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EUSA Review Forum

Post-crisis Europe: Economic, Fiscal and Financial Prospects

Guest Editor **Patrick Crowley**

Patrick M. Crowley is an international macroeconomist and Professor of economics at Texas A&M University in Corpus Christi, Texas, USA. He specializes in studies of regional integration, with particular emphasis on the European Union, and in frequency domain methods as applied to macroeconomic phenomena. He has published widely in journals such as the Journal of Common Market Studies, the Journal of Economic Integration, the International Trade Journal, International Finance, and the Journal of Economic Surveys and has been the editor for several edited volumes on Europe, probably most notably the Routledge volume entitled *Before and Beyond EMU* which was published in 2002 and the Ashgate volume *Crossing the Atlantic* which was published in 2004. Crowley is currently co-chair of the economics interest section of the European Union Studies Association of the US (along with David Mayes), and is also a Fellow of the Euro Area Business Cycle Network (EABCN). In 2004-2005 Crowley was a Visiting Research Scholar at the Bank of Finland (Suomen Pankki) in Helsinki, Finland, and has made return visits during the summers of 2006, 2007, 2008 and 2010

The Response to the Evolving Financial Crisis in the EU

David G Mayes

A year after the collapse of Lehman Brothers and the high point of the global financial crisis it looked as if Europe was likely to come through the crisis relatively well. Iceland, Ireland, Latvia and the UK among others had been hard hit but for most countries the losses had been manageable. As 2010 has developed, however, the euro area has started to encounter problems with Greece, Ireland, Spain and Portugal facing serious difficulty in raising funding on financial markets as the world economy seemed to be slowing down again and debt levels continued to rise rapidly. Hence, taking stock two years after Lehman, the prospect does not look quite so favorable, even though the size of the EFSF (European Financial Stability Facility) funds earmarked to cover any inability to borrow on open markets (approximately 0.25trillion euro in AAA instruments and approaching 0.5trillion euro altogether) represent a very firm response and declaration that the euro area will not be allowed to collapse under the strain.

We can now also see much of the regulatory response, both directly within the EU and orchestrated through the G20 and the Basel Committee, which will be implemented over the coming years to try to avoid a similar crisis in the future. The Basel Committee through 'Basel III' has addressed most of the more obvious problems for the prudential regulation of individual institutions. It has recognized that banks need both capital and liquidity buffers.[1] Furthermore it has realized that if capital buffers are to be used to keep a bank going then the main buffer has to be ordinary equity, otherwise a bank has to be put into insolvency. Other buffers merely protect the senior creditors from loss, they do not protect the bank as a going concern.

Secondly, the EU has recognized that dealing with individual institutions is not enough and that risks in the system as a whole need to be assessed. The European Systemic Risk Board (ESRB) that has recently been set up should help assess such risks at both the country and EU-wide level.

Finally the EU has also recognized that there are very real problems in having national regulatory authorities and international financial institutions. Although three new agencies have been created out of the 'level 3' committees for banking, securities markets and insurance, the EU has not taken the opportunity to introduce EU-level bank regulation and supervision.

The new system is therefore likely to have a number of important drawbacks, which will hamper its effectiveness in the future. We address just one of these here:

- the lack of agreement on an EU-level for bank regulation, deposit insurance and most importantly resolution of problem banks.

The drawback is particularly important as it reflects an inability to handle large (mainly cross-border) institutions. Since these institutions lie at the heart of the European financial system, this is a serious deficiency.

We end by considering some of the problems of transition from a crisis regime to normal arrangements over the course of the coming years and the lack of tools for macro-prudential regulation.

The Handling of Large (Cross-Border) Institutions.

The crisis has taught national authorities how smaller institutions need to be handled if their problems are to be resolved swiftly at minimum loss. The Banking Act 2009 in the UK is a clear example, as the UK needed to restructure its arrangements fundamentally following the deficiencies encountered when Northern Rock got into difficulty in September 2007 and could only be resolved by nationalization and hence a substantial commitment of taxpayers' money.

The authorities need to step in early before the problems mount, taking over from the shareholders, whose claims are written down against the losses following an immediate assessment of the value of the bank. While a small bank can be simply placed in solvency and insured depositors paid out immediately, it is normally a lower cost option to transfer the insured deposits and other viable parts of the business to one or more other providers according to who makes the best bid and leave the remainder in the 'residual bank' which is then wound up through normal insolvency. If there is not enough time to do this then all or part of the bank can be placed temporarily in a "bridge" bank run by the authorities until it can be resolved through transfer to other providers. The UK retained nationalization as a last resort. Unless nationalization is used then this should be of no cost to the taxpayer as the deposit insurance fund would be financed by the industry (i.e. all depositors). It is only if the fund is insufficient and needs to borrow from the taxpayer in the short run or if the nationalized bank cannot be sold at a profit after reorganization that there should be taxpayer costs. Many European countries did not have these powers, particularly to take over a bank prior to insolvency, and hence major changes have been necessary. Not all countries have acted and the result is likely to be considerable variation from one country to the next.

While the majority of bank failures may have been in small institutions it is the difficulties in large institutions and their bailing out by the authorities that have created the pressures on national budgets and the build up of moral hazard for the future. In the main these bailouts have occurred not because this was the preferred policy but because there seemed to be no viable alternatives. There were two elements to the problem. The first was that the vital functions of the bank have to be kept running without interruption or there would be a serious disruption to the financial system and loss of confidence and the second that it is impossible to work out what needs to be done in a complex organization fast enough for it to be implemented. Thus rather than simply the traditional epithet that these organizations were 'too big to fail', the problem was that they were too interconnected to fail or too complex to sort out. Thus a route has to be found which offers swift resolution at least partly as a going concern, without simply bailing out the existing shareholders, although the amount of new equity required to return to adequate capitalization may in any event dilute the existing holdings to small proportions.

The EU has only partly addressed this problem even at the national level. There is no clear agreement on whether there should be limits to the size and complexity of institutions. The concept of 'living wills' has been promoted particularly in the UK. Under such a 'living will' a bank has to explain how its vital functions can be kept running by the authorities, without the use of public money in the event that the organization fails to maintain adequate capital. This requires not just adequate simplification of structure that the different activities can be separated out and resolved but that there is adequate preparation so that these activities could be run in the new structure without a break in operation. Secondly, capital buffers need to be effective enough that they can absorb the shock. This can be achieved most readily, not simply by increasing their size, but by ensuring the most junior debt can be turned into equity, either if existing equity falls below regulatory limits or if there is an economy wide crisis and markets are unlikely to be able to refinance the bank through a new capital injection. These contingent contracts (CoCos) have already been used by the Lloyds Banking Group. There the trigger is falling below a 5% equity ratio.

Thirdly, cushions need to be expanded in good times so that there is the scope to use them when the problem comes without immediately running down regulatory capital to the point that it does not meet the authorities' minimum requirements. A counter-cyclical pressure against asset prices and credit growth was one of the strongest lessons from the crisis. The EU has not decided how to handle this yet.

Once, however, we get to the case of a cross-border institution there are two further problems. The first is simply that there is no one regulator who can sort the problems out and have the power to act. National authorities in each jurisdiction need to act – in a cooperative manner. But the second problem is simply that the interests of the different member states may not be the same. The viability of the parent – i.e. the banking group as a whole might best be served by a rapid curtailing of activity among subsidiaries in other countries and a repatriation of capital. In a country with a predominantly foreign owned banking system this could be disastrous for financial and real stabil-

ity. Some form of weighting of needs will be required. This is yet to be addressed. What has been addressed is burden sharing – having a priori agreements about how the cost to the taxpayer is to be shared out among the participant countries. This clearly adds moral hazard.

There is some hope of a move towards addressing the pan-EU spillover effects as the Commission has proposed that each country should create 'resolution funds' financed by the banking system that would handle to costs of resolution in addition to those encountered by the deposit insurance fund. It has been proposed to explore whether this could be applied at the EU level in 2014. However, the idea that there should be EU-level regulation for cross-border banks, EU-level supervision, EU-level resolution to get over the lack of powers across regimes or EU-level insurance has not been taken up. Analogously, the US had recognized this need in 1935 as a result of the Great Depression. The EU apparently is hoping that having supervisory colleges, soft law agreements and the ability of the new European Banking Agency to arbitrate in the case of disagreement, will be sufficient.

