationalized banking systems.

Because so much recent globalization was driven by financial flows, financial meltdown is a very serious setback. The most immediate impact of the contagious financial collapse of September 2008 following the fall of Lehman Brothers was on world trade, but the longer term impact will be on the way that finance is organized.

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Many of the measures that governments take against the crisis are likely to produce a longer-term de-globalization trend. State rescues of entire banking systems will tend to produce a different financial system, in which large parts of finance are renationalized. Already in the spring of 2009, when Central Europe appeared to be on the brink of a financial meltdown, Italian and French taxpayers made it clear that they did not want to see their money used to bail out remote east European debtors. Banks rescued by governments are under substantial pressure to cut back foreign lending, and increase domestic loans. Internationally active banks are selling off parts of their foreign assets; and the once active cross-border mergers and acquisitions dynamic has stalled.

Fiscal stimulus packages have a similar effect, in that they are intended to benefit domestic producers and involve the assumption of additional debt which constitutes a long-term liability of domestic tax payers. In consequence, many of the large stimulus packages are accompanied by more or less explicit provisions (‘Buy America’ or ‘Buy China’) that attempt to ensure domestic not foreign producers are stimulated.

The reactions against globalization are as much driven by a new psychology as by economic reality or a precise weighing of the costs and benefits of globalization. Crises give rise to conspiracy theories, often directed against foreigners or foreign countries. Many people in the United States argue that the mess is the fault of the Chinese surpluses. Many people in other countries already argue that they are being hit by an American crisis made in America. We will see not just little measures of trade protectionism, but massive and powerful xenophobic sentiment. It may also be that many former so-called ‘globalization critics’ will see just how good the integration was when it starts to fall apart.

At the time of euphoria about globalization, the extent of current account imbalances was often used simply to show how financially inter-connected the world had become. Now global imbalances are seen not as a natural accompaniment of integrated markets, but as a cause of problems.

This nationally polarized discussion occurs not just on a global level, but increasingly also on a European level. A remarkable feature of the debate on European solutions is how quickly debates in the aftermath of the crisis were treated in national terms: no one pretended any more that there were common European interests.

The explanation for the national focus lies in a quite simple political logic. A common feature of crises is that they are accompanied by a call for redistribution, and we really only have mechanisms for doing redistribution via the fiscal mechanism of a nation-state. When redistribution takes place internationally, it is as only as a consequence of war, in which one society forces redistribution on others. In the current crisis, fiscal issues have come more and more to the forefront.

In European debates on the current crisis, the Germans have taken on the Chinese role, while the south Europeans looked like the Americans. But there are limits to the parallel: the United States is a very powerful country, and looks like a safe and stable place in times of financial turmoil. That cannot really be said about the Mediterranean.

The debate between debtors and creditors swings dangerously between two different ways of assessing legitimacy: power and morality. What especially irritates debtors is often that the creditors present their position as being fundamentally more virtuous: the Greeks are said to have excessively high pensions, excessively early retirement ages, and too may extra months’ salaries, while the Americans engage in consumer binges on the never never, financed in ever more ingenuous ways. The creditors point to generations of Confucian or Protestant teaching on the virtues of thrift.

But creditors also appear to be fascinatingly but horrifyingly powerful: the debate about China is also a fantasy about the day when China will dominate the world and turn the twenty-first century into the Asian century. The debate about Germany is laced with the retrospective trauma of the Nazi domination of Europe in the 1940s. Both the future and the past thus conjure up a spectacle in which self-righteous morality is linked with a brutal exercise of political might.

It is easy to see why debtors are scared and resentful. The European debtors are much more scared because they do not have the military and political muscle which shields the American debtor.

When big power and income disparities arise, resentment increases. For decades, discussions about the international monetary order focused on the way that it appeared to be dominated by the United States. For many Europeans, the aftermath of the current crisis is already that anti-Americanism is being replaced by anti-German resentment. It is more than coincidence that it is more difficult to resent the charming and cosmopolitan Barack Obama than George W. Bush, who made quite an easy target. Mrs. Merkel has quickly moved to the vacant spot in the international demonology.

In today’s world of over-extended government finance, all governments will not run into market limitations...
on their ability to finance themselves at the same time. In this respect, there is a parallel with banks, where the crisis has strengthened some well-managed or well-connected institutions while weakening others. Stronger governments too will find it easy to refinance their debt, even when (as in Germany today) they are producing new debt at record levels, or when (as in Japan today) their new debt exceeds tax revenue.

But the market will focus on the cases that are problematic. The difficulties will be greatest in smaller countries. In the 1930s, small size turned sovereign debt problems into profound political vulnerability. Large countries by contrast have a substantial amount of power, even when they accumulate large amounts of debt. In the Latin American debt crisis of the 1980s, a 1930s tag of John Maynard Keynes was repeated again and again: if I owe the bank a hundred pounds, I have a problem, but if I owe the bank a hundred million pounds, the bank has the problem. The big debtors will be able to force through particular deals.

One of the most striking developments of the era of economic and financial stability and dynamism over the last twenty years was that more and more countries were able to borrow internationally in their own currency. For most of the nineteenth and twentieth century, this had been the privilege of a relatively small number of core countries, in particular Britain and the United States. Over the past decade, big emerging market economies have been able to use the new sophistication of financial markets and have issued their own debt. That process is likely to continue, and to generate advantages for the big players.

In the recent era of financial globalization, in the twenty year period since the collapse of Soviet communism, the most dynamic and richest states were generally small open economies: Singapore, Taiwan, Chile, New Zealand, and in Europe the former communist states of Central Europe, Ireland, Austria, and Switzerland. In the world after the financial crisis, the center of economic gravity has shifted to really large agglomerations of power. There has been an obsession with the BRICs (Brazil, Russia, India, China) as new giants. The continuation of the crisis will turn them into Big Really Imperial Countries. The future of globalization is one in which power politics rather than markets will drive events. That is a big challenge for a Europe which no longer thinks in terms of the brutal realism of power politics.

Congratulations Fulbright Scholars!

Two EUI researchers have recently been named as Fulbright Scholars, and will spend a period of study in the United States in 2010-2011.

Costanza Hermanin (pictured left, at right), EUI researcher in the Department of Political and Social Sciences, will divide her Fellowship between Columbia Law School and the Boalt Hall School of Law at the University of California at Berkeley.

Chiara Ruffa (pictured left, at left), researcher in the Department of Political and Social Sciences, will be a Research Fellow at the Belfer Center for Science and International Affairs, the Kennedy School of Government, Harvard University, from September 2010.
Twenty years ago the debate in Europe was about integrating immigrants, now it is about integrating Muslims: the recent burning issues concern veil, burqa, mosques, minarets, hallal food. This shift from immigration to religion has substantially altered the debate, because speaking about the visibility of Islam as a religion in the public sphere presupposes that the long term presence of Muslims as European citizens and Islam as a religion now rooted in Europe are both acknowledged as facts, stirring new problems. But most public policies, as well as the perception of European public opinions, still presuppose a strong link between Islam and immigration, which is historically true, but does not correspond to the perceptions and religious practices of the new generations of Muslims. These policies tend to oppose assimilation and multiculturalism, as if the choice was between recognizing an ethno-cultural minority, for which Islam is part of a traditional ethnic culture, or stressing the need, for individual Muslims who want full integration, either to keep their faith in private or to demonstrate that they follow a ‘western’, ‘moderate’ and even liberal form of Islam. The search for the good Muslim, feminist, democrat, secular and (why not?) gay-friendly is at the core of the debate on how to integrate Islam in Europe.

The problem is that both models, multiculturalism and assimilation, are based on the same premises: that religion is linked to culture, which means that keeping your religion goes along with keeping your traditional culture, and, conversely, becoming culturally acculturated means looking for a theological reform to adapt Islam to the West.

But the problem is that this debate simply misses the point. It does not take into account the changes of religiosity among second generation Muslims.

The second and even third generations of migrants are no more ‘migrants’. They speak less and less the language of the country of origin of their parents, and dress and consume as their fellow schoolmates or neighbors. But this ‘deculturation’ did not entail a systematic integration not to speak of assimilation. The second generation has often developed a protest culture, that could borrow either from a western street culture (rap, street-wear) or from tradition of political protests (possibly leading to joining a terrorist organization like Al Qaeda), or, more interestingly here, from a traditional religious identity recast into a deculturalized and ostensible practice, often inspired by fundamentalist trends, as salafism. This religious revival is not confined to disenfranchised youth: many second generation Muslims who have been rather economically and socially successful are looking for a way to assert themselves as believers in a western environment: their religious needs are rather different from that of their parents because for most of them it is no more part and parcel of a specific cultural identity, but on the contrary they want to associate Islamic religious markers to Western cultural markers (for instance hallal and fast food, veil and executive women, dating and gender separation etc.).

The consequence is that although daily practicing Muslims are in a minority among second generation Muslims, the believers are in search of a new way to express their faith which they find in a large array of religious attitudes and products. These forms of religiosity can range from looking for a secular approach to religion and keeping it in the private, or on the contrary adopting a fundamentalist and normative approach that defines religious practices as the implementation of a set of strictly binding norms, in terms of dress, diet, and daily life rituals (uttering specific prayers for even menial tasks). This neo-fundamentalist approach is embodied by religious movements like Jamaat-ul-Tabligh and the loose networks of salafi inspiration (which follows the predication of differ-
ent religious leaders or Sheikh, most of them living in Saudi Arabia and members of the official Wahhabi school of thought). The problem is that ‘born-again’ and converts are not specifically interested in ‘moderate’ forms of religion, something which is true for all religions. The Catholic Church, Protestant evangelicals and orthodox Jews are nowadays pushing forward more conservative values in terms of society and culture; they tend to establish a clear demarcation between believers and non-believers. The trend is not towards liberalism among contemporary religious communities of any faith; the issue is not Western values versus Islam, but secular and liberal values versus conservative religious norms.

In any case the Islamic religious revival breaks from the traditional culture of Muslim countries, either because it explicitly promotes a westernization of Islam (that is the liberal wing of the movement), or because it condemns any culture, and specifically the traditional so called ‘Muslim’ culture, as a betrayal of the ‘true message of God’. Salafis, as many Protestant evangelicals, Jewish haredim and more and more conservative Catholics tend to consider the culture of their own society as religious only in nominal terms and as shifting on the verge of paganism. Neo-fundamentalism defined as a will to stick to the ‘true tenets’ of one’s religion in a culturally secular and pagan environment is probably at least for once the dominant characteristics of present religious revivals all over the world.

In this sense, the issue of Islam has to be understood inside the greater picture of the so-called ‘return of the sacred’, which is turning many religious communities into inward-looking and closed faith communities.

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The first issue is to identify interlocutors. In fact local politicians (mayors) are often more aware of the diversity of the local Muslim communities, which are more eager to integrate locally, as local congregations around a mosque, on the model of the Christian parishes. Interestingly enough, grass-roots Muslims are not eager to be ‘represented’ by strong and centralized bodies. Instead of capitalizing on this diversity and flexibility, governments tend to turn to self-proclaimed or to foreign organizations. Too often European policy makers deal with foreign Muslim governments or through their representatives in the West. Many self-proclaimed Muslim representative bodies have been founded by former students coming from the Middle East, often linked to the Muslim Brothers, and hence favoring a strong identification between European Muslims and Middle East (while in fact few of the grass-root Muslims did really come from Middle East).

Another burning point is about the training of Imams. Most imams are poorly trained and often are hired from foreign countries. But the interesting point is that it means that few European Muslims are interested in becoming a low-paid and not highly respected local imam. Imams are not the equivalent of priests and rabbis, but they are constructed as such by the pressure of the local authorities to have an interlocutor.

In fact the changing patterns of religiosity among European Muslims, although not understood by public opinion and political leaders who tend to identify a fundamentalist religious practice with a dangerous fascination for terrorism, are taking place in an environment of reciprocal adjustments. On one hand Europe is bound by two requirements: freedom of religion and fear of radicalism. Whatever the pressures and limitations (bans on minarets, veil, burqa), Europe cannot ignore freedom of religion, and is pushed by Muslim believers to accept the visibility of religious practices, while forcing the same believers to adjust and format their practices to something ‘acceptable’. Acceptability is working both sides. For instance the debate on the burqa presupposes that the veil is now acceptable (which has aroused the ire of many French anti-veil militants for whom there is no intrinsic difference), the debate on the minarets means that mosques are acceptable… Compromises are in fact to be found beyond controversies. Moreover, the need to find interlocutors and to grant personal religious freedom means that by hiring chaplains in the military, jails and hospitals, public authorities contribute to a ‘clericyfication’ (would we say ‘churchification’?) of Islam. Both pressure and call for freedom have the same unexpected consequences: formatting Islam as a Western religion, without dealing with its theological content, which is by definition, and should remain, beyond the reach of a Western secular state. The shift towards integration of Islam as a religion and no more as a culture is done by the very practices of social actors, not so much by a public debate about ‘what does Islam say?’ which will remain without answer, as always with any religion. ■
In times of crisis dormant connections emerge revealing frailties that need to be overcome to resolve the crisis. This is also true of an economic crisis, such as the 2010 euro crisis: an unexpected turn of the unexpected 2008 global financial crisis originating in the US. Were these so unexpected? Historians will argue about this, recalling that 2010 marked the end of the successful first decade of the euro and that it was supposed to be the year in which the European Union became ‘the most competitive region in the global knowledge society.’ Instead, 2010 has seen EU dreams wrecked by high unemployment, the debt crisis, late night emergency European Council meetings, severe budget cuts and a generalized loss of confidence: 2010, the year of the first euro crisis.

