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Book Review: Beáta Farkas (ed.) (2013), *The Aftermath of the Global Crisis in the European Union*, Cambridge Scholars Publishing, New Castle upon Tyne, pages 280.

A chain is only as strong as its weakest link: rethinking the EU's socio-economic model

The 2008+ global economic crisis and the eurozone crisis opened a new chapter in the history of European integration. They revealed weaknesses in the European integration model and – ipso facto – forced the key EU players to restart the reform process. As ever, policy decisions concerning the nature and extent of the necessary reforms require an understanding of the (most probable) long-term consequences that these two crises may have on the EU. In this regard "The Aftermath of the Global Crisis in the European Union" adds to our understanding of current developments in the EU providing at the same time valuable insights into the long-term impact of the crises on the EU's (1) economic growth, (2) fiscal and monetary policies, and (3) the cohesion countries, incl. southern and new EU member-states. The volume consists of three parts. Part One offers a discussion on the growth perspectives in Europe. Part Two focuses on the variety of post-crisis challenges and risks that the EU faces with regard to the fiscal and monetary policy. Part Three upholds the crisis-related problems experienced by the cohesion countries.

The major strength of the volume lies in its theoretical contribution to the convergence theory, and specifically to the European convergence model, discussed by Beáta Farkas in Part 3 of the volume (pp. 134-149). This model frames the case-specific empirical insights presented in the remaining contributions to the volume. From a different angle, the variety of analytical, conceptual and methodological perspectives employed by the authors of the volume, offers a well-balanced and comprehensive insight into current developments in the EU. Although the

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volume has been written by twelve authors, representing different styles of narration, most of them are gifted writers and their individuality, in my opinion, adds to the value of the book.

Even prior to the global economic crisis, the EU had to deal with the challenge of demographic change (population ageing and decline), resource scarcity, rising social inequalities, and increasing competition from emerging markets, such as China, India, Russia, Indonesia, Brazil, Mexico or South Africa. At the same time, the relevance and sustainability of the European socio-economic model started to be questioned.[2] The global economic crisis and – afterwards – the crisis in the eurozone aggravated these challenges. These two crises have also made it clear that the EU’s socio-economic model needs to be rethought. Part One of the volume addresses this issue. Specifically, Fabian Zuleeg poses the question of possible systemic changes that would enable the European economies to adapt to the long-term challenges the EU faces and to overcome the recession and the crisis in Europe. In a similar context, Matti Viren seeks to identify the triggers of growth in Europe. To this end, an econometric model is constructed to inquire into “the relationship between key institutional and structural variables and the growth of output” (p. 21). Accordingly, the functioning of labour markets, availability of labour and capital as well as the size of government are pointed to as the major determinants of growth in Europe. Surprisingly, such growth stimulators as – for example – innovative activity and the adaptation of innovation, are excluded by the author from the analysis (p. 31). Clearly, there is room for further research.

The discussion of the EU socio-economic model acquires a new twist when examined through the lens of Japan’s experience of economic slowdown. In his very interesting discussion on the long-drawn economic slowdown in Japan, Masahiko Yoshii puzzles on the lessons learnt by Japan. Albeit implicitly, Yoshii suggests that these lessons may be useful for the EU and the anti-crisis reforms in the Eurozone (pp. 36-52). His advice for Europe is very simple though: to take prompt and decisive measures (p. 52). Looking at the argument developed by Yoshii one feels inclined to say that despite many differences that exist between the Japanese and the European socio-economic models, the preferences concerning the welfare-state are surprisingly similar. Over a year ago, the World Bank, referring to the EU’s social model, called Europe the world’s “lifestyle superpower”. Back in 1992 though, it was Japan’s Prime Minister Kiichi Miyazawa who had officially promised to make his country such a superpower. Irrespective of the pro-welfare reform of the social system in Japan, Miyazawa

[2] Gill, I., Raiser, M. (2012), “Golden Growth. Restoring the Lustre of the European Economic Model”, Washington: The World Bank.

failed to deliver on his promise. Simultaneously, the overly generous social transfers put in place at that time should be seen as one of the reasons behind Japan's long-lasting economic downturn. In this view, what Yoshii seems to be suggesting, the case-study of Japan may be very useful for the European decision-makers today.

Part Two of the volume is devoted to the issue of fiscal and monetary policy. Here, Gabriele Ciprani (Director of the European Court of Auditors) addresses the question of whether the EU budget could be helpful in setting conditions for better national spending (p. 60). In order to answer this question, he presents an extensive and valuable analysis of the functions being played by the EU's budget expenditure as well as the results that the expenditure enables to achieve. Cipriani argues that the actions related to the EU's expenditure, which are taken at the supranational level, represent a kind of "Trojan Horse" to achieve specific objectives with better results than the EU member states could do by themselves (s. 78). This conclusion may be considered as an argument in favour of deepening European integration and establishing common fiscal policy within the EU (or EMU). The lack of such a policy, Darvas argues, constitutes one of the "roots" of the present euro-area crisis. The remaining nine reasons are discussed by Darvas in his chapter devoted to the "examination of the most pressing problem that also constitutes the most serious threat to the integrity of the euro-area [that is]: the dreary economic outlook of southern euro-area member states" (p. 83). According to Darvas, the EU institutions and national key players (heads of states, governments, etc.) – instead of discussing exiting or breaking-up the euro – should focus on the southern EU member-states. He argues that it is in common European interest to assist these countries in improving their economic outlook. The problems of the southern euro-area member states, as well as the new EU member states, are discussed in detail in the following chapter.