The Return to 'Normality'

When the crisis struck in earnest after the fall of Lehman Brothers most EU countries introduced sweeping guarantees for depositors and other creditors. Despite harsh criticism of Ireland which took the first step, deposit insurance was raised to €50,000 and is set to move to €100,000 at the beginning of 2011, thus enshrining a crisis measure and making the running of the normal system much more expensive. Clearly there is a collective action problem and all countries will need to move back to normality in an organized way. Nevertheless there is no indication that previously financial stability was threatened by the failure to reimburse depositors beyond the rather low but variable limits that applied before the crisis.

Timing of changes will be everything as the recovery itself has slowed down. One of the likely causes of the present crisis was the prolonged very low interest rates that followed the dotcom collapse and the 9/11 disruption. Holding off the return to normality too long could lead to another sharp cycle but returning too rapidly could push the EU back into recession. The EU will probably not be the first mover in this regard internationally and at the time of writing there is a worry that there will be competitive attempts to push exchange rates down that will merely exacerbate the interest rate and imbalance problems.

The Lack of Tools for Macro-prudential Regulation

Over the last five years there have been enormous advances in the understanding of how connected the parts of the financial system are and the extent to which risks may be being concentrated rather than spread. However, analysis and action are not one and the same. Central banks typically have responsibility for macro-prudential stability but they cannot exercise that responsibility if they only have the tools of monetary policy. Sometimes the needs of price stability and financial stability may point in the same direction but they need not. Using interest rates to restrain financial growth may not be appropriate if there is no general inflationary pressure. Tools are required that impinge on lending activity and asset prices, either automatically or on a discretionary basis. Loan to value ratios are a commonly cited possibility. If asset prices start rising then new loans should represent a decreasing portion of that rise.

As it is, the new ESRB will have good resources for analysis but it can only warn and recommend action by the national authorities. The idea is that if an authority does not carry out the recommendations it would have to explain and that this process would give moral pressure for action. There are two dangers to this process. The first is that it is very easy to produce a long set of risks and to caution people against them. This can readily devalue the message. The ECB has produced annual assessments of public finances among the member states, with matching cautions and calls for action. The impact of these became very limited. The second is that without the responsibility to act itself it will be rather easier for any of the parties to defer action. The ESRB will not wish to have its authority challenged which might occur if it tries to push for more action than the states concerned feel is merited.

Concluding Remark

The response of the EU to the challenges of the crisis has in many respects been more radical than expected, especially the creation of the EFSF. However, despite the creation of new EU-level institutions including the ESRB, the EU has not tackled the problem of having cross-border banks that proved too big to handle satisfactorily head on. It has analyzed the problems clearly but hopes that international coordination and cooperation, coupled with some simplification of the institutions themselves and a clear increase in the capital and liquidity buffers required will be sufficient. A likely outcome is that the system will not be tested and none of the major banks will get into irresolvable trouble once the present crisis is

past. However, it was this perseverance with a system that was not plausible that led to the problems in Iceland and the practical difficulties over coordination that led to the dispute over Fortis. It was only where the home country firmly tackled the problems without recourse to partner countries as with RBS and Lloyds that the system 'worked' but there the taxpayer – thus far - has paid. There is a reasonable chance that, as in the Nordic crisis, the taxpayer losses may fall and in some countries the taxpayer may come out ahead in simple fiscal sense. Nevertheless this is an opportunity missed and a worry for the future. If a problem on this scale does not prompt a comprehensive EU level solution one might wonder what will.

David G Mayes, University of Auckland

Notes

[1] The Basel Committee recognized that an agreement on liquidity buffers was needed even when it was negotiating the first accord in the 1980s but it proved too difficult to get agreement and unfortunately as a consequence the whole topic was seriously neglected.

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Lisbon Agenda Performance: OECD Measures

David L. Cleeton

The Organization for Economic Cooperation and Development (OECD) is comprised of 33 member countries including 21 of the EU 27 member states.[1] For over four decades the reliability of OECD data for comparative economic and social analysis has been unrivaled and the recent compendium of OECD statistics in the OECD Factbook 2010 and its accompanying database[2] has been chosen as the source for an exercise in assessing the relative performance of EU member states vis-à-vis the economic performance standards exemplified by the United States and Japan.

Growth Rates in Labor Productivity

The single measure most often used to evaluate the dynamic efficiency of an economy is the growth rate of labor productivity and most often GDP per hour worked is the chosen empirical measure of labor productivity. The growth rate of GDP per capita worked is then typically broken down into two components: changes in labor productivity itself, the rate of increase in GDP per hour worked, and changes in the utilization of labor, that is hours worked per capita. For comparative purposes the OECD data has been converted to constant US dollars using Purchasing Power Parities indices with the year 2000 as the base. On the following page Chart 1 gives a summary of the comparative data for the period 2001-08.

The bottom panel of the chart shows the growth rate in GDP per capita. The bars represent the average annual growth rate over the period 2001-07 and the triangles show the beginning of the recessionary period of 2007-08. In general the 2007-08 performance was below the longer-term trend established earlier in the decade, e.g. Estonia and Ireland stand out in leading the recessionary decline. In the rankings the top overall growth performances were established by the strong continued performance of EU accession countries. Estonia, the Slovak and Czech Republics, Poland, Slovenia, and Hungary posted respectively the highest average growth rates. In fact only the Franco-German core and their surrounding smaller neighbors and the laggard southern economies of Italy and Portugal failed to exceed the growth rate performance of the United States.

When we take account of the growth of labor utilization, the growth of labor productivity relative to the US and Japan is less impressive. Over the 2001-07 period there was a significant fall in labor utilization

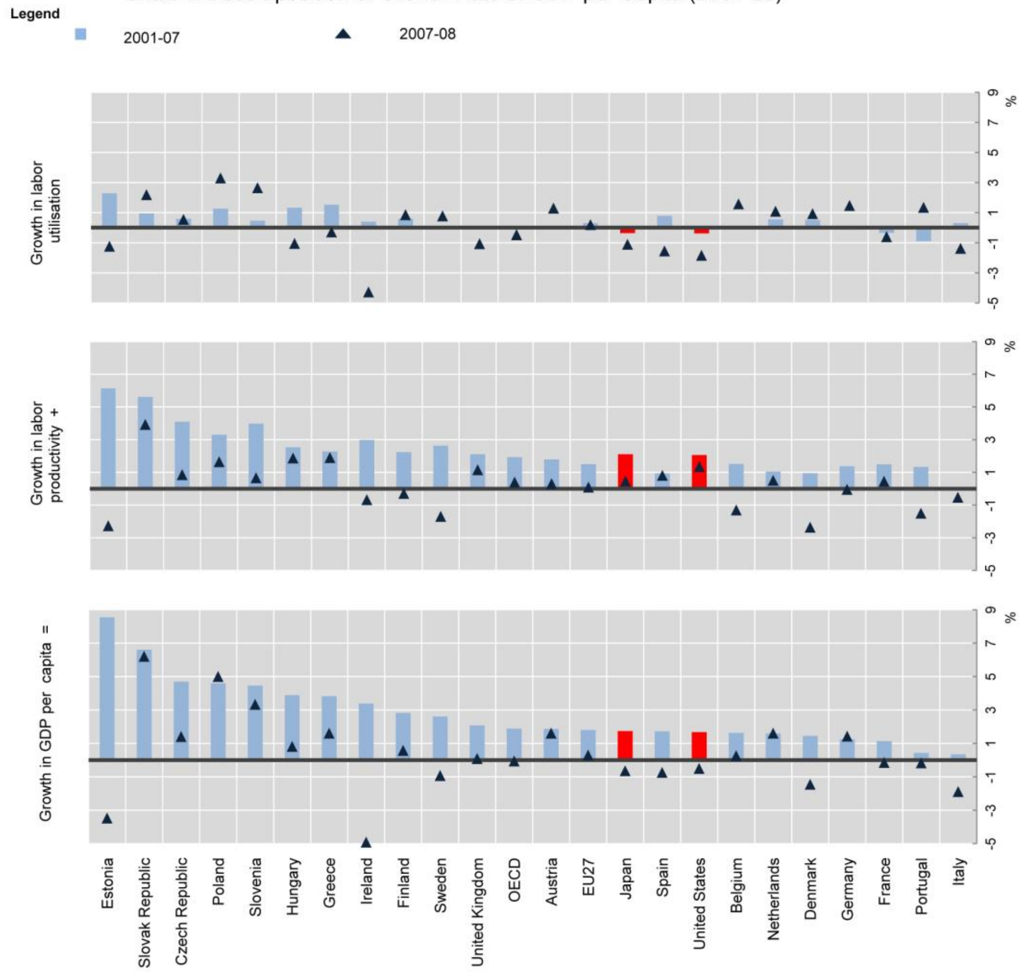


Chart 1: Decomposition of Growth Rate of GDP per Capita (2001-08)
Legend
2001-07
2007-08
Growth in labor utilisation
Growth in labor productivity +
Growth in GDP per capita =
%
Estonia
Slovak Republic
Czech Republic
Poland
Slovenia
Hungary
Greece
Ireland
Finland
Sweden
United Kingdom
OECD
Austria
EU27
Japan
Spain
United States
Belgium
Netherlands
Denmark
Germany
France
Portugal
Italy
Source: OECD Factbook 2010 database.