There may be a positive side to this. As Jean Monnet said: ‘l’Europe se fera dans les crises et elle sera la somme des solutions apportées à ces crises.’ Both conditions have been satisfied: we have had a crisis and many solutions have been proposed, perhaps we just need to wait and see if they add up. Perhaps it is more useful to take a closer look at the ‘dormant connections’ that could support Europe, or tear it apart, in order to understand that building Europe requires reinforcing the political economy of the EU, since solutions do not add up mechanically.

The first connection building Europe after the Second World War was the need to avoid economic conflicts of interest, since these can become political, and even military, conflicts. Coal and iron were obvious interests to consider in the years of reconstruction. The second was the need to extend the Common Market. The third was the understanding that an integrated market does not work well when inflation and exchange rate fluctuations—perturb international exchanges and, in general, financial transactions. This recognition was the foundation stone of the European Central Bank (ECB) and of the eurozone: price stability was the goal.

But there is another connection, repeatedly appearing in times of European crisis—and it is vividly felt in German history—and that is the connection between fiscal and monetary policies. This connection is also known in economic theory as ‘the unpleasant monetarist arithmetic’ (T. Sargent and N. Wallace *dixit*) and is based on the simple recognition that in the end ‘there is a unique budget’ and the prices (of currencies) reflect this fact. For example, if tax revenues do not cover government expenditures, debts will pile up and these will have to be paid for either by future taxes or by defaulting on promises: either the promise to maintain price stability (inflation generates seigniorage revenues and depreciates the value of outstanding nominal debts), or the promise not to default on future debt payments. Either scenario produces both winners and losers.

The connection between fiscal and monetary policy also leads to the emergence of another connection: the inter-temporal connection between short-run gain and long-term loss, a connection that often makes one generation gain and another lose. This connection is known in economic theory as ‘the time-inconsistency problem’ (E. Precott and F. Kydland *dixit*) and is based on the simple recognition that if promises can be broken people will anticipate this and the resulting loss of credibility will affect today’s outcomes. The connection between fiscal and monetary policy suggests a simple solution: a unique fiscal and monetary authority that internalizes the ‘unique government budget.’ With commitment, and without credibility problems, this is the right political-economy design (abstracted from other ‘centralization’ problems). However, the time-inconsistency problem calls for separation: for the independence of the monetary authority to avoid the temptation to monetize fiscal problems, for the isolation of fiscal policy with debt and deficit constraints. The recognition of this connection is the foundation stone of ECB independence and the Growth and Stability Pact. But even with formal independence and pacts, the underlying budget remains unique as a ‘dormant connection’.

By Ramon Marimon

The 2010 Euro Crisis and the Political Economy of the EU

Professor of Economics and Director of the Max Weber Programme for Postdoctoral Studies | Ramon Marimon
Even greater than the inter-temporal connection Europe has always faced its inter-geographic (national, governmental, etc.) connection. For example, even if fiscal policies remain in the national domain they may contaminate common monetary policy, as the Growth and Stability Pact recognizes. The 2010 Greek et al. debt crisis, becoming a euro crisis, is the latest manifestation of such a connection. But the 2010 crisis is also a manifestation of other ‘dormant connections’, which have emerged with unprecedented force.

First, as emerged clearly in the 2008 financial crisis, financial stability is also part of the monetary and fiscal equation. In fact, the crisis has not been more severe thanks to the active policy of the ECB, following Bernanke’s example at the helm of the Federal Reserve. Massive injections of liquidity to avoid a complete drying up of private credit was not part of the policy envisioned for the ECB, responsible only for ‘price stability’, which has not been a problem during the 2008-2010 crisis. Second, behind the fiscal component of the equation there are many promises and ‘commitments’, in the form of social policies and other government expenditures. In the budget these appear as liabilities (even if they generate social benefits), while as assets there are future government revenues, based on growth. But behind this potential growth there are many other connections: how well the labour and product markets work; how well trained the population is and what proportion of it is aging; what is the capacity to compete in the global economy, to adopt new technologies and innovate, etc. In summary, a closer look at the de facto ‘unique European budget’ reveals that many of the proposed reforms—for example, in the Lisbon agenda, now transformed into the 2020 agenda—do count when adding up European value assets and liabilities.

This complex web of connections creates two types of tension, which are at the core of the political economy of the EU design. One operates between the aim to extend solidarity, social services and rights to the EU and the existing endogenous diversity. The other lies between the efficiency gains from centralizing, or further integrating, interconnected policies and the contagion or possible distortions that such centralization might entail. The recent crisis is a good example of both.

Iceland has had two severe shocks in two years: the volcanic eruption in April 2010 and the financial meltdown in the Fall of 2008. While the former could count as an exogenous shock, for which a large European Union should be able to provide insurance, the latter was clearly the consequence of unnecessary risks taken by some Icelandic bankers, for which it is far from clear that EU support should follow, even if Iceland had been in the eurozone (something Icelanders now see as an advantage). Similarly, even if an unprecedented rescue package has been put in place to try to avoid Greek bankruptcy, making it easier for Greece to stand the pressure of the financial markets, there is little doubt that the main reason behind the Greek crisis was not bad luck but bad policies. It is simply normal that citizens of other EU countries, having gone through more reforms and fewer unfounded promises, felt restrained solidarity. It is a good design to define new norms that explicitly account for limited coverage (i.e. allow for sovereign debt renegotiations, or other forms of partial default) when crises are, as in this case, endogenous. In other words, to commit to which parts of the ‘unique European budget’ will be kept in isolation at the national level, even when it is politically costly to do so.

Without changing the core institutional design (a new treaty is unthinkable for years to come), the 2010 crisis has, in practice, changed the balance towards a further implication of the EU (at least the Euro Group) in financial regulation and national fiscal policies. Some proposed solutions are reasonable and could be implemented (e.g. requiring more financial transparency, curtailing ECB rights to countries violating agreed fiscal constraints, requesting reforms and not only budget cuts in order to access rescue packages, etc.), others are likely to face institutional constraints (for example, the creation of ‘euro-bonds’ without euro-taxes or, at least, stronger fiscal governance), others may become new liabilities (for example, indiscriminate cuts in education). All in all, it is far from clear how much these solutions will add up to the definition of a new and more resilient Europe, as Monnet indicated. However, two elements are key in de facto redefining the political economy of the EU. One, as I have already said, is to set clearer rules on which (national or private) risks the EU will absorb, since large crises are often the result of not accepting small crises, of creating unreasonable expectations of what the EU can or should do.

The other key element is the ability to fully exploit the possibilities that the Lisbon treaty offers to give a larger role to EU institutions and agencies with a clear EU (or Euro) mandate (from the European Parliament to the European Research Council), since a major weakness of the EU institutional design is the fact that most members of its executive (the EU Council) are not elected with a European mandate and their national hats often make it difficult for them to keep EU commitments, to see that in the end ‘there is a unique European budget,’ with growth as its main asset.
The Financial Crisis: What Happened?

Professor of Economics and Joint Chair - RSCAS & ECO | Elena Carletti

The crisis that started in 2007 is the most severe financial crisis that has occurred since the Great Depression. Its causes and unfolding have highlighted a number of new concerns and issues for policy makers, practitioners as well as academics interested in financial and monetary issues. The crisis started in the subprime mortgage market but it quickly spread to asset backed securities products and money markets including even interbank markets. More recently, the crisis affected public debt and sovereign risk, especially in Europe.

The reasons behind the crisis are multiple. In August 2007 the conventional wisdom was that the crisis was due to bad incentives in the mortgage industry. However, the large global impact of the crisis suggests that the problems with subprime mortgages were a symptom rather than the cause. The main problem is that there was a bubble in property prices in the US, Spain, Ireland and elsewhere. This had been created by loose monetary policy, particularly by the US Federal Reserve, and global imbalances. The monetary policies of central banks were focused too much on consumer price inflation and ignored asset price inflation. The Asian crisis of 1997 and the policies of the IMF led to a desire among Asian governments to acquire reserves. Many other factors such as subprime mortgages, weak regulatory structures, and poor functioning of the financial system played a crucial role in amplifying the crisis.

The burst of the bubble had severe consequences both for the financial sector and the real sector. The fall in house prices led initially to a fall in the prices of securitized subprime mortgages, affecting financial markets worldwide. As a consequence, in August 2007 the interbank markets experienced considerable pressures and central banks were forced to inject massive liquidity. Conditions in collateralized markets also changed significantly. Haircuts, or discounts on the total value of assets, increased and low quality collateral became more difficult to borrow against. The Federal Reserve and other central banks introduced a numerous measures to improve the functioning of the money markets. In the fall of 2007, many financial institutions came under strain and many were rescued both in Europe and in the US starting with Bear Stearns in March 2008. Massive public interventions ranging from recapitalization to subsidies, public guarantees and mergers became necessary.

The crisis spread to the real economy after the failure of Lehman Brothers in September 2008. This forced markets to re-assess credit risk in the banking sector and financial industry. Reassessing risks previously overlooked, investors withdrew from the markets and liquidity dried up. In the following months economic activity in the US and many other countries declined significantly. One reason for this was that it became very difficult for both consumers and firms trying to make long run economic decisions because of the great uncertainty about future price levels, both in the short and the long run. Sales of consumer durables started stalling in many countries and world trade collapsed. Problems emerged again in the first part of 2010. The massive public intervention that took place over the course of 2008 to restore stability in the financial markets and to sustain consumption and growth is now having serious consequences for public deficits and the stability of the Eurozone.

It is of crucial importance to take appropriate measures to restore stability and implement a number of reforms to help prevent similar crises from happening in the future. These reforms should focus on preventing bubbles as well as on strengthening the functioning of the financial system and making it more resilient to crisis situations. Another priority, more specific to Europe, is to reform the stability pact, but more generally to find a new institutional framework that allows the sustainability of the single currency.

One of the main priorities should be to prevent asset price bubbles as they are indeed the main cause of...
financial crises over history. Frequent causes of asset price bubbles are loose monetary policy and excessive availability of credit. Central bank independence works well for combating inflation but not necessarily for financial stability. There is a need for some check and balance mechanism such as a Financial Stability Board to help control public sector risk taking. Another possibility is to impose a mandate of financial stability on the central banks. Excessive availability of credit also needs to be limited. In the run up to the current crisis the availability of credit came mostly from the large reserves that the Asian countries built after the Asian crisis. A possible solution is to use the Chinese Rmb as a reserve currency so that it becomes fully convertible.

“Reforms should focus on preventing bubbles as well as on strengthening the financial system and making it more resilient to crisis situations.”

The poor functioning of the financial system also contributed to the severe consequences of the recent crisis. One factor that played an important role in creating systemic risk and aggravating the crisis was the great reliance of many financial institutions on wholesale short term debt as a source of financing. This had worked well and constituted a cheaper source of financing in the last decades. However, when asset prices fell and volatility increased so dramatically during the recent crisis, the short term debt structure became problematic as it was no longer possible for financial institutions to roll over the short term debt. Countries such as the US, the UK and Ireland were mostly hit by this problem. Going forward it is important to understand how the funding structure of financial institutions interplays with the maturity and the market value of the assets to reduce roll over risk.

Another important factor concerns the interconnections between banks and their role in generating systemic risk. Credit derivatives have been welcomed and praised for a long time as a way to improve the degree of diversification of individual institutions. However, during the crisis it emerged that greater diversification also led to more overlaps of banks’ portfolios and thus less diversification from a system wide perspective. The need is now to create an oversight mechanism of banks’ exposures and interconnections to better understand their contribution to systemic risk and limit them, if needed.

Although the banking system is the most regulated sector in the economy, financial regulation did not help to prevent or mitigate the crisis. One reason for that is that the current regulatory framework seems to be backward looking. It was put in place to prevent the recurrence of past types of crisis, but it is unclear what market failures it is supposed to solve. In order to design effective banking regulation it is necessary to have a clear idea of what are the benefits and what are the costs. The benefit of regulation is that it can potentially stop crises if it is structured to solve market failures such as the inefficient provision of liquidity, the persistent mispricing of assets due to limits to arbitrage, contagion and panics. The cost of regulation is that it effectively prevents the financial system from doing its task of allocating resources, and this can in turn slow down growth and innovation.