As an introduction to further analysis, Beáta Farkas compares the southern part of the euro-area to the new EU member-states. Farkas upholds the question of whether it was a coincidence that the economies of these two groups of countries were so vulnerable since the beginning of the global economic crisis (Chapter 3, p. 134). Farkas convincingly argues that this vulnerability was closely related to the flows of capital. On the one hand, the EU managed to create a convergence model encouraging capital flow from high-income to low-income countries. Therefore, the cohesion countries were able to overcome their lack of savings. On the other hand, however, the dependence on foreign capital has made the low-income countries and hence the European convergence model vulnerable. This vulnerability

has been highlighted during the economic crisis. As a result, following the crisis, capital flows in Europe declined and the convergence process slowed down. [The dangers related to the changes in capital flows have been well-illustrated in the most recent literature on the subject suggesting that – in the case of Central and Eastern European Countries (CEEs) – relatively low saving rates, combined with high investment needs, led to the accumulation of private debt owed to foreigners. Hence, the global financial turmoil that may considerably limit the ability of CEEs to raise new capital may also increase the risk of default on foreign debt].[3]

The next part of Chapter 3 is entirely devoted to the problems of the EU's CEEs. Gábor Dávid Kiss and Andreász Kosztopulosz examine the adequacy of inflation-targeting monetary policy and from this perspective dwell on the possibility of the CEEs joining the eurozone. To this end, the authors discuss the liquidity-sensible environment that has defined the range of monetary policy decisions in selected CEEs over the last decade. They then employ the bond and currency markets as indicators and stock markets as control variables. Next, Árpád Kovács explains how and to which extent crisis management by the CEEs contributed to maintaining the stability of their public finance (p. 153). Given the fact that the solutions applied in the CEEs revitalized respective economies[4], Kovács puzzles on whether these solutions constitute an alternative model of sustainable development and thus whether they could be emulated to the rest of Europe or whether simply they are just a short-term relief.

In the following move, the empirical focus of the discussion turns to Greece, representing the southern euro-area member-states and to Hungary, representative of the new cohesion countries. Here, Anna Visvizi offers an insightful analysis of the role and efficacy of fiscal policy and fiscal policy measures in addressing the crisis in Greece. She points out that the fiscal adjustment programme implemented in Greece since 2010, consistent with the introduction of excessive taxation and only marginal reduction in expenditure, dramatically constrained economic activity in the country.[5] As a result, it led to an exponential rise in

[3] PWC,'Approaching storm. Report on transformation: Central and Eastern Europe and the eurozone crisis', report presented by PWC Poland at 22nd Economic Forum in Krynica Zdrój, Poland, 4-6 September, 2012, p. 14.

[4] Żukrowska, K. (2012) 'The global financial crisis, the eurozone crisis and their consequences for the Polish economy', in: Visvizi, A., Stępniewski, T. (eds.) Central and Eastern Europe & the Crisis in the Eurozone, Yearbook of the Institute of Central and Eastern Europe, IEŚW, Lublin 2012, pp: 45-62.

[5] The International Monetary Fund itself admits, in its latest report on Greece, that the Greek economy encountered a much-deeper-than-expected recession with exceptionally high unemployment. The reform programme for Greece (carried out in the period: May 2010-March 2012) assumed a liquidation of the estimated 20-30 percent competitiveness gap through wage adjustment and productivity gains. However, despite the fact that the competitiveness of the Greek economy has slightly improved (because of falling wages), structural reforms stalled and productivity gains proved elusive (IMF, 'Greece: ex post evaluation of exceptional access under the 2010 Stand-By-Agreement', Country Report No. 13/156, June 2013).

unemployment (27% by the end of 2012), a dramatic fall in general government revenue, and increased expenditures on social transfers (p. 212). Interestingly, Visvizi sheds new light on the hotly debated issue of tax evasion in Greece. Visvizi explains that "although tax evasion exists in Greece, it is not as severe a problem as the media and some politicians portray it to be" (p. 234). Visvizi points out that the argument of tax evasion was employed instrumentally by the Greek socialist government in 2010 to manipulate public opinion and Greece's creditors, and is not the main reason behind shrinking government revenue in Greece.

Péter Mihályi discusses the causes of Hungary's comparative failure in catching up with the core economies of the EU-15. Mihályi focuses on the problem of low productivity of domestic enterprises, pointing out that Hungary lacks large companies, which could maximise workers' output through economies of scale and scope. Policy recommendations formulated here are as follows: "there is a need for ownership concentration of fixed capital and natural resources (e.g., agricultural land and forests). Such a strategy would require a fast consolidation of micro- and small enterprises into transparently functioning middle-size and large firms" (p. 265).

"The Aftermath of the Global Crisis in the European Union" constitutes an excellent contribution to the debate on (the future of) the EU's integration project. It adds to the debate on the sustainability of regional integration models in that it reminds us that 'a chain is only as strong as its weakest link'. Taking the above into consideration, it was a very good choice of the Editor of the volume to focus on the southern and the new EU member states. The multidimensional crisis in Europe confirms that this is the group of countries in which the EU's weakest links are to be found. The volume is easy to follow, as the authors present clear explanation of the issues discussed. It will be of interest not only to researchers dealing with the topics covered but also to students seeking to understand the problems related both to the global economic crisis and to the eurozone crisis.