in both the US and Japan: a decline of 4/10ths of 1 percent per year in hours worked per capita. The only country with a comparable rate of decline was France with 3/10ths of 1 percent per year. Portugal suffered a larger downward rate of labor utilization posting a decline of 9/10ths of 1 percent per year. At the other extreme Estonia, the Slovak Republic, Poland, Hungary and Greece all saw annual growth rates in hours worked per capita in excess of 1 and ¼ percent per year over the 2001-07 period.

After adjusting for changes in hours worked per capita the growth of labor productivity in 11 EU countries exceed the average annual growth rate of 2.1 percent set by both the US and Japanese economies. The high relative performances are tabled below.

Table 1: Growth Rates in GDP per Hour Worked

Country	2001-2007	2007-2008
Estonia	6.1	-2.3
Slovak Republic	5.6	3.9
Czech Republic	4.1	0.9
Poland	3.3	1.6
Slovenia	4.0	0.7
Hungary	2.5	1.9
Greece	2.3	1.9
Ireland	3.0	-0.7
Finland	2.2	-0.3
Sweden	2.6	-1.7
United Kingdom	2.1	1.2
Japan	2.1	0.5
United States	2.1	1.4
OECD	1.9	0.4
EU27	1.5	0.1

This relative performance record for the most part is consistent with economic convergence in the process of integrating new EU member states. It is not however what one would have expected to see through the fulfilment of the goals established under the Lisbon Agenda and summarized below.[3]

a new strategic goal for the next decade: *to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion.* Achieving this goal requires an *overall strategy* aimed at:

- preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;
- modernising the European social model, investing in people and combating social exclusion;
- sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macro-economic policy mix.

Contributions to GDP Growth

A different measurement approach which focuses on the emphasis placed on the innovative processes tied to the knowledge-based economy and the information society is offered in the analysis conducted by the OECD on the topic of productivity and growth accounting. In growth accounting, GDP growth is further decomposed into the contributions of labor and capital inputs and multifactor productivity, or how the production knowledge base and inter-factor productivity improves over time. More recently there has been an effort undertaken to breakout alternative forms of capital investment. Information and Communications Technology (ICT) capital includes the categories of investment in computer hardware and software as well as communications equipment. Under the OECD classification scheme, non-ITC capital is comprised primarily of categories spanning investments in transport equipment and non residential construction; products of agriculture, metal products and machinery other than computer hardware and communications equipment; and other products of non residential gross fixed capital formation.

Using these categories, the OECD has estimated the contributions to GDP growth associated with changes in the labor input, ICT capital, non-ITC capital, and the residual multi-factor productivity component. The time period used by this recent OECD study is longer term than the period under the Lisbon Agenda, covering nearly a quarter of a century. This prevents the inclusion of Baltic and Central and Eastern European countries which have only relatively recently joined the OECD.

The results are summarized in Table 2 and in Chart 2 on the following pages. The examination of the contributions of ICT capital to GDP growth shows two cluster groups in comparison to the reference targets set by the US and Japan. Japan's 4/10ths of 1 percent (0.40) annual growth rate contribution from ICT capital is beaten by a total of five EU countries but three, Denmark (0.42), the Netherlands (0.45) and Belgium (0.46) underperform vis-à-vis the US (0.54). Both the United Kingdom (0.55) and Sweden (0.56) marginally outperform the US in terms of ICT capital contributions.

In fact both Sweden and the United Kingdom managed to outperform the US in the categories of ITC capital, non-ITC capital, and multi-factor produc-

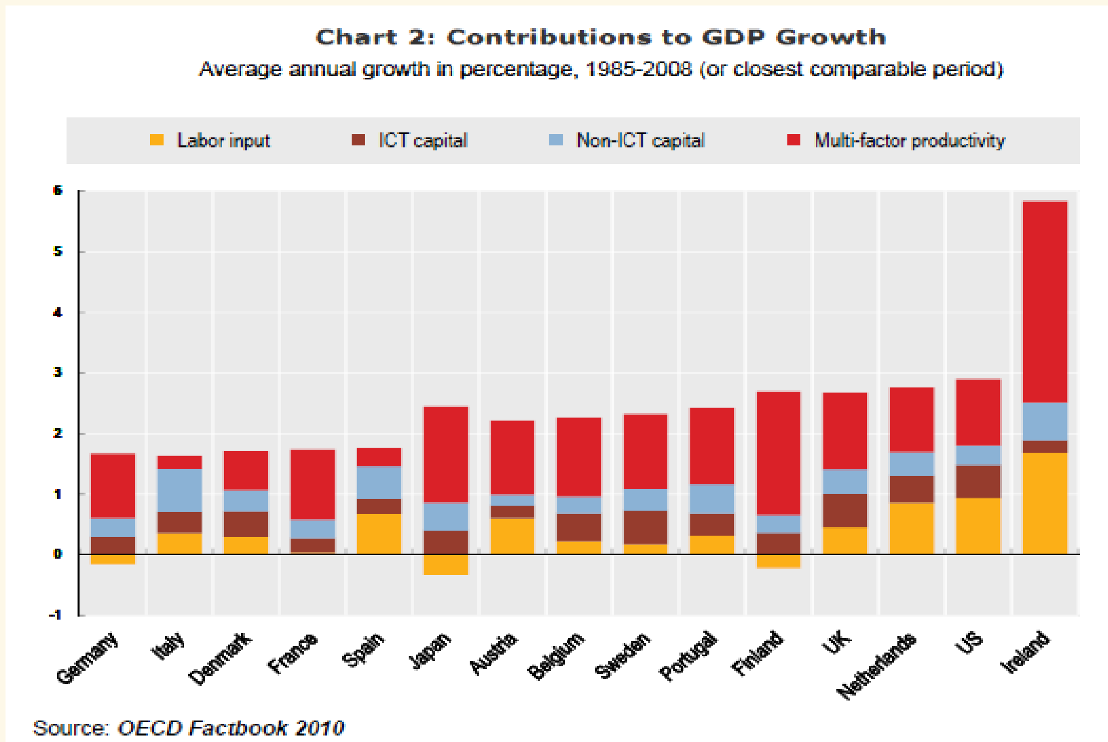
tivity. However their overall GDP growth performances still fell short of the US's record because of the significantly larger contribution of labor.

Denmark, the Netherlands, and Belgium all fell behind Japan in the measured contributions to GDP growth from non-ITC capital and multi-factor productivity. Japan was the only country in the study to see a decline in the labor input over the comparison period while Denmark and Belgium showed weak labor input growth and the Netherlands demonstrated strong labor input growth comparable to the highest level demonstrated by the growth of the US labor input. Overall the combined effects were that Japan was able to produce significantly better overall GDP growth than Denmark and slightly inferior growth than Belgium. The Netherlands on the other hand came in with the strongest EU member state performance with an annual overall GDP growth rate of 2.77 compared to 2.89 posted by the US.