Capital regulation seems the best suited regulatory tool for preventing contagion. Current discussions of countercyclical requirements as well as surcharges for systematically important banks seem most appropriate. But they have to be designed, enforced and controlled properly. Moreover, it should be explored further why and whether it is necessary that capital regulation be based on accounting book values rather than market values.

Finally, it is important to assess the importance of contagion versus moral hazard. One of the most important principles guiding policy during the current crisis has been that large institutions are ‘Too big to fail’ because the failure of one of them would lead to contagion. Thus, with the exception of Lehman Brothers, they have been provided with the capital needed to survive. Although there is some merit to the risk of contagion arising from a systemically important institution, this gives rise to a serious moral hazard problem. ‘Too big to fail’ does not mean ‘Too big to liquidate’. Financial institutions should definitely be prevented from failing in a chaotic way to prevent contagion. However, they should be liquidated in an orderly manner, even if this could take several years. That would allow the other institutions that didn't fail and that were well-run to expand and take over the failed institution’s business. Other related important issues include the resolution of large cross border financial institutions, accounting standards and competition in financial services.

(Author note: this work was based on joint work with Franklin Allen, University of Pennsylvania)
Three years after the eruption of the global crisis, the recovery is still uncertain, feeding concerns about the prospect of a ‘double dip’, i.e. a new recessionary phase eroding any progress made so far. What makes these concerns particularly serious is the fact that, at the time of the writing, fiscal and monetary authorities have almost no further room for maneuvering. Fiscal deficits have been eroding substantially since 2007. Interest rates are near zero, and central banks have engaged in massive unconventional programs of quantitative easing, and/or liquidity provision. A new drop in the level of demand and economic activity would obviously posit a daunting challenge for policymakers.

The following text lays out a few considerations on the monetary dimension of such a challenge, looking specifically at the transmission mechanism, the policy instruments, and the relation between monetary and fiscal policy.

The first consideration concerns the crisis of the interbank market. This market is a key component of the monetary system, providing the connection between monetary policy and the economy, i.e. shaping the mechanism through which policy decisions influence lending and borrowing by financial and non-financial firms as well as by households. The interbank market ceased to work normally and virtually ground to a halt in 2007, when banks lost confidence in each others’ solvency. This means that the trust on an important component of money (intuitively, liquid liabilities created by financial firms via their intermediation activities) evaporated. To date, there are some improvements, but the market is still far from operating normally.

It is worth remembering that, for about a year, between August 2007 and the summer of 2008, the crisis was actually perceived primarily as a crisis of financial intermediation—for many months, growth did not appear to be an issue in either advanced or emerging-market economies. It was immediately clear—over and over again—that a key objective for policymakers was to restore confidence, and thus normal working conditions, in the interbank market.

“The inter-bank market ceased to work normally and virtually ground to a halt in 2007, when banks lost confidence in each others’ solvency, and thus the trust on an important component of money (intuitively, liquid liabilities created by financial firms via their intermediation activities) evaporated.”
At the heart of the intermediation crisis was the diffuse portfolio investment in the so-called toxic assets (asset-backed securities whose opacity caused their market values to plunge to record lows in reaction to bad news in the housing markets), and the extremely high leverage in the shadow banking system (whereas unregulated institutions financed massive portfolios of illiquid assets with short term debt and a tiny equity stake). A few observers emphasized from the start of the crisis that a successful intervention policy should have gone straight to the heart of the problem, and remove the root cause of the loss of confidence, i.e. the bad assets, from the financial system. The (fiscal) costs of such intervention were highly uncertain at the beginning of the crisis, precisely because of the opacity of these assets. But the same observers pointed out that these costs could have been quite smaller relative to the final bill associated with the global melt-down in 2008.

The initial reaction to the crisis, however, was not that radical. Rather, central banks resorted to the traditional strategy of providing liquidity support and, when necessary, occasional, limited bailout funds. In the case of the US, this strategy was also complemented by interest rate cuts early on in the process, while the ECB kept interest rate and liquidity policy separated for some time (they actually raised them in June 2008, vis-à-vis rising commodity prices). Perhaps this course of action was motivated by the idea that banks suffered from a liquidity problem, rather than a solvency problem, that is, they faced difficulties only because their assets were not priced at their ‘fundamental values.’

Whether or not such a liquidity view of the crisis was correct (ex post, it is quite clear that it was not), a strategy of liquidity support and limited bailout could have been successful only if financial intermediaries had been able to sort out the toxic-asset problem by themselves. Specifically, given almost unlimited liquid means, banks should have ‘metabolized’ the bad assets in order to get back to business as usual. This did not happen.

In the summer of 2008, instead, the confidence crisis turned from bad to worse, causing what could be described as a ‘sudden stop’ in spending plans: facing high uncertainty in market conditions, firms (financial and non-financial) suspended investments plans and cancelled orders within a few weeks’ time; households started to raise their saving as a precautionary measure against possible economic disruption from the crisis. Arguably, policymakers played an important role in the deterioration of private expectations, as they failed to come up with a convincing new strategy after the limit of the traditional one (shaped by the liquidity view of the crisis) had become apparent.

The spread of the confidence crises of course made things much worse, as the solvency and solidity of banks suffered from deteriorating economic conditions. Since bank money could not be trusted, private agents moved their portfolios en masse towards public assets issued by governments, preferably with large fiscal shoulders and a solid currency. The trust in bank money, evaporated in 2007, is yet to be fully restored.

The second consideration is the sheer size of the recessionary shock in 2008. In some of the current estimates, the drop in demand was so deep that the appropriate interest rate to be set by the central bank should have been as low as a negative 5 percent! In other words, borrowing money should have been subsidized at the tune of 5 cents per dollar (or euro). Negative rates are not crazy, given the social value of supporting spending in a deep recession. But they are hardly feasible.

So, not only was the working structure of the monetary market jeopardized by the crisis. The recessionary shock was such that the conventional instrument of monetary policy—interest rates—could not be brought to the desired level.

The first and the second aspects are strictly linked, in that monetary authorities re-discovered unconventional forms of interventions and instruments, working via the level and composition of the central bank balance sheet. With the goal of stimulating economic activity, the central bank may in fact buy private assets, providing credit to the economy. These purchases may be financed by selling treasuries and government assets (in that case the stock of money does not change), or by issuing money (the essence of the so-called quantitative easing).

Note that, when the purchase of assets is financed by issuing new money, this adds to the liquid component of the financial portfolios held by banks. The argument goes that if the injection of new liquidity is large enough, at some point banks will try to get rid of the excess liquidity in their portfolio, and thus decide to rebalance it by investing in other activities—that is, providing credit to private agents.

It is perhaps too early to assess the success of such unconventional strategies. A key question about quantitative easing is whether the effects via portfolio reshuffling are strong enough to be noticeable at the macroeconomic level, even if private expectations about the future (currently rather bleak) remain stable. In this respect, many believe the opposite: quantitative easing can be successful mainly insofar as it is able to affect expectations about future economic prospects (making them less bleak).

This issue (expectations) brings us to the third and last aspect of the monetary crisis. By engaging in liquidity support and quantitative easing, central banks have
let their balance sheets grow to unprecedented levels and they have also made them much riskier than in normal times. This is because central banks directly or indirectly bought assets whose value is sensitive to macro-economic conditions (so that there is default risk), and bought long-term assets when long-term interest rates were very low, hence at very high prices (hence there is a risk of capital losses if rates rise). In 2010, along the timid path of recovery, many central banks actually enjoyed capital gains from their portfolios. But asset price volatility can easily reverse this early, lucky, outcome.

The third aspect of the monetary crisis concerns the management of the ‘return to normality’, the so-called ‘exit strategy’. Some fear that the balance sheet expansions could feed inflation, based on the following consideration: along the recovery private agents would no longer need to hoard safe monetary assets, and will therefore reduce their demand for money. Unable to reduce the money supply in line with demand, central banks would have to witness, impotently, an acceleration of price dynamics, as people simply spend their excess cash balances. In its mechanical form, this idea is simply wrong. There are good reasons to believe that central banks can retain control over monetary aggregates, even under exceptional circumstances. There is really no ground to fear monetary inflation.

A more sophisticated concern is rooted in the monetary prescription from some ‘policy models’ designed to deal with large recessions (as popularized for instance by the Nobel-prize winner, Paul Krugman). The idea is simple. If the central bank cannot reduce the interest rate below zero in nominal terms, it can nonetheless reduce it below zero in real terms, by feeding expectations of higher inflation in the future (which makes cash less valuable in terms of goods it can buy in the future). So, the central bank should bring the nominal interest rate to zero now, while simultaneously committing to keep it at zero (or a low level) for a prolonged period of time in the future, even if the economy starts to grow again. This would amount to a commitment to pursue an ‘unreasonable’ policy, of accommodating rather than fighting inflation when demand rises.

Now, if this strategy is well executed, at some point the economy will experience some contained and temporary increase in inflation to accompany the recovery; this future temporary inflation is at the same time the price and the instrument for shortening the recession now. However, some people fear that a controlled temporary bout of inflation is de facto an oxymoron. Any rise in price dynamics will have destabilizing effects on expectations of inflation. As is usually stated, ‘Once the inflation genie is let out of the bottle, it takes several years (i.e. is very costly) to put it back.’

Some central banks (notably the FED) nonetheless have indeed stated their willingness to keep rates low for a prolonged period of time. It will be quite interesting to see how their policy evolves, whether the economy shows some sign of recovery, or rather the presence of some inflation before solid sign of recovery.

The key policy issue however regards fiscal policy. The crisis has exposed the inner connection between monetary and fiscal stance. On the one hand, governments may fail to pursue a reasonable and credible plan of fiscal consolidation, with the result of destabilizing private expectations. On the other hand, they may design plans that are too harsh under the current economic conditions, creating a too powerful recessionary impulse, which would also have destabilizing effects on private expectations. Either type of error would narrow the scope for monetary policy. Note that the two errors are not alternatives to each other: it may well be possible that a government implements heavy short-run cuts to spending, and raises taxes, which are not well-designed and therefore not sustainable. If fiscal policy fails to stabilize expectations, or even fed uncertainty about the future, the path to recovery would become really steep.

“If fiscal policy fails to stabilize expectations, or even fed uncertainty about the future, the path to recovery would become really steep.”

A final note is in order. It may well be possible that the swift fiscal and monetary reaction to the crisis in 2008 has avoided another ‘great depression’, in particular by fighting the risk of a deflationary spiral. Such a spiral would work as follows: low demand (low expenditure) causes prices and inflation to fall; in turn a fall in prices and inflation raises the real value of private and public debt, and interest rates in real terms, both translating into lower demand (expenditure) by firms and households. But, despite no sign of deflation, the level of economic activity is still well below what can be considered normal: in economic jargon, there is a large ‘output gap’.

André Meier, a brilliant EUI Ph.D., now at the IMF, has recently written an important piece looking at historical episodes of countries with persistently large output gaps (or PLOG). History teaches us that deflation seems to be relatively unlikely: even when economic activity falls drastically below potential, inflation typically bottoms out a low positive number. This perhaps...
reflects the fact that cutting firms and workers tends to avoid cutting wages and prices in nominal terms, i.e., there are downward nominal rigidities.

But persistently large output gaps can be an excruciating experience, with long stretches of high unemployment until productivity gains finally bring real unit labor costs sufficiently down again. How to fight the prospect of a persistent painful state of unemployment and underproduction is what defines the true challenge to policymakers in the years to come.

Giancarlo Corsetti was Pierre Werner Chair Professor and Joint Chair - RSCAS and ECO, until September 2010.

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Fragile Countries and the Global Economic Crisis

European Report on Development Team Leader - RSCAS and University of Florence | Giorgia Giovannetti

The global economic and financial crisis induced the worst global downturn since the 1930s, hitting with varying intensity and persistence developed, emerging and developing countries. Originating in the financial sectors of developed countries, it quickly spread to the real economy and to different geographical areas through the network of linkages between countries, the fragmentation of production and the fall in availability of trade finance.

Developed countries suffered most, with major falls in output on average 3.3%. Emerging countries (Brazil, China and India) slowed down but did not enter recession, while developing (and fragile) countries saw their rate of growth halved. The real victim of the global economic crisis was international trade, with an unprecedented fall of around 11% in a single year. Economic recovery in emerging and developing countries, however, was already back on the upswing by mid-2009 (2.5% in 2009 and 6.8% in 2010 according to the latest IMF estimates), with Asia and China in particular taking the lead with 2009 growth rates of 6.9% and 9.1%, respectively. China’s improved prospects for growth, together with its rapidly increasing integration with African fragile countries, is likely to be the main external positive factor helping these countries out of the crisis.

A common characteristic of fragile countries is the weakness of their governance institutions, which undermines their ability to provide public services to the community. Moreover, many of these countries are (still) in a situation of armed conflict, or have recently emerged from conflicts, and the crisis increases the probability of new outbreaks of violence. Most fragile countries are net food importers and in the past few years have had to cope with increasing prices, which were already high from the recent food crisis. Some fragile countries are oil (raw materials) importers and thus were vulnerable to high and highly volatile prices (which increases uncertainty and discourages trade and investments). Most fragile countries rely on the export of a small basket of products, directed to a limited number of markets, especially if intra Africa flows are excluded. Fragile countries, moreover, heavily depend on migrants’ remittances (up to 8.4% of GDP for 2007) and aid flows (up to 4.3% of GDP for 2007), and have scant domestic resources, originating largely from export taxes (which therefore fall with declining exports). Foreign direct investment inflows are concentrated in a few sectors (mining, oil, and,
Due to their limited financial integration into the world economy, the global economic crisis was transmitted to fragile countries mostly through real channels, such as declines in exports, a postponement or fall in foreign direct investment, remittances and, in some (few) cases, a contraction of tourism-related inflows.

As far as poverty is concerned, recent estimates suggest that there could be around 230,000 new poor in 2009 in Uganda (0.8% of population), 38,800 in Zambia, and more than 50,000 newly poor individuals for Kenya and Benin. Clearly, other MDGs are also at risk, as estimates predict an increase in infant mortality (400,000 additional deaths, according to the African Development Bank), and a regression in educational attainment. These set-backs could prove particularly damaging in the long run, as investment in human capital is the only way to insure that fragile countries will be fit enough to recover from the crisis and provide themselves with opportunities.

The increase in unemployment is also of concern, not least because there seems to be a positive relationship between young male unemployment and illegal activities (drug traffic, terrorism, etc.). The International Labour Office maintains that there could be as many as 3 million newly-unemployed, with up to an additional 28 million vulnerable jobs because of the crisis. Individual country numbers are equally frightening: newly-unemployed workers in Zambia’s mining sector count around 8100, there are more than 1000 newly-unemployed in Kenya’s horticultural industry, and the Democratic Republic of Congo has seen a huge number of job losses in the mining sector.

These outcomes in Sub-Saharan African fragile countries add to the human and social costs of the crises. While Sub-Saharan African countries did not suffer more from the financial shock than other countries in the region, the social consequences have been severe, due to these countries’ limited capacity to implement adequate policy responses to the shocks and to their lack of social security systems. This is why protecting fragile countries from the fallout of the crisis should rank high among donor countries’ priorities. But while Sub-Saharan Africa’s dire socioeconomic situation calls for renewed commitments, the EU’s own problems, culminating with the 2010 debt crisis, could shift attention and funds away from development aid. However, the costs of EU disengagement would be very high for both donors and recipients. For the EU, geographically close to Africa and to its problems of explosive demographics, the result may be more illegal trafficking, smuggling, piracy and environmental threats. The impact of neglect on fragile countries is much more direct: persisting development gaps and the risk of another ‘lost decade’. It is important for both sides that the EU lives up to its commitment to scale-up aid to Sub-Saharan Africa—a goal endorsed in the Gleneagles summit in 2005. However, given the new budgetary situations of most EU countries, the lingering on of the economic crisis, and only an unstable recovery at best (world trade is expected to grow at 11% in real terms, but with large area disparities), it is particularly...
important for the EU to reassess its whole array of policies towards fragile countries so as to avoid unintended effects and to increase aid efficiency.

“In summary, several external factors are at play in the aftermath of the global economic crisis in African fragile countries. The only positive one is the recovery of international trade and, in particular, a new phase of growth in China with a direct impact on Africa (investments, imports, etc.), which cannot, however, be taken for granted. The other factors tend to have negative impacts: the greater reluctance of financial markets to take risks is likely to make it more difficult for risky countries to finance their investments; the slow recovery in many developed countries is likely to reduce migrant remittances for years to come and increase return migration; and, last but not least, the debt burdens of many developed countries—in particular, EU countries—may result in a severe reduction of official aid. If the negative factors predominate, the internal situations of fragile countries could deteriorate even further. Of course, not even the growth of international trade would guarantee that the internal socio-political problems of fragile countries will be solved (they do not seem to be very high on China’s African agenda). The only certainty is that unless the EU maintains and possibly reinforces its commitments to developing countries, the 2008-2010 crisis will mark the twilight of the EU’s role in international development aid. ”

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A Region No More?
East-Central Europe in Crisis

Fernand Braudel Fellow - SPS (2008) and Associate Professor of Political Science, Central European University | Dorothee Bohle

Making sense of the impact of the global financial crisis on the East European newcomers to the European Union is a daunting task. The region has remained elusive in three respects. First, there is no consensus about how badly it has been hit. Interpretations have varied widely over time. Second, it seems to make less and less sense to speak of East-Central Europe as one single region that shares similar problems and experiences. Countries' exposures to the crisis and their capacities to cope with its consequences have differed remarkably. Third, the economic crisis has combined with a political crisis in some cases and not in others, a development which defies simple notions of political consequences of economic woes.

To date, three remarkably different interpretations of the global crisis' impact on East Central Europe have been offered. Initially, optimism prevailed. Scholars and observers assumed that the region would by and large be immune to the global meltdown. On the one hand, the East-Central European banking sectors were relatively underdeveloped and conservative, and thus refrained from risky investments in toxic assets. Still in 2007, for instance, a World Bank report came to the conclusion that despite some imbalances observed in the region, the financial systems seemed robust enough to withstand even major shocks. On the other hand, there was also much confidence in the region on the grounds that in the course of its repeated experience with crises during the 1990s, and due to the requirements of EU-entry, it had developed regulations and institutions that would prove resistant even to large external shocks.

As well known, things turned out otherwise. It is true that the crisis has hit East-Central Europe with a delay. But once it struck, its impact was tough. Many countries have been going through extraordinarily steep recessions. Three countries—Hungary, Latvia, and Romania—had even to turn to the International Monetary Fund in order to defend their currencies and keep their economies afloat. As if to make up for their earlier optimism, observers reacted by outbidding each other in gloomy predictions over the regions' fate. Some went as far as arguing that in light of the crisis, the whole 20 years of transition seems a failure. Ironically, some of the EU requirements, and the specific characteristics of the region's banking sector, previously considered as bulwarks against the crisis, were now identified as its main problem. The combined effects of capital liberalization, financial systems dominated by foreign companies, pegged exchange rate regimes and attempted compliance with the eurozone entry criteria have practically disabled governments to protect their economies against the major credit boom prior to the crisis. They also deprived them of policy instruments to respond effectively once the crisis broke out. Foreign bank ownership in particular had turned into a major risk factor, as their huge loan books in the East were not necessarily covered by their home countries' bailout plans.

In the meantime, the pendulum has swung back to a cautious optimism. This is for two reasons: on the one hand, a full fledged banking crisis in East-Central Europe could be avoided. On the other hand, the difficulties the East faces pale in comparison to their Southern European counterparts, where the specter of sovereign default looms large. If anything, East-Central Europe's public sector deficits look small in comparison, while its sustained attempts at implementing fiscal austerity are now being advertised as role models for the southern 'PIGS' region to follow.
To make matters more complicated, the impact of the crisis has not only varied over time, but also across countries. As put by The Economist, “the economic downturn has made it harder to speak sensibly of a region called “eastern Europe”.” While virtually all countries have experienced rapid credit expansion, and accumulated major macroeconomic imbalances prior to the crisis, there are important differences in how much they gave in to the processes of financialization, that is growth based on credit. Two major clusters can be distinguished: the Central European countries Slovakia, Poland, the Czech Republic and Slovenia relied to a lesser degree on credit growth, and were also able to create a competitive export basis which covered an important share of their import needs. They were therefore less affected by the credit crunch. However, as their international integration has primarily been based on export-oriented industrialization, the breakdown of their major export markets has left their economies in limbo.

In contrast, especially in the Baltic States and Bulgaria, but also Romania, the growth of the last decade has relied almost entirely on credit-financed domestic consumption, fueled by high investment in the construction and real estate sectors. High credit-financed growth led to unprecedented levels of financial account deficits and external debt. The global credit crunch has impacted hard on these countries, leading to extraordinarily steep recessions. These states also face particularly challenging policy choices. With the drying up of international finance their whole developmental model has come under threat. In a global environment in which creditors have become much more cautious, the structural dependency on capital and good imports is not sustainable. At the same time, it is an open question how countries that all but lost their industrial capacities can regain export competitiveness.

Finally, governments in the region have very different capacities to cope with the consequences of the crisis in a way that would be tolerated by their populations. Interestingly, these capacities do not coincide with the economic problems countries are facing, and the costs societies have to bear. Take the examples of Estonia and Latvia. Both experienced especially hard landings after their housing bubbles burst, with GDP contracting in 2009 by 15 and 19 percent respectively. Moreover, both countries kept their currencies pegged to the euro, and opted for a very sharp domestic adjustment by implementing some of the toughest austerity packages in Europe. But only Estonia can claim to have successfully coped with the consequences of the crisis. The Estonian government could rely on an unusual degree of popular acceptance of deep wage cuts, massive public sector layoffs and soaring unemployment.

“Governments in the region have very different capacities to cope with the consequences of the crisis in a way that would be tolerated by their populations.”

Unparalleled in Europe, there has been no single protest event in Estonia following the austerity package. Estonians’ trust in government stayed high throughout the crisis. Unchallenged by popular protest, and at the price of a very sharp adjustment, the Estonian government brought its public finances back on track within one single year, this way even qualifying for adopting the Euro.

In Latvia, in contrast, tensions and dissatisfaction with the political elite has been accumulating for a long time. Trust in government has been abysmally low, and the Latvian population had repeatedly taken to the street even before the crisis broke out to protest against corruption and unresponsive government. Protests intensified when the austerity plans were unveiled. The ‘penguin revolution’ brought about the fall of a first government, and a second one fell a year later. Reform priorities have been challenged not only by public discontent but also the constitutional court. Latvia is not the only country in which accumulated deep political tensions have impaired the capacity of governments to simultaneously meet the requirements of crisis management and popular demands for protection against social hardship. In some cases, therefore, the specter of a democratic breakdown, so often invoked at the beginning of the transformation, is coming to the fore again.

Much of this suggests that East-Central Europe has indeed ceased to exist as a region which shares a similar past, similar problems and prospects. It should not be overlooked, however, that this judgment is being made at a time where relative optimism prevails, and only a few Eastern countries are singled out as basket cases. Whether or not the new members of the EU will indeed cease to be perceived as one region crucially depends on whether the hotspot of the crisis once more moves east. In this case, observers—as well as investors—are likely to stress once again similarities over differences.

1 ‘Eastern Europe, Wrongly Labeled.’ The Economist. 9 January 2010, pp. 27-8: p. 27.
The Political Crisis
Professor of Comparative Politics and Government - SPS | Peter Mair

It has now become conventional wisdom to say that politics disappoints. Political leaders disappoint, parties disappoint, governments disappoint, and the end result of any period in office is always less than was expected or hoped for. Governing a country in a period of economic crisis doesn't make things better. At best, it simply encourages those in office to be upfront about the potential disappointment in advance.

The contemporary politics of hard times means that every government in Europe—with perhaps the exception of Luxembourg—is now caught between a rock and a hard place. The rock is constituted by the pressures for deficit reduction coming from the EU and the ECB, as well as from the IMF and other international agencies. The hard place is made up by the demands of stressed-out citizens, many of whom have spent the last ten years believing that the good times were here forever, and most of whom are now unwilling to face the cuts that those in supranational and suprational authority are demanding. Greece is the most evident example, but where Greece goes—in political terms if not always in economic terms—other countries, including Ireland, Hungary, Spain, Portugal, France, the UK and even Germany, are already beginning to follow.

In some ways, this is nothing new. Democratic governments are used to being caught between rocks and hard places, and are used to having to make decisions which satisfy one set of principals at the cost of another. Parties make promises at election time and voters mandate successful parties to run government on their behalf, but once in office these parties have to come to terms with lots of other mandates they have also acquired. The mandates of international treaties and agreements that their predecessors have entered into, and that the new government is also obliged to respect. Mandates given them by the European Commission, or the European Parliament, or the European Court of Justice, or whatever, and which they are legally bound to implement. Mandates given them by International Courts and financial institutions, by Human Rights Agreements, and so on. These also have to be respected, and it is sometimes the case that the mandates given them by ordinary citizens in the course of a highly-charged election campaign end up far down the list of priorities.

“Democratic governments are used to being caught between rocks and hard places, and are used to having to make decisions which satisfy one set of principals at the cost of another.”