Table 2: Contributions to GDP Growth

Average annual growth in percentage, 1985-2008 (or closest comparable period)

	Labor input	ICT capital	Non-ICT capital	Multi-factor productivity
Germany	-0.16	0.29	0.31	1.07
Italy	0.35	0.35	0.71	0.22
Denmark	0.29	0.42	0.35	0.64
France	0.03	0.24	0.31	1.16
Spain	0.67	0.25	0.54	0.30
Japan	-0.34	0.40	0.45	1.60
Austria	0.60	0.21	0.18	1.22
Belgium	0.22	0.46	0.28	1.30
Sweden	0.17	0.56	0.35	1.24
Portugal	0.32	0.36	0.48	1.26
Finland	-0.22	0.36	0.29	2.04
U.K.	0.45	0.55	0.40	1.27
Netherlands	0.85	0.45	0.39	1.07
US	0.94	0.54	0.32	1.09
Ireland	1.68	0.21	0.62	3.33



Unit Labor Costs

Our third measure looks at the overall competitiveness of a country through the examination of unit labor costs. Unit labor costs are codetermined by the dynamics of labor compensation and labor productivity and serve as the primary determinant of cost pressures on producer prices. Typically unit labor costs are defined as the average labor cost per unit of aggregate output or the ratio of total labor costs to total output on either a per worker or per worker hours basis.

Using data over the decade of 1998-2008, the OECD reports average annual growth rates in unit labor costs and productivity as summarized in Chart 3 and Table 3. Japan clearly sets the standard over the decade for labor cost driven competitiveness. While GDP growth was negatively affected by a large decline in labor utilization in the Japanese economy this does not impact in the same way on unit labor costs. In fact with labor productivity growth in the mid to low range of the group of most developed economies, it is the decade-long strong wage restraint seen in the Japanese economy that is the primary driver of the significant downturn in unit labor costs. The only other economy with sufficient wage restraint matching productivity growth over the decade is Germany which manages to hold growth in unit labor costs to nearly zero.

Over this decade, among the candidate and later accession countries of EU, most economies saw strong gains in labor productivity. Poland, the Czech and Slovak Republics, Slovenia, Estonia, and Hungary along with Ireland all saw average annual productivity gains in excess of 2.5 percent while Japan and the United States respectively recorded 1.43 and 1.74 percent growth rates. Due to even higher growth rates in labor compensation, unit labor costs rose by more than in the United States in all these countries, with the exception of Poland.

Conclusion

In the comparative OECD data we have examined on labor productivity, growth accounting, and labor costs there is no strong support for the achievement of the primary Lisbon Agenda goal of "becoming the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth". The driving force of ITC capita investment shows up primarily in maintaining the relative performance vis-à-vis Japan and the US of a small set of mid-sized economies located around the Franco-German core. In terms of economic growth convergence in matching the performances of the Japanese and US economies, the data shows this to be localized regionally in the combination of labor productivity gains and increased labor utilization rates across recent EU accession countries.

David L. Cleeton, Christopher Newport University

Notes

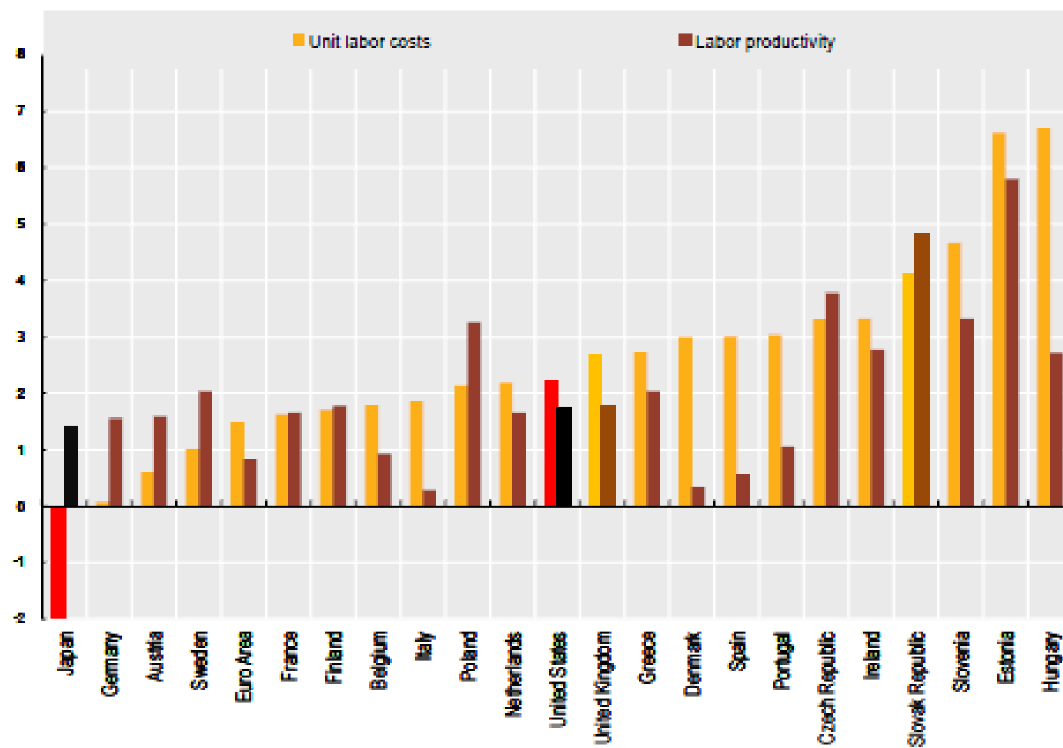
[1] Countries which share OECD and EU membership are: Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, and the United Kingdom.

[2] The OECD Factbook 2010: Economic, Environmental and Social Statistics (May 2010) can be accessed online at: http://www.oecd-ilibrary.org/economics/oecd-factbook_18147364. The website access allows the downloading of Adobe Acrobat versions of the chapters and subsections of the publication along with Excel files containing the data used to produce the publication's tables, charts, and graphs.

[3] From the Lisbon European Council 23-24 March 2000 Presidency Conclusions, see: http://www.europarl.europa.eu/summits/lis1_en.htm

Chart 3: Unit Labor Costs and Productivity

Average annual growth in percentage (1998-2008 or latest available period)



Source: *OECD Factbook 2010*

Table 3: Unit Labor Costs and Productivity

Average annual growth in percentage (1998-2008 or latest available period)

	Unit labor costs	*Labor productivity*
Japan	-1.99	1.43
Germany	0.07	1.56
Austria	0.61	1.59
Sweden	1.01	2.04
Euro Area	1.50	0.83
France	1.62	1.65
Finland	1.70	1.79
Belgium	1.79	0.93
Italy	1.86	0.28
Poland	2.14	3.26
Netherlands	2.19	1.66
United States	2.24	1.74
United Kingdom	2.66	1.79
Greece	2.72	2.03
Denmark	3.00	0.34
Spain	3.01	0.57
Portugal	3.04	1.06
Czech Republic	3.31	3.78
Ireland	3.33	2.77
Slovak Republic	4.14	4.83
Slovenia	4.66	3.33
Estonia	6.62	5.80
Hungary	6.70	2.71

Commentary on the SGP Reform Proposals

Andrew Hughes Hallett

Prior to the financial crisis in September 2008, public finances in the European Union (EU), including countries in the euro area, appeared to be in reasonable shape. In fact, the average budget deficit-to-GDP ratio was close to 3%, and the average government debt-to-GDP ratio was around 60%. In other words, for the EU taken as a whole, fiscal policy had been conducted more or less in line with the limits of the Stability and Growth Pact (SGP).

However, over the last couple of years, the stance of fiscal policy has deteriorated. Public finances (across the globe) are now in worse shape than ever during peace time, and fiscal policy is on an unsustainable path nearly everywhere. The budgetary crisis in Europe has received most attention, not least due to the desperate situation in Greece, but it is noteworthy that public finances in Europe overall are stronger than in the UK, USA and Japan (Buiter, 2010).

Behind the average figures for the European Union - a public debt ratio of more than 80% and a deficit ratio of nearly 7% - significant differences can be found between the member states. For example, Finland has relatively strong public finances; whereas the so-called PIIGS group (Portugal, Italy, Ireland, Greece and Spain) have very high debt and deficit ratios. And in between are Germany and the Netherlands, although with public finances not yet strong enough to satisfy the Maastricht criteria.

There are several reasons for this dramatic worsening of public finances in recent years. One is clearly the direct increase in public expenditures associated with various rescue packages for banks and other financial institutions following the financial crisis. Another reason is the indirect rise in expenditures and fall in revenues due to the operation of automatic stabilisers following the economic downturn that came in the wake of the financial crisis. And most obviously, public revenues have fallen as a result of the slimming down of the housing and financial sectors, and the consequent loss of output and employment that followed over the last two years.