Three things are new about the present situation, however, at least in terms of scale. First, the number and range of these other mandates have grown enormously in recent years, especially in Europe. Since Maastricht, and since the denationalization of so much of policy making, the constraints within which governments are obliged to act have become much more severe. In the past, John Ruggie spoke of a system of embedded liberalism, referring to the management of capitalist economies within relatively closed national boundaries, in the process of which governments enjoyed substantial discretion in terms of policy-making and the building and maintenance of welfare states. These days are gone, and neither liberalism nor much else is still embedded within national boundaries. The result is a remarkably severe decline in the autonomy that governments enjoy.

Second, governments have also lost autonomy as a result of the sheer process of attrition that is involved in the slow and steady build up of commitments within
already established programmes. Most of what governments now do, in other words, simply involves managing a situation and a system that they have inherited rather than created. In a recent discussion paper from the Max Planck Institute in Köln, Wolfgang Streeck and Daniel Mertens have tried to measure the weight of such inheritances in the German case through an index of ‘fiscal democracy’. Their conclusions are very sobering. The degree of fiscal democracy, which effectively measures the degree of flexibility enjoyed by governments in allocating their public spending—as opposed to those mandatory expenditures which more or less can’t be changed—has steeply declined in the past three decades, and is now under even more severe pressure as a result of the global financial crisis. ‘In effect’, they conclude, ‘the crisis seems about to eliminate almost completely any space for fiscal discretion in the foreseeable future unless governments are willing, and able economically and legally, to take up new additional debt.’

But of course, as we know, governments can’t take up much new debt, since they are also being mandated to reduce the levels they already have. This is like being between two rocks—one being prior domestic constraints, one being current external constraints—and a hard place. The hard place is the electorate.

When governments were squeezed between rocks and hard places in the past (although that was usually not so severely as they are being squeezed today), and when they couldn’t meet their electoral commitments because of ‘events’, as Harold Macmillan once put it, or because of other circumstances, they often managed to get through by appealing to political loyalties and by convincing their supporters that they were doing the right thing for the right reasons, even if this did mean some degree of electoral betrayal. In other words, governments could try to bridge the gap between what they had promised at election time and what they found themselves doing when in office by persuading their loyal supporters that they were doing the best they could in the circumstances. As ‘a responsible government’ they should be forgiven. As the British Conservative Lord Hailsham put it when speaking on the Budget in 1962, ‘When a Government has to choose between a run on the pound and its own popularity, it has only one choice it can make…It must face unpopularity.’

Today, however, there are no loyal supporters who can be persuaded to forgive their governments or to tolerate their best efforts in the given circumstances. This is the third change. Instead of loyal supporters, there are volatile voters and critical as well as cynical citizens, who trust their parties less than any other democratic institution and who don’t believe their leaders. This is why the electorate has now become such a hard place for politicians.

“So what can governments do to avoid the severe fall-out that is likely to follow? The answer is probably very little.”

The current crisis exacerbates these problems to an unprecedented degree. It also brings the problems home in a very public and explicit fashion, which makes it also much more difficult for governments to fudge and feint. In effect, the rocks have become more immovable because of the current crisis, and the hard place has become more intractable. None of this is helped by the pressure from ‘the markets’, nor by the self-serv ing profiteering of its wealthy engineers.

So what can governments do to avoid the severe fall-out that is likely to follow? The answer is probably very little. At most, and as they have usually done with the less dramatic shocks that have hit in the past, they might try to attempt to cushion the blow. One way is to pass the buck up to the European Union and the European Central Bank and enter a not guilty plea with the voters (Greece). Another way is to forge alliances with the main opposition parties and agree emergency measures through what are effectively depoliticized grand coalitions (Portugal). This would at least spread the blame across the mainstream parties as a whole. A third is to soften the current costs by agreeing to build up new debts that future generations might have to pay (Ireland), or to allow greater inflation, so reducing the real costs of what is currently being paid. All of this might avoid the worst of the electoral fall-out, even though governments undertaking these strategies will always lay themselves open to the outbidding of their populist fringes. In the end, however, it is probably likely that no government will find a good way out of the present crisis, and this in itself will place huge strains on the legitimacy and capacity of the national systems. Politics will almost inevitably disappoint. Let’s hope that democracy doesn’t disappoint as well.
Administrative Law In Crisis: New Legitimacies

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Like many other scientific fields today, administrative law is in crisis. Yet the word ‘crisis’ reappears so frequently in this field of law that it cannot be take to imply a new state of affairs, in particular if we opt for its etymological meaning of ‘change’ or ‘transformation’. Indeed, the very birth of administrative law as a specific device to frame public action in the modern sense is generally conceived of as a response to a (positive) crisis provoked by liberal revolutions at the end of the 18th century. The original version of administrative law, based on mere authoritative principles, led throughout the 19th century to more refined theories consistent with the increasing role demanded of the State as provider of services and facilitator of infrastructure. The 20th century witnessed various attempts of governments both to escape from the mandates of (administrative) law and, paradoxically, to make more frequent use of it to attain ever more ambitious constitutional goals and values. Therefore, the word ‘crisis’ has surfaced and resurfaced repeatedly to refer to the problems encountered by administrative law(yers) in facing the growing complexity of society, economics and politics.

This context helps to understand the emergence of current debates concerning the transformation and the reform of administrative law. Law is a tool to organise societies and, as the case may be, to resolve conflicts that arise in their core. Hence, the transformation of administrative law reflects the transformation of society. It should be stressed that this is not a debate that is tied to a specific State but something that has slowly appeared in various jurisdictions, sometimes literally echoing similar debates in other places.

One of the mantras that can be found in these discussions is the purported disappearance of a legitimacy paradigm based on legality. That is, the authoritative 19th century-model State should not be taken as the starting point to develop public policies and legal instruments. That model—valid broadly in the past for countries such as France, Spain, Germany, Italy or the United Kingdom—was based on the idea that public bodies should only act in accordance with law, ‘only’ meaning that they could not do but what the law precisely told them to do. There was no space for discretion, no space for balancing various policy choices, no space for initiative. This is clearly a simplification of a more sophisticated debate, and naturally there are some differences to be found in the details.

The question now is why, since the 1980s and more acutely in recent years, there is a general conviction that the legitimacy paradigm based on legality is dead, or at least why it has suffered a decline. My sense is that this can be explained by various factors, one of them linked to a phenomenon that I would describe as ‘legal diplomacy’. Legal diplomacy may be understood as the process by which specific legal orders exert an influence on others, thus necessarily also influencing
political and social structures. (Of course, it could also be argued that the opposite is equally correct: the legal influence is due to the fact that a more profound influence is also making itself felt.)

In the first period of its history—i.e., throughout the 19th century—administrative law in many European countries followed the French model. In accordance with the evolution of the organisation and regulation of public bodies after the Revolution, some countries, such as Spain and Italy, started modeling their own laws to mirror those of their neighbour. It is fair to say here that there is a revision currently underway with respect to the accuracy of previous commentators regarding the revolutionary events and subsequent legal developments. More precisely, some argue that the very concept of a revolution is exaggerated, as many legal instruments that were described as being ‘new’ already existed in previous centuries, or at least they had clear precedents. However, many still insist on the revolutionary language adopted at the end of the 18th century and the legal consequences thereof, starting with the charters of rights that initiated a new model of relations between citizens and public bodies, not least because of the creation of the notion of ‘citizen’. This has produced consequences for the legitimacy paradigm based on legality, contributing to its consolidation. Further, since all citizens were equal before the law (even if, at that time, male citizens were far more equal than female citizens), there was an equality component in the making of all public action accountable to the law.

The second period in the evolution of administrative law—defined broadly as the period from the early 20th century until the 1980s—can be described as one characterised by the influence of certain legal orders, such as the German legal order, where constitutions included rights definitions and mechanisms to enforce them. Spain and Portugal are examples of this type of influence; each country’s constitution contains long rights lists and specific legal instruments to make them real. It should also be noted that these constitutional texts include different types of norms as well as a wide array of policy objectives. Public powers are therefore not only subject to limits but also legally encouraged to pursue those objectives. Indeed, the way in which some of those constitutional mandates are to be implemented is one of the most fecund legal debates of recent decades. One of the consequences of this phenomenon is the broadening of the classical paradigm to create space for new sources of legitimacy. During this long period, the classical legality paradigm had been extended so as to embrace not only an ‘objective’ respect of law by public bodies, but also a ‘subjective’ one. This may be elaborated as follows. Objective models of controlling public bodies, i.e., those typical of the 19th century, focused on a process leading to the declaration of administrative acts as illegal and therefore void if the legal criteria for such a declaration were fulfilled. Emphasis was laid exclusively on the satisfaction of those criteria; the subjective rights of individuals were not a matter for judicial pronouncements. Throughout the 20th century, as the second phase of administrative law was consolidating itself, subjective control models of public bodies started to develop. This implied that citizens’ rights, in the framework of their interaction with public bodies, slowly gained protection through administrative and judicial procedures. To name but one example, one could think of planning law. If a local authority unlawfully designed the future configuration of a city, the planning instrument (usually a by-law or regulation) could be declared void. If the declaration were limited to this, it would be a model of objective control. But if individuals can successfully claim their particular rights to be granted satisfaction (usually a pecuniary one), this would be indicative of the subjective control model.

As suggested above, the second phase of the evolution of administrative law arguably lasted until the 1980s. What happened then? In this general period (give or take a few years), there was a seminal proliferation of scholarly works in various countries, such as the United States, Germany and Italy, among others, which dealt with the increasing complexity of law, including rights regulation. This scholarship described an evolution from an objective legality paradigm to a subjective one, but it included further elements. As mentioned earlier, the complexity of law as a reflection of the complexity of society is one of the key starting points to understand this process.

In this framework of complexity, legal operators such as public bodies and judges deal today with a wide array of various, and sometimes contradictory, legal norms. These still set limits and thus the classical legality paradigm remains valid, from both an objective as well as a subjective perspective. But they also pursue other goals: they are intended to guide public action and to prioritise, in certain cases, different public policies. This is a challenge, as ‘classical law’ might not give responses to the questions that are posed, and new legal mechanisms must be developed. Public action is now legitimised not only according to its respect of legal boundaries but also on the basis of whether it has accomplished the legally established goals. Constitutions acquire new roles. They are also

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action programmes: every legal operator feels the need to bring constitutional norms into the debate, and this implies the adoption of constitutional choices. Even if this could be regarded as a positive outcome, as the Constitution could therefore be conceived as a living text in everyday public choices, the result of such choices can still be a heterogeneous application contrary to a common understanding of constitutional values. Indeed, many would argue that this type of choice is only to be made by democratically elected representatives, i.e. the legislators. Thus, neither public administrations nor judges are to perform this operation at their own will and following their own criteria. On this view, the actions of these operators should be governed by prudence and respect for the principle of the separation of powers.

“The transformation, the crisis, is by no means complete, as the history of administrative law is one of a never-ending crisis.”

The transformation of administrative law implies a transformation of powers. New sources of legitimacy (in particular, ‘output legitimacy’) focus on the result of public action from the perspective of goals set from a public policy viewpoint, whereas classical notions of legitimacy (‘input legitimacy’) relate to the very raison d’être of laws regulating public bodies, which is to identify the limits to which they are subject. In the classical model of input legitimacy, the main role was played by the legislator. Yet new output-based legitimacies stress the importance of the executive branch, as executives must fulfil the constitutional and legal mandates and preserve, through their action, the values embedded therein. Consequently, more emphasis is put on elements that help to better attain those objectives or to minimise the negative impact that this might have on democracy, since executives—broadly speaking—do not act on the basis of the democratic mandate typical of legislators. In recent regulations promulgated within the administrative law sphere there is an insistence on a variety of themes: the duty to give reasons; participatory formulas whereby all interests must be ‘represented’ in administrative procedures; the achievement of a certain degree of consensus in administrative decisions; high performance standards and efficacy; and the development of ‘good value public administration’.

Administrative law has indeed been transformed, as public administrations have changed. This might be the result of ‘legal diplomatic’ forces, and it is indeed a sign of a more profound change, related to a transformation of powers. Yet the transformation, the crisis, is by no means complete, as the history of administrative law is one of a never-ending crisis.

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The ongoing world economic crisis highlights the enormous economic differences both within Europe and between European nations and the United States. Europe is not a single political economy but the degree to which Europe remains very diverse set of quite different political economies remains a surprise to many. Whether we look at the difference in levels of economic development, the size and structure of national budgets and deficits, or even the range of different social-economic models found within Europe, it is their diversity that stands out.

First, just consider the large difference in economic development and wealth within the American states and within the EU. For example, the average household income in Mississippi is $37,000 and over $70,000 per year in New Jersey—a spread of almost 2 to 1. The differences with the EU are far greater. For example, the average per capita GDP in tiny Luxembourg was nearly $100,000 per year, but less than $8,000 per year in Romania.

If one looks at taxing, spending and borrowing, we do not see a European model, but many different systems. While some countries tax their citizens very heavily and spend quite generously on social programs, others have substantially lower taxes and lower levels of public spending. In some ways, the most interesting countries in this regard are the Social Democratic welfare states of Northern Europe. Despite the widespread predictions that heavy taxes and large redistributive welfare states should be bad for national economic performance, the Scandinavian countries of Northern Europe actually performed remarkably well in the past several years. The key reasons for this is that these countries have invested heavily in their citizens, improving educational systems, social infrastructure, and gender equality. The result has been that these northern countries have managed to build high trust societies in which citizens feel engaged, confident about the future, and fairly treated. The welfare state, contrary to many people’s expectations, has strongly contributed to the economic and social success in this part of the world. Today these countries have very high levels of investment and productivity, admirable levels of gender and economic equality and even relatively positive demographic outlooks. All this while they have managed to hold their budgets in line.

The same cannot be said of the countries on Europe’s southern frontier. In the Mediterranean countries, the so called ‘welfare state’ should more accurately be called a ‘pension state.’ The reality in these countries is that young people (and immigrants) are increasingly shut out of the labor market and/or are forced to pay remarkably high taxes and social fees, while their parents and grandparents enjoy remarkably generous social benefits and early pensions. A conspicuous coalition has emerged in these countries between the aging citizens, the entrenched unions and the political elite. These countries have not only racked up the highest levels of public debt, but also have the lowest levels of trust and confidence in their public authorities. The obvious consequence is that no one trusts the state, few people are willing to take the fiscal burden of having children and these societies become older and more dependent on an underclass of immigrants (both legal and illegal) who have virtually no chance of ever being able to take advantage of the benefits their hard labor is providing those they serve. The economic and social future for these countries appears grim indeed.

The pictures in the middle and eastern parts of Europe are more complex, and quite frankly, more difficult to parse out. On the one hand, the countries in the eastern edge of the European Union have undergone such enormous changes and challenges in the past two decades that it is difficult for anyone outside to understand what direction they headed. At one level, we can see that economic growth in these countries...
is generally considerably stronger than in western European countries. But, of course, there is a considerable degree of ‘catch-up’ in this fact. It is also the case that precisely because incomes and wages are so low in these countries, that much low-tech investment has gone here in recent years. Moreover, while some of these countries have taken a strongly neo-liberal turn, slashing public spending as well as taxes, others have leaned more towards a the more social-European model. It is certainly too early to predict winners and losers at this point, but it does appear that those that have invested more in their societies are weathering the economic storm better than those who adopted the more radical pro-market policies originally pressed on them by the ‘Washington consensus.’

In the middle is what former US defense secretary Donald Rumsfeld liked to refer to as ‘Old Europe.’ Even here, we see remarkable diversity. For example, the hugely powerful export machine known as Germany, has benefited massively from its ability to sell more than it buys from its European neighbors. Early in the economic crisis it appeared that Germany would continue to be the ‘Powerhouse of Europe.’ Today, however, as other countries are being forced towards greater fiscal discipline, German manufactures and German banks may be hard pressed to find new customers. The integration of European economies was good for the German economy in the good times, it proves more challenging when times are hard. Moreover, despite their economic power, the Germans have not built the kind of productive social welfare state found to the north and instead relies far too heavily on a social and economic model designed for a 20th century world. France, similarly, seems caught in the tired battles between the ‘insiders’ who are already advantaged by the largess of a generous state and ‘outsiders’ who do an increasingly large share of the nation’s work. As in Germany, there are advocates of a newer economic model favoring social investment in France, but there is little evidence that they can force those who currently advantaged with long vacations and early retirement in favor of those who have not been able to buy into the system.

Finally, the English speaking countries on Europe’s western frontier have pursued yet another political economic model. After a decade of deregulation, tax cutting and impressive economic growth, Ireland and Britain are now mired in economic disarray and caught in what is known as a fiscal trap. With public debt at 57% and 68% respectively, few economists truthfully expect these countries to be able to grow their way out of budget deficit, without raising taxes. But increasing taxes at this point seems likely to snuff out economic growth even before it emerges. Meanwhile servicing that debt eats up an increasing share of tax revenue.

The fiscal health of European nations is also enormously diverse: Norway is running an annual budget surplus of 9.9 percent of GDP and has a total budget surplus (that is the opposite of public debt) equaling 143 percent of this oil rich country's GDP. Denmark and Sweden, while doing somewhat less well than their wealthy neighbor, have managed to keep their total government debt to only -1.6% and -13.1% of GDP respectively. This contrasts rather sharply with Greece, which has an accumulated debt of 94% of GDP and deficit of 9.4%, and Italy with a total debt of 100.8% GDP.

The United States sits in a very different position from European nations, however, because America is by far the largest economic and military power in the world. Though the USA has a budget deficit of 10.4% of GDP and total accumulated debt of 65.2% in 2010 almost no one questions this country's fiscal stability. This is not only because of the military strength and cultural hegemony of the United States, but also because of the enormous physical and intellectual resources this country has benefited from over the years.

Of course, America and its model of casino capitalism is at the center of the current world economic crisis which grew out of the massive tax cuts, the roll back in the state's regulatory power and the casino capitalism that ensued. The result at first was the massive expansion of consumption by American consumers financed by a willingness take on unheard of debt. The result was not only an economic bubble, but also the rise of enormous inequality and steep declines in citizen trust in their political institutions. In many ways the ‘Tea Party’ is a direct consequence of America’s economic model.

Ironically, most economist now believe that, in the short run at least, Americans must continue consuming radically more than they produce to bring back the world economy. (This will be as important for Germany as for China.) It should not surprise us then to see that this is the economic model currently being pursued by the Obama administration. While there may well be in the US long term interest to increase taxes, redistribute wealth and rebuild a more egalitarian society, given the depth of distrust of government found in America today, it seems most unlikely that this will be the route chosen. Instead, expect to see the US to continue its pattern of low taxes, high borrowing and heavy consumption. Americans are addicted to their model. Oddly, so is the rest of the world.
On 17 September 2008—two days after the implosion of Lehman Brothers—the Library held its annual introductory presentations in the refettorio at the Badia Fiesolana. One of the resources demonstrated that day was Thomas Financial’s Datastream. The image on the screen before the assembled researchers was dramatic: the stock graph for Lehman resembled a cliff face. The global financial system was close to meltdown.

This was the second time a dramatic financial episode coincided with the new academic year. On 19 September 2007, we began our presentation with a photo from the front page of that morning’s Financial Times: depositors queuing outside a branch of Northern Rock. It was the first run on a UK bank in 150 years. The Datastream graph showed the share price hovering just above zero. When Lehman collapsed the following September, we were beginning to wonder if there was some correlation between our introductory presentations and the stability of the global financial system.

In September 2010, the EUI Library issued the 10th edition of its Bibliography of the Global Financial & Economic Crisis (see below link). 375 books relating to the Global Financial and Economic Crisis are now listed. The range of works—from economics to policy memoirs; political science to journalism—indicates that there is strong demand for narrative explanations of these complex, fast-moving socio-economic events. The Bibliography also shows that the scholarly monograph is very much alive in economics—a discipline in which journals and working papers dominate theoretical enquiry.

The origins of the crisis are varied and complex. Our Bibliography is not arranged alphabetically, but as a kind of contemporary chronicle.

Many writers, such as Scott Patterson, highlight how new financial instruments facilitated dangerous levels of risk: The Quants: How a New Breed of Math Whizzes Conquered Wall Street and Nearly Destroyed It. Subprime mortgage financiers became notorious for the deployment of such instruments, as told by Dan Immergluck in Foreclosed: High-Risk Lending, De-regulation, and the Undermining of America’s Mortgage Market.


Other experts highlight structural elements: Inequality, Consumer Credit and the Saving Puzzle (Christopher Brown), and there are several new reflections on the economics canon, such as Jörg Birow’s Keynes On Monetary Policy, Finance And Uncertainty: Liquidity Preference Theory and the Global Financial Crisis. New comparative and historical studies have also appeared, among them This Time Is Different: Eight Centuries of Financial Folly by Carmen Reinhart and Kenneth Rogoff.


The Bibliography includes non-fiction works by two novelists: Margaret Atwood’s Payback: Debt and the Shadow Side of Wealth and John Lanchester’s I.O.U.: Why Everyone Owes Everyone and No One Can Pay. The Library has also acquired the script of The Power of Yes: A Dramatist Seeks to Understand the Financial Crisis by David Hare—a drama-seminar staged in London last year.
The evolution of the capitalist system itself comes under scrutiny in *How Markets Fail: The Logic of Economic Calamities* by John Cassidy, and in Judge Richard Posner’s *Crisis of Capitalist Democracy*. Although few see capitalism itself as bankrupt (Slavoj Zizek’s *First as Tragedy, Then as Farce* is an important exception), there are strong critiques of the contemporary Anglo-Saxon variety—including Nobel laureate Joseph Stiglitz’s *Freefall: America, Free Markets and the Sinking of the World Economy*. Many of the ‘how-to-fix-it’ works also focus on the USA—including Clyde Prestowitz’s *Betrayal of American Prosperity: Free Market Delusions, America’s Decline and How We Must Compete in the Post-Dollar Era*.

Works on the European dimension first focused on the UK, but several monographs on both the Icelandic financial collapse and the Irish property and banking crisis are already available. The Advisory Council on International Affairs (Den Haag) has just published *The EU and the Crisis: Lessons Learned*, a good companion to Marco Buti’s more technical *Economic Crisis in Europe: Causes, Consequences and Responses*.


Thomas Bourke graduated from the EUI in 1995.

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Recent EUI publications on the theme ‘Crisis’

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‘Financial Connections and Systemic Risk’ by Franklin Allen, Ana Babus and Elena Carletti, EUI-ECO-2010/26


‘Grecia: un análisis más allá de la crisis económica’ by Irene Martín and Elías Dinas, Análisis del Real Instituto Elcano, ARI-91/2010


‘Bank Bail-Outs, International Linkages and Cooperation’ by Friederike Niepmann and Tim Schmidt-Eisenlohr, EUI-ECO-2010/05


‘Insulation Impossible: Fiscal Spillovers in a Monetary Union’ by Russell Cooper, Hubert Kempf and Dan Peled, EUI-ECO-2010/20

‘East European Transformations and the Paradoxes of Transnationalization’ by Dorothee Bohle, EUI-SPS-2010/01

‘A Modern Reconsideration of the Optimal Currency Area (OCA) Theory’ by Giancarlo Corsetti in

'The European Malaise and the Failure of Leadership' RECON Newsletter, 2(4), 2010

'Trauma and the Politics of Emotions: Constituting Identity, Security and Community after the Bali Bombing' by Emma Hutchison, International Relations 24:65, 2010


'Moral and Social Constraints to Strategic Default on Mortgages' by Luigi Guiso, Paola Sapienza and Luigi Zingales; EUI-ECO-2009/27

'Credit Market Competition and Capital Regulation' by Franklin Allen, Elena Carletti and Robert Marquez, EUI-ECO-2009/08

'Regional Debt in Monetary Unions: Is It Inflationary?' by Russell Cooper, Hubert Kempf and Dan Peled in European Economic Review, 54, 2009

'Illiquidity and Under-Valuation of Firms; by Douglas Gale and Piero Gottardi, EUI-ECO-2009/38

'An Overview of the Crisis: Causes, Consequences and Solutions' by Franklin Allen and Elena Carletti in International Review of Finance, 10(1), 2009

'Interbank Market Liquidity and Central Bank Intervention' by Franklin Allen, Elena Carletti and Douglas Gale in Journal of Monetary Economics, 56(5), 2009


'The Saving Glut Explanation of Global Imbalances: The Role of Underinvestment' by Flavia Corneli, EUI-MWP-2009/41


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'The Impact of the Current Financial and Economic Crisis on Migration in the Spain-Morocco Corridor by Joaquin Arango and Fernando Gonzalez Quiiones, EUI-CARIM-2009/39

'The Impact of the Recent Global Economic Crisis on Migration: preliminary insights from the South Eastern Borders of the EU (Greece), Anna Triandafyllidou and Daria Lazarescu, EUI-CARIM-2009/40

The Library encourages all EUI members to submit their publications, including books, articles, book chapters, working papers and research reports to CADMUS, the searchable EUI Institutional Repository.

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Alumni Association Report

The executive committee (EC) of the EUI Alumni Association (AA) is coming to the close of its two-year term in office, and in October, the General Assembly (GA) will have appointed a new EC. As always, the GA is held on the fringes of the conferring ceremony festivities. It is an ideal moment, with many alumni returning to Florence with their families to celebrate the solemn and public acknowledgement of their achievements, obtained after years of painstaking research in case of a doctoral degree or at any rate after many months of hard work. Needless to say, emotions run high and the mood is exuberant. Yet, no other moment could be more expedient for proposing and discussing how best to improve the Alumni Association for the future. New graduates at the start of their careers—the EUI and its workings still fresh in their minds—meet up with more senior alumni who can evaluate the EUI from a ‘real-life’ perspective.