The fiscal misery may have serious economic consequences. First, high deficit and debt ratios may lead to dramatically increasing risk premia on interest rates, reflecting the risk of sovereign default, which in turn may not only reinforce the fiscal troubles but also would be harmful to private investment etc. Second, there is growing evidence that debt ratios above 90% may adversely affect economic growth (Reinhart and Rogoff, 2009, Checherita and Rother, 2010). In fact, recent projections made by the IMF (2010) forecast even US and UK debt-to-GDP ratios to exceed 90% by 2011.

Against that background, it is understandable that there should be concerns about explosive debt developments. While simple in principle, it seems difficult for the euro area members to implement the fiscal pain needed to bring their public finances in order: governments hesitate to raise taxes and/or cut expenditures. This reflects a populist attitude of “won’t pay” rather than “can’t pay” which might, in a longer term perspective, pose a threat to the survival of the euro. So, there seems to be a need for a new policy framework which (a) allows for short-term stabilisation and consolidation policies to be undertaken, (b) allows policy-makers to choose a size of the public sector as they want and (c) constrains the behaviour of fiscal authorities so as to avoid unsustainable fiscal policies in the future.

The research we have done is concerned with a framework for setting fiscal and monetary policies in Europe, but we take on board the need for, and the difficulties caused by how those policies interact with, policies for structural reform. We treat the policy making framework in general, rather than the detail of how different policies might be devised to suit particular circumstances. We use that framework to show how different policy institutions may be allowed to retain different priorities, and hence individual policies that fit together, while also maintaining a degree of flexibility that allows them to deal with problems as they arise. At the same time, policymakers need to remain independent of external influences (and political pressures in particular) so that their policies will remain consistent in the pursuit of the goals that they or society have set for them.

Our argument is as follows. The fiscal rules stipulated in the Stability and Growth Pact have proved impossible to enforce, and the Pact has now effectively been set aside. However, to avoid unsustainable fiscal policies reappearing and to prevent monetary policy from being undermined by self-interested governments, there is still a need for a new and agreed fiscal framework within the euro area. In order to achieve the necessary co-ordination between monetary and fiscal policies, this paper suggests an intertemporal assignment with fiscal leadership, in the sense of first satisfying medium-to-long-term objectives (e.g., providing for social security, the public provision of education and research activities, and ensuring the sustainability of public spending), and letting monetary policy focus on short run objectives (cyclical stabilisation, control of inflation). We argue that restraints on fiscal policy should focus on imbalances, and not on the size of the public sector or on the com-

position of expenditures and revenues. Specifically, we suggest public debt targets as a practical way to achieve this and enhance fiscal-monetary co-ordination at the same time without having to compromise the independence of monetary policy. An excessive debt protocol is proposed to give concrete form to this targeting arrangement, and a mechanism is devised to identify the region of stabilisability within which that debt target must be set (and hence the critical limits beyond which debt may not go without precipitating a crisis).

Making these factors explicit components of the new fiscal framework, together with an independent monitoring body, would do a lot to improve the credibility of the Euro area's fiscal policies, and to reduce risk premia in borrowing costs. Stabilising the stock of debt by fiscal means alone is not always possible however. We therefore also examine the role of "internal devaluations", or structural reforms, as a means of circumventing those barriers to fiscal stability. This framework provides the analytic support needed to underpin many of the innovations currently under discussion in Brussels.

Andrew Hughes Hallett, George Mason University

EUSA Political Economy Interest Section

Fiscal Discipline is Not Enough to Stabilize the Euro[1]

Erik Jones

By the time you read this essay, the Task Force headed by European Council President Herman Van Rompuy will have already delivered its recommendations for the reform of European macroeconomic governance. Most likely, those recommendations will include a mixture of tougher sanctions on countries that run 'excessive deficits' on their government balances and flanking measures to keep an eye on national competitiveness as well. The Germans will express disappointment that the regime is not more rigorous; a few of the smaller countries will worry that the sanctions will only apply to them; the European Commission will complain that its advice is not given sufficient prominence; and the European Central Bank (ECB) will make known its disappointment that the procedures (and sanctions) are not more automatic.

This focus on fiscal discipline is understandable given what has happened in Greece. The idea that the Germans (and the Slovaks) should have to bail out a Greek government that cannot keep its own house in order is hard to sell to the tabloid press. The prospect that Greece is only one of many governments in need of fiscal support is even worse. Public opinion across the eurozone demands reassurance that this is a once-in-a-lifetime experience and that those responsible for this mess will never be able to repeat their mistakes. Contrition on the part of those countries at the heart of the crisis is not enough to satisfy and angry electorate; something more must be done.

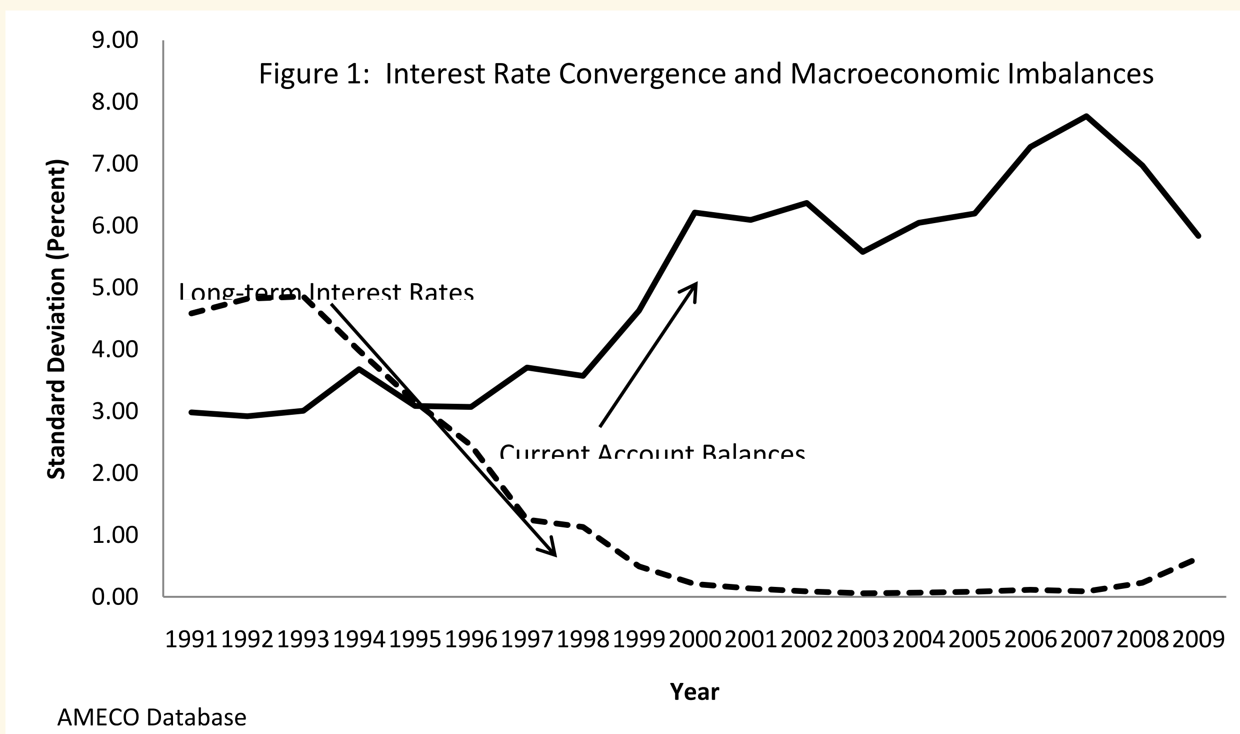
If the European Council (or the Council of the European Union) chooses to implement the Van Rompuy Task Force's recommendations, that will represent an improvement over the Stability and Growth Pact. Member States will pay more attention to the importance of adhering to fiscal targets (using accepted government accounting standards) and they will have cause to reinvigorate the wider process of multilateral surveillance as well. Nevertheless, if the goal of the reforms is to prevent another crisis like the one we have witnessed over the last year or so, then they will fail. Fiscal discipline is not enough to prevent the emergence and implosion of destabilizing asset bubbles and the loss of competitiveness in the peripheral countries of the eurozone is only a symptom, not a cause. The Van Rompuy Task Force is well aware of the underlying mechanisms and yet chosen not to ad-

dress them. The stability of the eurozone is likely to remain much weaker than it should be as a result.