Your outgoing EC has been very committed to its role. The most tangible results of this were the organisation of a conference on the consequences for Europe on the recent financial and economic crisis, the ‘Career days’, the Alumni Prize and the traditional Chianti and Florence walks. In addition to these events, the EC expended much energy discussing how best to improve the AA itself. Sparks flew and one member resigned and had to be replaced.

Looking ahead, the next two years are important in terms of opportunities, not least because our Institute is changing. Increasing numbers of postdoctoral researchers populate the Institute: between the Robert Schuman Centre’s Jean Monnet Fellows, EUI Marie Curie Fellows, and fellows in the Max Weber Programme, the number of post-docs in a given year is about the same as the total number of researchers in an entering cohort (around 150, for all four departments combined). This reflects both a marked turn towards interdisciplinary research and a clear downward shift in the proportion of student-researchers as compared to career academics.

This is causing a change in the ‘clientele’ of the AA itself. Researchers who have been enrolled at the EUI for at least one academic year may become full members of the AA. However, in recognition of the growing number of people who attend the EUI in a capacity other than research student, it was decided in 2005 to allow also postdoctoral fellows to become full members of the AA. Meanwhile professors, personnel and research assistants under contract with the EUI may, according to our Statutes, become associate members (that is, they can benefit from all advantages of membership apart from voting in the General Assembly and serving in the EC). The outgoing EC now has proposed to the Assembly to give similar associated status to visiting fellows who have spent at least six months at the EUI.

This being said, the most important cohort of AA members are the recent EUI graduates. Consequently, the imperative question is what can the Institute and the AA do for jobseekers? This is especially critical now, as the global economic crisis has led to more precariousness in careers and evermore difficult working conditions for everyone, EUI alumni included. In times of crisis such as this one, cooperation and exchange of experiences between alumni can be tremendously important. As a partial response, the EUI has established a career development service, which joint organizes with the AA the annual Career Days. At these events, alumni from different disciplines working in different fields come to talk, inform and advise researchers about their career perspectives in both public and private institutions. This year

Alumni Pompeo Della Posta (University of Pisa) and Despina Chatzivasiliou (Council of Europe) at the 2010 Career Event
the Career Days coincided with the June Ball, and many researchers participated actively in the meetings with EUI alumni now working in the European Commission, the European Central Bank, the European Investment Bank, the International Labour Organisation, UNCTAD as well as several law and consultancy firms.

One of the issues that has been at the heart of the outgoing executive is the question of whether the new EUI website can allow for on-line training, conferences or courses for and by alumni (either for free or by fee). Such services are offered by other alumni associations to raise funding for their association and to increase the benefits of membership. Pending a thorough exploration of this issue, the EC agreed to the creation of an EUI AA Working Paper Series (AA WPS) to be electronically managed with the purpose of facilitating mutual exchange and discussion between alumni. It is our hope that this decision will be implemented by the next executive committee. The series will be fed initially by some of the papers presented at the 2010 AA Conference and subsequently be opened up to all alumni who wish to submit a paper in progress for comment by other alumni, in a closed electronic environment. It will also allow recent graduates to present in whole, in part or in abstract their dissertations or theses, which will provide the entire AA community an up-to-date picture of the fresh research coming out of the EUI.

In addition, the outgoing EC has investigated the creation of a modern system of information, personal contacts and information exchange that would allow alumni to easily network for personal or professional purposes. As the number of researchers has increased, the preferred option is the elaboration of an AA database in the context of the new web 2.0 system of the EUI, if necessary in addition to the publication of a paper ‘Who’s who’ (a request from junior and senior alumni that still needs to be voted on). The use of existing e-networks such as Linked-in, Facebook or Academia.edu has so far been dismissed pending evaluation of all confidentiality issues. Data protection is of course one of the topics that need to be addressed in connection with any developments in the context of the creation of a safe environment for the exchange of social and professional experiences among alumni.

If you have not yet been able to participate in the discussions and activities of the AA, please be aware that you still can! We are sure that next year will bring many opportunities to meet with other alumni, either in Florence, Brussels or in one of the several other European cities with the potential to develop local chapters of the EUI AA (London, Frankfurt, Madrid, Barcelona, etc.).

In the meantime we encourage all alumni to schedule their participation in our two traditional activities, which never fail to prolong the blissful momentum of the graduation ceremony: the customary walk in the Chianti hills on Saturday, and the guided tour to Florence’s marvels on Sunday. Both activities provide researchers, professors and EUI staff—along with family and friends—the opportunity to share a coveted moment of happiness, confidence and special gratitude.

In conclusion, we remind you that it is important for alumni to obtain their AA card as soon as they effectively terminate their official relationship with the EUI. The card is necessary for photocopying and other important services at the EUI, and for receiving a fixed email address at which members can receive correspondence and keep in touch. The address may also play a role in the running of the working paper series and future services discussed above. Since the AA is a voluntary association, prospective members need to fill in a form indicating their wish to adhere for the impending year and pay a moderate yearly fee. This then triggers the issuing of an alumni card, the emission of a yearly sticker and the entitlement to an email address (eui.eu), which are all indications and instruments of membership. More information on all of the above can be found on the EUI website, or by writing to alumni@eui.eu.

A presto e cari saluti a tutti!

-The 2009/10 Executive Committee of the Alumni Association
Alumni News and Awards

Peter Schiffauer (Law 1977-1978) reports that he was appointed as “Honour- professor” for German and European Constitutional Law and Vorstandsmitglied (member of the board) of the Institut für Europäische Verfassungswissenschaften, the Rechtswissenschaftliche Fakultät of the Fernuniversität, D-58084 Hagen, in 2006.


Lorraine Benson (SPS 1981-1987), has taken up the post of Counsellor at the Irish Permanent Representation in Brussels covering Trade and the EU Competitiveness Council from September 2010.

John Loughlin (SPS 1982-1987) has been elected a Fellow of St Edmund's College, Cambridge from 1 October 2010. He has been Professor of Politics at Cardiff University since 1995. In October 2009, the University of Umeå, Sweden awarded him an Honorary Doctorate in Social Sciences in recognition of his contribution to research on European politics and particularly on subnational government.

Reiner Grundmann (SPS 1983-1989), Reader in Sociology at Aston University and EUI alumnus, is one of the co-authors of the Hartwell Paper, which develops a radically new approach for climate policy after the political failure in Copenhagen and the loss of credibility of climate science.

Patrick Kenis (SPS 1983-1989) recently left his position as Professor of Political Science at the University of Bochum, and since May has been at the Heinrich-Heine-University Düsseldorf, where he is Chair of Comparative Politics and co-directs the Institute for German and European Party Law and Party Research (PRuF).


Chiara Zilioli (LAW 1985-1992) was appointed Deputy Director General Human Resources, Budget and Organisation of the ECB as of 1 June 2010.

Martin Greig (LAW 1987-1995) reports that he is Convener of the Grampian Joint Police Board (equivalent to president of the regional police authority), in Aberdeen.

Fabrizio Valente (SPS 1987-1993) is a founding partner of Kiki Lab, a retail consulting firm, and a founding member of Ebeltlof-International Retail Experts. He researches and publishes in this field.

Francisco Bethencourt (HEC 1988-1992) is Charles Boxer Professor of History King's College London. In 2009 he published an updated English-language version of his book on *The Inquisition. A Global History, 1478-1834* (Cambridge University Press). The book, the outcome of his dissertation, also has been published in Portugal, France, Spain, Brazil, and Serbia.


Nikolaos Georgantzis (ECO 1989-1993) is Professor of Economic Theory and Experimental Economics at the Universitat Jaume I (Castellon, Spain). He just received a 5-year appointment as ‘Investigador de Reconocida Valía’, a Research Chair sponsored by the Junta de Andalucía at the Economics Dept. of the Universidad de Granada. He is married to Aurora García Gallego (EUI-ECO, 1994) who is also Professor of Economic Theory. They have two multilingual kids, Dimitris and Irina.

Christoph Beat Graber (LAW 1989-1993) is head of the i-call (International Communications and Art Law Lucerne) research centre and director of Lucernarius, the Institute for Research in the Fundamentals of Law in the Faculty of Law, University of Lucerne. In 2010 he published *Goveriance of Digital Game Environments and Cultural Diversity. Transdisciplinary Enquiries* (Edward Elgar).

Paolo L. Bernardini (HEC 1990-1994) has been appointed President of Saint John International University, a new American university focused on environmental and sustainability studies and fine arts, located in Vinovo, near Turin (Italy). He is also (on-leave) professor of early modern European history at the University of Insubria (Como), and has recently published *Aldi qua e aldila’ del mare. Venezia e il mondo universo* (Aras, Fano) and *Fragement of a Land of Freedom. Essays on America Around the Year 2000* (NewAcademia-Vellum).
91 Enrique Alberola-Illa (ECO 1991-1995) was appointed as Executive Coordinator of International Affairs, Banco de España, Madrid.

92 Elena Rodríguez Pineau (LAW 1992-1996) was appointed academic coordinator of the Master en Derecho de la Unión Europea at the Law School in Universidad Autónoma de Madrid, as well as joint-coordinator of the double LL.M programme of the UAM law school and the Universidad Paris-Dauphine on ‘Droit de l’Union Européenne et Droit de l’entreprise et des affaires’.

93 João Manuel Cardoso Rosas (SPS 1993-2001) is an associate professor at the University of Minho. In March 2010 he was elected President of the Portuguese Political Science Association.


99 Paul Blokker (SPS 1999-2004) has recently published Multiple Democracies in Europe. Political Culture in New Member States (Routledge, 2009).

00 Andreas Dür (SPS 2000-2004), Professor of International Politics at the University of Salzburg, has published Protection for Exporters: Power and Discrimination in Transatlantic Trade Relations, 1930–2010 (Cornell University Press, 2010).

Jorge Godinho (LAW 2000-2006) has been promoted to associate professor at the Faculty of Law, University of Macau.


Arolda Elbasani (SPS 2002-2007) has received the A.SK Post-doctoral Fellowship 2009/2010 from the Social Science Research Center Berlin (WZB). The A.SK fellowship is awarded by an international committee of experts to outstanding young scholars whose research focuses on ‘political, societal, and economic reform processes.’

Tiago Fernandes (SPS 2002-2009) was awarded the best Ph.D. dissertation prize by a Portuguese in the last two years by the Portuguese Political Science Association. He currently holds a research and teaching fellowship (2009-2011) at the Kellogg Institute for International Studies, University of Notre Dame, USA.

Rafael Leal-Arcas (LAW 2002-
2008) is Senior Lecturer in International Economic Law & European Union Law at Queen Mary University of London. He serves as an EU law expert for the American Society of International Law. In 2010 he published *International Trade and Investment Law: Multilateral, Regional and Bilateral Governance* (Elgar, 2010).

Despina Chatzimanoli (LAW 2003-2009) has been on leave from the UK Financial Services Authority in London to work on the Committee of European Banking Supervisors (CEBS), where she is focusing on the legal and EU institutional issues connected to the planning of the transformation of CEBS into a European Banking Authority. She is also a visiting lecturer at King’s College London.


Hannes Peltonen (SPS 2003-2008) has been appointed Assistant Professor in International Relations at Kyung Hee University in South Korea.


Frank Foley (SPS 2004-2008) has been awarded a one-year AXA fellowship at King’s College London.

Joost van Spanje (SPS 2004-2009), post-doc researcher at the Amsterdam School of Communication Research (ASCoR), University of Amsterdam, has been awarded the 2010 Dutch Political Science Association Best Ph.D. Dissertation Prize for his dissertation *Pariah Parties*, which was defended at the EUI in 2009. His was selected from 52 political science dissertations nominated that year.

Norman Domeier (HEC 2005-2009) has been appointed assistant professor at the Historical Institute of the University of Stuttgart, Germany. His Ph.D. thesis will be published as a book this fall entitled *Der Eulenburg-Skandal. Eine politische Kulturgeschichte des Kaiserreichs* (Campus, 2010).

Mikael Eriksson (SPS 2005-2009) is currently working at the Swedish Defence Research Agency as a researcher on security.

Michael Geary (HEC 2005-2009) has been awarded a prestigious Fulbright-Schuman Fellowship to Washington, D.C. for the fall semester 2010-11. During his Fulbright, Michael will work on revising the manuscript for his second book and lecture courses on the history and politics of the EU.

Nikolas Rajkovic (SPS 2005-2009) was appointed Assistant Professors in International Relations at Kyung Hee University in South Korea.