Interest Rate Convergence and Macroeconomic Imbalances

To understand this critique of the likely trajectory for European macroeconomic governance reform, it is necessary to start with the phenomenon of interest rate convergence that took place just before the creation of Europe's economic and monetary union (and well before the introduction of the euro). At some point in the mid-to-late 1990s, bond traders in Europe awoke to the realization that there would be only one interest rate prevailing across the eurozone as a whole. The situation prior to EMU was markedly different. Some countries had relatively high interest rates (Portugal, Greece, Spain, Italy, etc.) while other countries benefited from interest rates that were relatively low (Germany, Austria, Belgium, Netherlands, etc.). Expressed in terms of bond prices the situation was reversed: prices were high where interest rates were low and the other way around. Hence these bond traders saw an opportunity for profit from selling high and buying low – trading some of their holdings of German, Dutch, Austrian or Belgian bonds for cheaper assets in Greece, Portugal, Italy, Spain, and so forth.

Once bond traders began to develop strategies based on this insight, their prophecy of interest-rate convergence was self-fulfilling. As demand increased for the higher interest-rate bonds, the price of these bonds rose from their initially low levels. The reverse was also true, and bond prices fell where interest rates were low (albeit only marginally given the relative size of the different bond markets). A convergence in bond yields or effective interest rates across the two different countries was the result. This interest rate convergence was not a wholly psychological proposition. There had to be some justification to be found in the economic fundamentals for the relative price movements to take place. The actions of the bond traders only succeeded in speeding up matters. Once they became convinced about what would happen in the future, their actions created those conditions in the present. The speed of this convergence is evident in one of the data lines presented Figure 1 – the dashed line that shows the standard deviation across ten-year government bond yields in those countries that would constitute to the eurozone (including Greece but excluding Luxembourg). As that standard deviation decreases, the separate national interest rates come together.



The process of interest rate convergence prior to the start of Europe's economic and monetary union (EMU) is well known. What is less appreciated is what this interest-rate convergence entailed in terms of international capital flows. As money moved from high price to low price bonds, it crossed international borders as well. Governments that once struggled to meet their borrowing requirements at a reasonable cost benefited from a release of pressure; local banks and industries that saw their activities crowded out – or, better, priced out – by government borrowing, experienced a release of pressure as well. This private sector impact came not only from the activity in the bond market but also from the liberalization of international capital markets that ran alongside the creation of the monetary union. Hence the movement of money in the bond market was shadowed by cross-border deposits and interbank lending in search of a higher yield. All things being equal, the use of credit expanded in those countries where the cost of borrowing fell.

Where money flows, goods follow. The countries that borrowed saw an increase in both consumption and investment that drew in imports beyond the pace of any export growth. Hence even where countries continued to hold onto market share in the outside world, their current account balances plunged into deficit. The experience of lending countries was exactly the opposite. The capital (bond holdings, bank deposits, etc.) that left the typically low interest rate countries like Germany, Austria, Belgium and the Netherlands, put upward pressure on their current accounts. With more money being saved than invested in these countries, the relative balance between domestic output and domestic absorption had to be positive. These effects can be seen in Figure 1 as well. The relevant (solid) data line shows the standard deviation across national current accounts expressed as a percent of gross domestic product (GDP). As this measure increases, national current account positions diverge and the macroeconomic relationship between savings and investment within and across countries moves further out of balance.

Competitiveness

The emergence of increasing macroeconomic imbalances fuelled a heated debate on competitiveness in Europe. In that debate – which is still very much ongoing – those countries that run surpluses are lauded for their low cost structures; those that run deficits are criticized for their high costs. The point to note, however, is that it was the divergence in current account performance that preceded the debate on competitiveness and not the other way around. Relative cost structures did not cause the convergence of nominal interest rates in Europe. On the contrary, nominal interest rate convergence took place despite differences in relative cost structures and price inflation rates. In turn, it was the capital flows that attended nominal interest rate convergence that caused current account performance to diverge across countries. Contrary to the rule of thumb used in international economics, goods markets accommodated; capital markets cleared first.

This is not to say, however, that the competitiveness debate is unfounded. Relative cost structures have moved during course of Europe's economic and monetary union and their movement has reinforced – or, perhaps better, locked in – the wide divergences in current account balances. Countries on the southern periphery of EMU may not have run deficits because of their unfavorable cost structures, but they will find it difficult to close those deficits with the relative cost disadvantages they have developed alongside the deterioration on their current accounts. The expansion of credit that coincided with the process of nominal interest rate convergence put upward pressure on prices as well as imports. With more governments, firms and individuals borrowing for consumption and investment, the growth in domestic demand necessarily outpaced the growth in output (or supply). The influence of this pressure was restrained by the policies of the monetary union. Compared to their own historical performance, inflation in the peripheral countries of the eurozone actually slowed down. Nevertheless, their price inflation was higher than elsewhere – both because capital imports drove prices up on the periphery and because net capital exports in Germany and elsewhere drove prices there down.

The distinction I am trying to make here is subtle rather than self-evident and it depends in many ways upon how competitiveness is measured. Economists believe the best measure of competitiveness is found in relative nominal unit labor costs expressed in common currency. If we can assume that the 'units' are roughly equivalent from one place to the next, then the cost of labor required to make those units should give us a good indication of where production is likely to be expensive and where it is not. Even if the units are not exactly fungible, the relative movement in cost structures over time should give us a clear indication of which countries are losing competitiveness and which countries are gaining.

The problem is that relative movements in nominal unit labor costs are not directly observable. Instead, they have to be calculated using three different elements:

* the relative movements in the ratio of total la-

bor costs to total output, which is called 'real' unit labor costs because the price movements common to both parts of the ratio cancel out;

* the relative movements in the price deflators for gross domestic product (GDP) so that the 'units' of output can be held constant; and,

* the movements in nominal effective exchange rates so that the influence of currency movements can be taken into account.

Each of these observable variables sheds light on a different aspect of the competitiveness story. Movements in real unit labor costs tell us about the relative changes in the distribution of income between capital and labor; movements in GDP price deflators tell us about relative price changes across the economy as a whole; and movements in nominal effective exchange rates tell us about relative currency movements across the range of trading partners. By looking at these different elements separately, rather than aggregating them altogether into one composite measure of competitiveness, it is easier to get a sense of which aspect is behind any movement in the final aggregate and what should be done about it.

Table 1 illustrates the statistical decomposition of national competitiveness, using data that compares in-country developments with the other first fifteen European Union (EU) member states (EU-15) but excluding tiny Luxembourg. The product of all three observable variables is called the 'real effective exchange rate'; 'nominal unit labor costs' are calculating by multiplying relative real unit labor costs and relative GDP price deflators. Because the table reproduces log changes over different period, the rates of change are additive rather than multiplicative across the different component variables. The periods run from the negotiation of the Maastricht Treaty (1991) to the start of EMU (I use 2000 to split the difference between Greece and everyone else); from the start of EMU to the onset of the global financial crisis (2007); and from the negotiation of the Maastricht Treaty to the onset of the global financial crisis. Again, because the data report log differences, the long period is simply the sum of the two shorter ones.

Looking at the first (pre-single currency) period, Germany, Greece and Portugal lost competitiveness through a real appreciation of the real effective exchange rate while Ireland, Spain, and Italy all saw competitiveness improve as their real effective exchange rates appreciated. The point to note, however, is that these movements took place for different reasons. Germany lost competitiveness primarily because of the rise in real unit labor costs insofar as the appreciation of the nominal effective exchange rate is more than offset by the relatively slow growth in the GDP price deflator. Greece and Portugal lost competitiveness because relative price inflation more than offset the depreciation of the nominal effective exchange rate; by comparison, relative movements in real unit labor costs only added insult to injury. Among those countries that witnessed competitiveness gains, Ireland is the mirror image of Germany in that movements in relative real unit labor costs more than made up for a relative high rate of GDP price inflation. Spain's competitiveness gains were due wholly to relative movement in nominal effective exchange rates. Italy's gains where due to a combination of relative nominal depreciation and relative reductions in real unit labor costs.

With the introduction of the single currency, relative movements in the nominal effective exchange rate flatten out and appreciate marginally for those countries within the single currency against those countries that chose to remain outside. Hence any changes in the real effective exchange rate are the result of changes in relative nominal unit labor costs – which is to say either relative GDP price deflators or relative real unit labor costs. For Germany, both variables move in the same direction as price changes slow down relative to everywhere else and as relative wage costs decrease as a proportion of total output. Where German relative real unit labor costs return to their pre-Maastricht position, relative GDP price inflation drops even further in the second period than in the first. The other countries all experience an increase in relative nominal unit labor costs due primarily to relatively high rates of GDP price inflation – which are considerably lower than during the first period (except in Spain) and yet which are still higher than in Germany. Relative real unit labor costs only rise in the two countries where they fell dramatically prior to monetary union (Ireland and Italy) and then only enough partly to offset the competitiveness gains made in the previous period. In Spain, relative real unit labor costs fall in the second period to offset the country's relatively high rate of inflation.

This is a complicated story with a simple conclusion. The difference between Germany's gain and the other countries' losses since the start of monetary union is due primarily to relative rates of GDP price inflation. The variation in relative performance in terms of other variables diminished considerably across countries from one period to the next. Hence, so far as competitiveness is concerned, the only thing that matter is that relative price inflation fell in Germany and it rose everywhere else. So long as Europe's macroeconomic imbalances are allowed to continue, that difference in relative rates of GDP price inflation is only

Table 1: Competitiveness in the Eurozone

Percent Change	REER (A+B+C)	NEER (A)	GDP Def (B)	RULC (C)	NULC (B+C)
1991-2000					
Germany	4.3	6.3	-7.3	5.3	-2.0
Ireland	-5.2	-4.4	15.3	-16.1	-0.8
Greece	16.7	-38.6	52.9	2.4	55.2
Spain	-13.0	-26.1	13.9	-0.8	13.1
Italy	-25.3	-26.0	11.5	-10.9	0.6
Portugal	21.3	-10.0	22.4	8.9	31.3
2000-2007					
Germany	-12.3	2.5	-9.1	-5.7	-14.8
Ireland	14.0	3.5	6.6	3.8	10.5
Greece	8.8	0.7	7.6	0.5	8.1
Spain	11.1	1.9	13.0	-3.8	9.2
Italy	10.8	2.0	3.8	5.1	8.8
Portugal	6.2	1.9	4.6	-0.2	4.3
1991-2007					
Germany	-8.0	8.8	-16.3	-0.4	-16.7
Ireland	8.8	-0.9	21.9	-12.2	9.7
Greece	25.4	-37.9	60.5	2.9	63.3
Spain	-1.9	-24.2	26.9	-4.5	22.3
Italy	-14.5	-24.0	15.3	-5.8	9.5
Portugal	27.5	-8.2	27.0	8.6	35.6

Note: REER is real effective exchange rate; NEER is nominal effective exchange rate; GDP def is price deflator for gross domestic product; RULC is real unit labor cost; NULC is nominal unit labor cost. All data are log changes over the period expressed as percent. Each variable is calculated relative to EU 15 excluding Luxembourg. An upward movement in the REER constitutes a lost of competitiveness.

Source: Own calculations based on data provided in the AMECO database of the European Commission – latest revision Spring 2010.

going to increase and the competitiveness problem in countries like Ireland, Italy, Greece, Portugal and Spain is only going to get worse. The point to note, however, is that changes in competitiveness are only the symptom of the problem; the capital flows in response to anticipated interest rate convergence are the cause.

Conclusion

Greater fiscal coordination and reinforced discipline will not stop the capital from flowing across national borders. Even if the governments of the traditional high interest-rate countries like Ireland, Italy, Greece, Portugal, and Spain do not borrow the money, the banks and businesses in their societies will. This is the lesson from Ireland, Spain and Portugal. Greece is the exception that proves the rule. These other countries suffered from the sovereign debt crisis because their private – and not public – borrowers were so heavily exposed. As these borrowers got cut out of international markets, the national governments had to step in to act as domestic lenders of last resort. What started as private indebtedness rapidly became a public concern. One need only look to Ireland to see that a history of fiscal austerity provides insufficient preparation to reconcile the dilemma posed by capital inflows from abroad.

For all that the Van Rompuy Task Force is failing to shore up the single currency, a break up of the monetary union followed by national currency depreciations would not be the answer either. Without heroic efforts to constrain relative movements in real unit labor costs (like that witnessed in Ireland and Italy during the run-up to monetary union), price inflation would most likely overshoot any improvements in the nominal effective exchange rate (as happened in Portugal and Greece) and competitiveness would continue to deteriorate – perhaps even at a faster pace. Meanwhile, the current accounts of the depreciating countries would only return to balance once traders in the bond markets factored in the cost of depreciation on their investments and lost faith in the eventual convergence of national interest rates on German norms. In such a situation, current accounts would adjust as capital markets went into a rout. Of course this prospect raises the hope that the resulting depreciation would overshoot the subsequent rise in inflation rates – and so trigger relative competitiveness gains – but the pace of adjustment would be brutal and the domestic costs profound.

A strong eurozone is still better than the alternative. The problem with the Van Rompuy Task Force's proposals is that the euro could be made stronger still. If traditionally export-led growth countries could be convinced to invest and consume more at home, their banks and other financial institutions would have less interest in sending money in search of higher yields abroad. The cost would be felt in terms of marginally higher rates of inflation but the result would be a more balanced pattern of growth. Greater fiscal discipline would be useful as a flanking policy for such measures. But austerity in the periphery will have little effect operating on its own. This is the lesson from the recent sovereign debt crisis in Europe – but it is admittedly a hard lesson to sell to a public opinion that has been shaped by tales of profligate governments and lazy public sector workers. Hence, the more powerful lesson from history appears to be that history is condemned to repeat itself, if not precisely, then at least enough to rhyme.

Erik Jones, SAIS Bologna Center of the Johns Hopkins University

Notes

1. This assessment is based on a wide range of source material that I do not cite in this essay due to space constraints. That should not be taken to mean a lack of intellectual indebtedness. On the contrary, my views of have been shaped by a number of prominent writers – Martin Wolf, Vitor Gaspar and Pierre-Olivier Gourinchas chief among them. I have been developing these views over the past two years through a series of articles, book chapters, briefing notes and other publications. Rather than provide an extensive bibliography in this essay – which is essentially a long opinion piece – I would refer you to those other works, which can be accessed from my personal website at http://www.jhubc.it/facultypages/ejones. Please note that all of the data used in this essay is taken from the AMECO database published by the European Commission. The list of relevant data codes and revision dates can be made available upon request.

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Teaching tools in EU studies and Social Networking

Stefania Baroncelli and *Roberto Farneti*

The emergence of the EU as a new actor in international politics has challenged treasured assumptions and frameworks in both academia and policymaking. The EU was considered an entirely new and unique political system. Plus, it did not seem to fit the existing frameworks of either political theory or policy analysis. Institutional ambiguity was considered its most noticeable featured, that made the EU scarcely suitable to the analytical instruments of both canonical political science and other cognate disciplines such as Law, Economics, and History. According to Sergio Fabbrini the EU is a supranational polity with a necessary degree of institutional ambiguity […] Practitioners as well as specialists of the EU ended up considering the EU as a polity without precedent, for the modalities of both its formation and functioning, in the history of the democratic world" (Fabbrini, p. 203).

Within academia, scholars from different disciplines have tried hard to create a new space in which the rather distinctive pattern of governance, the political process, and the institutional actors involved in the EU could be possibly articulated into a coherent discourse. The challenge consisted in finding a suitable analytical discourse that could help make sense of an allegedly unique political system. EU studies (ES) thrived within this new space, thanks to the cooperation among different disciplines. ES straddle boundaries and constitute a novel area of interest in which a new, and possibly unique, object could eventually be framed. The novelty and uniqueness of the object, though, challenged not only the cohesion of the disciplines involved in addressing the academic discourse about the EU but also, and primarily, the teaching of ES.

This article wants to outline briefly the results of a major research project on the current status and actual developments in teaching EU studies. It will offer insights into the major orientations in designing teaching tools and methods and will survey, very much in outline, the current state of ES across disciplines. We will first detail the accomplishments of this project, then we will narrow the focus of our attention to our research, a group of teachers and students from the University of Bolzano. We will conclude on a brief description of case-study, namely, the application of social networks for classroom purposes.

The SENT Network

The "Network of European Studies" (SENT) brought together 66 partners from EU member states, candidate countries, and a number of associate ones. It was an ambitious, far reaching project that aimed to assess the current state of EU studies and review the general perception of EU institutions across Europe.[1] The challenge faced by EU educational institutions is how to track and harmonize different curricula, how to facilitate inter-institutional cooperation and mobility schemes, and how to create integrated programs of study, training, and research. The SENT network was designed to meet these challenges and provide EU educators with a workable means of cooperation.