Chris Hanretty (SPS 2006-2009) has been awarded the first François Mény Prize for the Best Comparative Study of European Institutions for his dissertation entitled *The Political Independence of Public Service Broadcasters*.

Ottavio Quirico (MWF 2008-2009) has been appointed Marie Curie Fellow at the Université Panthéon-Assas (Paris 2), in collaboration with the European University Institute and the Max Planck Institute for Comparative Public Law and International Law, for the period September 2010-August 2012.

Miguel Poiares Maduro, Joint Chair Professor RSCAS / Department of Law and Director of the Global Governance Programme, was awarded the Gulbenkian Prize 2010 for Science. The jury was unanimous in recognizing the outstanding work of Prof. Maduro, particularly in the areas of European Union Law, Constitutional Law and International Trade Law.

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**Alumni Weekend 2010**

*Friday 1 October*

10:00-13:00 Graduand Registration
15:00 Conferring Ceremony
17:00 Cocktail
18:00 - General Assembly of the Alumni Association and Alumni Prize Award

*Saturday 2 October*

9:00-18:00 - Guided walk through the Greve Valley

*Sunday 3 October*

10:00-12:00 - Guided visit to Palazzo Vecchio

Complete information and registration for all activities can be found at: www.eui.eu/About/Alumni/Activities
Births

Célestine Éloïse Heinlein, daughter of Frank and Isabelle Heinlein was born on 6 December 2008. She is pictured here with siblings Clarissa, Amandine and Jérémy.

Elke and Ole Heins with Elian announce the birth of Lionel on 23 March 2010. He is pictured here with his big sister Lia.

Ioana Knoll-Tudor and Bernhard Knoll announce the birth of their son Julian on 11 April 2010.

Alexander, son of Ralf Rogowski and Paola Toninato, was born on 9 February 2010.

Lili Luna was born to Arpad and Hajnalka Abraham on 3 March 2010.

Stephanie Seul and Christoph Schmid report the birth of Simon Benedikt on 13 December 2008, a brother for Sophia, Miriam and Jakob.

Chiara De Santis and Alex Caviedes announce the birth of Sofia Elena on 7 December 2009.

Ioana Knoll-Tudor and Bernhard Knoll announce the birth of their son Julian on 11 April 2010.

Victoria Jennett and Till Steinvoth announce the birth of Rosa Amalia on 30 August 2009.

Chiara De Santis and Alex Caviedes announce the birth of Sofia Elena on 7 December 2009.
On 11 July 2010, Günter Hausmann, Head of the Administration and Personnel Service at the Institute from 1983-2005, passed away. Mr. Hausmann is remembered warmly for his unfailing dedication, competence and kindness. Three of his former colleagues who worked closely with him over the years share recollections about various aspects of his personality in this issue.

The entire EUI community extends its deepest sympathy to his wife Ursula and children Marc and Jan.

In Memoriam

J'ai connu Günter Hausmann à trois époques différentes et alors que j'étais successivement dans trois positions professionnelles qui par la force des choses conditionnaient la nature de nos relations. En 1983 Günter venait de prendre ses fonctions après avoir travaillé à Grenoble de 1969 à 1977 au Centre Max von Laue – Paul Langevin puis à Bonn comme chef du Personnel et des Finances au Gesellschaft für Mathematik und Datenverarbeitung. C'est cette expertise qui avait amené le Président Maihofer à l'appeler au service de l'Institut. C'était la dernière année de mon contrat de professeur mais le Président m'avait sollicité pour collaborer à la définition d'une solution pour résoudre la crise des pensions des professeurs. Ce fut l'occasion brève mais intense d'une collaboration pour trouver une solution équitable et acceptable pour les Etats-membres. Ce fut aussi l'occasion de découvrir que comme toujours les stéréotypes nationaux ne donnent qu'un aperçu très imparfait de la réalité. Günter était parfois plus flexible qu'un Italien et quand il s'agissait des plaisirs de la table, il pouvait se mesurer avec un bataillon de Français, ce qu'il faisait d'ailleurs régulièrement en entrant en compétition avec Dominique Delaunay alors responsable du service académique. Günter était ce qu'on appelle un bon vivant.

A mon retour à l'Institut dix ans plus tard en 1993, Günter était en pleine possession de ses compétences mais malheureusement pour des raisons d'espace (la Badia était devenue beaucoup trop étroite pour faire face au développement de l'Institut) quasiment tous les services avaient été envoyés en exil au Poggiolo, la villa des Archives, complètement séparés du corps académique et contribuant ainsi à créer un fossé entre ces deux composantes essentielles de l'université. Le seul «avantage» était l'absence de mensa ce qui donnait à Günter de bonnes raisons pour faire le tour des trattorie du quartier... Ce fut aussi, je dois le dire, une période durant laquelle nous nous affrontâmes chacun sur notre barricade. En tant que Directeur du nouveau Centre Robert Schuman doté d'un maigre budget et pour qui une règle absurde avait été inventée (le Centre ne devait rien coûter aux Etats-membres), j'étais souvent opposé à Günter qui était obsédé par la volonté de constituer des réserves, un matelas financier au cas où... Il faut dire qu'à la belle époque de la Lire et de l'inflation à 15% il n'était pas rare que la Commission annonçât en cours d'année un rattrapage de 10 ou 12 %. De quoi donner des cauchemars au financier au plus flegmatique des financiers ...... Mais ces batailles furent toujours empreintes de respect mutuel et quand je fus élu Président ces escarmouches neurent aucun effet sur nos relations professionnelles. Notre collaboration fut entière et son expérience me fut très précieuse pour affronter à mon tour le budget non pas du côté de la dépense mais du côté des recettes.

De ces trois époques, je conserve le souvenir d'une personnalité constante mêlant professionnalisme et humour, pouvant être à la fois gentil avec les personnes et direct dans ses déclarations. Il avait aussi un côté florentin c'est à dire un certain scepticisme sur les gens et les choses tempéré seulement par son côté « bon vivant ». Arrivé le temps d'une retraite méritée mais trop brève, Günter conserva de solides relations avec ses collaborateurs mais s'abstint - lui qui avait été l'un des agents les plus puissants et influents de l'Institut - de toute ingérence, suivant à la lettre le message de Voltaire c'est-à-dire cultivant son jardin. Qu'il repose en paix dans cette terre toscane que lui, l'homme du Nord avait faite sienne.

-Yves Mény
Conobbi Günter Hausmann nel settembre 1983: lavoravo nel servizio finanze, che lui avrebbe diretto insieme al servizio del personale fino al suo pensionamento avvenuto a fine 2004. Lo incontrai nel suo angusto ufficio nel corridoio della Badia ora occupato dal dipartimento di scienze politiche e mi ricordo che uscendo mi resi conto che non avrei saputo che età dargli: mi sembra infatti che Günther Hausmann sia rimasto fisicamente sempre uguale. La sua attività lavorativa si è svolta durante il mandato di 4 diversi presidenti, con personalità profondamente diverse fra di loro e durante il mandato di 3 diversi segretari generali, con il primo dei quali, Marcello Buzzonetti esisteva un feeling particolare da ambo le parti.

Questo turn over e la particolarità delle sue funzioni hanno certamente richiesto un impegno personale totale durante quegli anni, e a volte hanno comportato la redazione di decisioni non sempre popolari.

Lo si poteva vedere arrivare puntuale di buon mattino con in mano la sua vecchia amata cartella marrone e ripartire puntualmente ogni pomeriggio verso le 17.

A quel punto iniziava la sua seconda vita: la preparazione della cena per la sua famiglia, la cura del suo giardino e delle sue amate piante di limoni, l’hobby della collezione di vecchi orologi che riparava e rimetteva in funzione con grande maestria.

Amava la buona cucina, era curioso di conoscere e preparare sempre piatti diversi, amava il buon vino ed il limoncello che preparava personalmente.

Il personale del suo servizio, salvo due eccezioni, è sempre stato composto da donne e con loro Günter, secondo me di carattere abbastanza introverso e schivo sebbene dotato di uno spiccato senso dell’humour e di una grande ironia, lasciava ogni tanto trapelare i suoi profondi valori per la famiglia e si lasciava andare a qualche confidenza.

Ha continuato a vedere ‘le sue donne’ regolarmente anche dopo il suo pensionamento e dopo la grave malattia che l’aveva colpito le teneva informate delle cure a cui si sottoponeva. Mai però ha lasciato trapelare pessimismo, nonostante credo conoscesse la gravità del suo male; forse l’attaccamento alla vita era troppo forte e ci dava l’impressione di voler considerare la malattia solo un ostacolo temporaneo alla realizzazione di tutti quei progetti che aveva sperato di poter realizzare dopo la cessazione dell’attività lavorativa.

Fra questi progetti c’erano i viaggi, che la moglie Ursula ha potuto organizzare per un solo anno dopo il suo pensionamento. E l’ultimo viaggio l’ha fatto da solo alla fine di una calda giornata estiva fiorentina e a Firenze ha chiesto di riposare, nella bella campagna dove viveva, possibilmente con vista sulla sua casa e sull’amato Duomo.

-Pur vantando un curriculum di prim’ordine ed un’esperienza di lunga data, Günter Hausmann aveva risposto con l’entusiasmo di un giovane debuttante al richiamo dell’Istituto Universitario Europeo, insediatosi solo da alcuni anni a Firenze; il suo modo di proporsi aveva convinto la giuria di selezione, impegnata nella non facile ricerca di una guida del Servizio degli Affari finanziari e del Personale, a sceglierlo tra molti pretendenti.

In poco tempo aveva confermato di possedere le capacità necessarie per dirigere il settore affidatogli ottenendo la piena collaborazione degli agenti in servizio e la stima dei colleghi. Per chiunque era un punto di riferimento sicuro; non a caso gli veniva riconosciuto il merito di saper ascoltare i suoi interlocutori e riuscire a trarne conclusioni di buon senso.

Memorabili i suoi interventi durante le riunioni dei Comitati del bilancio, indirizzati ai delegati degli Stati membri per chiarire i complicati punti tecnici degli statuti e dei regolamenti. Una delle sue specialità consisteva nella preparazione del bilancio di funzionamento che confezionava anno dopo anno con rara precisione, incarico che gli è valso l’apprezzamento costante ed unanime dei delegati e degli esperti che si sono avvicendati nel tempo.

Non si può non ricordare Günter come una persona pronta alla cordialità e al rispetto altrui, sensibile alle preoccupazioni che gli venivano esposte e sempre desideroso di individuare soluzioni ai problemi che erano portati alla sua attenzione. E come non fare accenno alla sua modestia pur nella consapevolezza di far parte, in posizione apicale, di una organizzazione internazionale alla quale ha potuto lasciare una testimonianza di grande valenza per l’intensa attività svolta con giudizio, con equilibrio e con assoluta dedizione.

Günter Hausmann, una persona che ho avuto il piacere di conoscere e per la quale nutro un caro ricordo; è con comprensione ed affetto che desidero rinnovare i sentimenti di vivo cordoglio alla Sig.ra URSULA, sempre al suo fianco con fare gentile e premuroso ed ai figli Marc Rene e Jan Frederic per i quali non nascondeva tutto il suo orgoglio di padre.

-Giorgio Brundo
‘You say goodbye. . .

After more than 32 years of service at the Institute, Beatrijs de Hartogh, Secretary/Coordinator in the Academic Service, bid the EUI farewell at a reception in her honour on 22 June 2010.

As almost every cohort in the last two decades is aware, Beatrijs has been the most loyal of advocates of EUI researchers. The fifth ‘B’ in the 4B, her reply to almost any researcher social initiative—from belly dancing groups to rowing; from calcetto to choir—was invariably ‘just do it’.

She has shared her passion for music and the arts with the entire EUI, and the relationship this Institute has with the arts community in Florence owes much to her initiative.

We wish her all the best in her future endeavours as pensionata—be it working on her golf handicap, traveling the world, or organizing cultural events at the EUI.

Thank you, Beatrijs, and arrivederci!
Loïc Azoulai, from the Université de Paris II Panthéon-Assas, takes up the Chair in European Union Law in September 2010.

Jorge Flores has been appointed to the Vasco da Gama Chair in History. He was previously at Brown University in the USA.

Pavel Kolář joins the Department of History and Civilization this September, from the Centre for Contemporary History, Potsdam.

As of September Luca Molà is Chair in the Early Modern History of Europe. Prior to coming to the EUI he was Director of the Centre for the History of Innovation and Creativity (CHIC) at the University of Warwick.

Giorgio Monti will take up the Joint chair (RSCAS & LAW) in Competition Law in September 2010. He arrives at the Institute from the London School of Economics.

Chris Reus-Smit joins the SPS department in September as Professor of International Relations. He was previously Head of the Department of International Relations at the Australian National University.

Federico Romero joins the EUI Department of History and Civilization in September. He was previously at the University of Florence.