The SENT network was created after the so-called "Bologna Declaration," a soft-law instrument that enabled policy-makers and national politicians in charge of higher education to harmonize the structure of the different educational systems within the EU, and set up new strategies of cooperation. The network was designed to meet the need of EU educational institutions to track and harmonize different curricula, to facilitate inter-institutional cooperation and mobility schemes, and to create integrated programs of study, training, and research.

The network covered all possible areas in the formats, techniques and methodologies of teaching and learning EU studies, but particular emphasis was laid on innovative teaching tools, notably the use of technology in the classroom, simulations, and social networks.

Another important concern in the mind of the educators involved in teaching ES—a concern that needs to be taken in close consideration in designing new teaching tools—was multilingualism. It has been part of Community policy from the time of the Treaties of Rome, and following the Maastricht Treaty in 1992, the promotion of language learning became a corner stone of the EU's educational policy. Now it is of special importance for the Lisbon Agenda. In 2006, the EU Parliament decided to pursue a comprehensive "Framework Strategy for multilingualism" with suggestions made by a group of experts for language learning and teaching and bi- and multilingual universities in Europe are experiencing a constant growth and strengthening. Such a reconfiguration of the European educational scenario opens up a whole area of investigation as regards language pedagogy issues and the relationship between which discipline is taught and what languages are used.

This evolution, coupled with the traditional

vocation of the European Union in eliminating physical and intellectual barriers among countries, would strengthen the assumption that EU studies distinguish themselves for being based on multilingualism, intercultural and interdisciplinary approaches. Such hypothesis would be consonant with the new learning concepts, which are based, inter alia, on informal skills. If this assumption were true EU studies could be considered as an entirely new paradigm for teaching in European higher Education.

In the following we shall present first, very much in outline, the main orientations and trends in innovative teaching tools in ES and introduce the activities and achievements of one particular group within the SENT network, the "Bolzano group."

The Bolzano group

SENT's double mission was to survey and evaluate existing methods and practices in teaching and learning ES and to envision new methods and tools for teaching EU institutions. So, the project had a descriptive component (surveying the state of the art) and a normative one, tightly related with one another. The goal of the SENT was not so much to design new teaching pattern but rather pick out and highlight valuable experiences across countries and disciplines that could be disseminated and made accessible in other academic contexts. Simulation games, project teaching, virtual teaching units, distance based learning and the use of social networks have been used spasmodically within the composite field of ES. Furthermore, having ES developed across countries with distinct and specific educational systems and mores, the SENT offered a valuable opportunity to explore the advantages and the main challenges posed by distance learning compared to traditional teaching methods. Problem-Based Learning (PBL) is a student-centered approach in which students collaboratively solve problems in small groups with the help of a tutor. The use of simulations, especially in political science curricula has proved to be particularly effective, and a project named the Trans-Atlantic Consortium for European Union Studies & Simulations (TACEUSS) is supporting developments in teaching patterns that foster the use of simulations.

Within the broader framework of the SENT network, the "Bolzano group" has aimed to identify the most significant and innovative teaching tools (at the University level) and to pin down the "special status" of EU studies compared with other subjects.[2] The Bolzano group has mapped and reviewed EU studies across a number of disciplines (e.g. Economics, Law, Political Science, History and Social & Cultural Studies) by means of an on-line questionnaire sent to more than 2000 University professors committed to teaching ES all over Europe taken from the various disciplines (political science and international relations, law, economics, history, and cultural studies), we tried to ascertain whether this assumption were true.[3] Respondents (professors of EU studies across the disciplines) were asked to provide general information about the course and give specific answers concerning the methods and approaches in EU studies. In order to verify how the different teaching methods followed different patterns in different countries we developed several hypotheses which helped us analyse data and disclose regional biases. The objective was to determine (among other things) which teaching methods were most popular with respect to discipline and country; whether there is a correlation between the use of language and the discipline, and whether (and to what extent) the syllabi cut across different disciplines.

Admittedly, the elements of novelty and innovation were critical to the project of finding for ES a specific domain and rationale. It is, again, the novelty and uniqueness of the institution addressed by ES that demands a new approach in the classroom. The simple re-use of tested teaching tools in new contexts would hardly generate fresh knowledge on EU institutions. What is at stake is indeed the creation of a discourse, within negotiable disciplinary boundaries, that could assist the teacher in framing the EU. In a way, the objective of the Bolzano group, and the SENT network as a whole, was to avoid, or possibly redress, biases produced by the use of frameworks and categories that were foreign to the facts to which they were brought to bear. It was, in other words, the use of American handbooks of Political Science that generated biases and distortions that often reverberated in the classroom.

Using Facebook in class

One of the accomplishments of the Bolzano group was the bringing of social networks (such as Facebook or Twitter) to bear on the teaching. Our interest in this kind of tools picks up on the experience with discussion forums illustrated in Robert H. Trudeau, "Get Them to Read, Get Them to Talk: Using Discussion Forums to Enhance Student Learning" Journal of Political Science Education 1 (2005).

An electronic forum was run through the social network Facebook (FB), where most students of the University of Bozen/Bolzano have a personal page. It was the University itself, in 2008, that set up a University account on FB to provide students and teachers with a forum for informal discussion on issues pertaining academic life. Not only the students but also a number of teachers set up their own pages and used

them for more or less informal communication with either colleagues or fellow-students.

The forum was set up for the Comparative Politics class, where instead of having transcripts or a mid-term the Professor opted for a different medium for evaluating students' proficiency, a medium more suitable to the normative implications of a subject for the study of which a good deal of attention was devoted to processes of democratization. In our FB forum students were invited to contribute entries in response to a prompt that the instructor posted at the end of each week of class. Students, this was the idea, would write something about politics, but they would also engage in discussion and ideas-exchange. A Teaching Assistant set up the page and managed the forum as its "administrator"; students were divided in 4 groups of 10 or 11 each, and invited to post three entries to the forum.

Creating a forum of discussion through Facebook could help to frame a debate on a variety of political issues. This 'debate' prompted students to engage in the normative task of evaluating moral and political standards with currency in contemporary democratic political discourse and practice.

The design of the electronic forum stressed the element of simulation (of democratic debate) as well as the normative element involved in debating issues that cannot be explained in merely empirical terms. Social networks, to be sure, are playing an ever more important role in our global world. Within the EU millions of people have the chance of exchanging views over a number of subjects concerning their status as democratic citizens. This electronic forum had a double rationale. On the one hand, it helped students figure out the normative implications of the study of politics. By means of debate and discussion, students engaged in testing and checking the normative validity of political concepts. On the other hand, students were reminded that social networks, outside the classroom, are not neutral media, but rather political tools. Students engaged in the normative practice of debating over a number of issues, and simulated, so to speak, the political dialectics explored in our lectures on the use of social networks in non- as well as emerging democracies.

A relatively informal exchange, combined with a classroom simulation of political debate, were the ingredients of this experiment in innovative teaching methods. Students were invited to contribute three entries in response to a prompt posted at the end of each week of class. The challenge was to walk the thin line between expressing their personal views and actual policy analysis.

Conclusions

The Bolzano group will apply to present its accomplishments at the Boston EUSA conference in March 2011. If accepted, the panel will be open to other contributors interested in innovative teaching tools, orientations, and methods. The aim of the panel is to present the results of an important section of the SENT network, to illustrate the results afforded by the questionnaire, to receive feedback and commentary from other panel members, and to build with partners across the Atlantic a platform for future cooperation with possible spillover effects on the teaching of EU studies inside and outside Europe.

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Free University of Bozen

Notes

1 The responsible of the entire SENT project is Federiga Bindi, Ph.D., University of Tor Vergata, Rome.

2 The Bolzano group is headed by Stefania Baroncelli, Associate Professor of Public Law at the Free University of Bozen/Bolzano (FUB). A founding member of the group is Federico Boffa, a former Assistant Professor at the FUB, now Associate Professor of Economics at the University of Macerata. The group was later joined by Roberto Farneti, Assistant Professor of Politics at the FUB and by Gordana Stevancevic, a graduate student of the School of Economics and Management of the FUB. Two more students joined the group by assisting Roberto Farneti in framing the Facebook forum for his Comparative Politics class, Irene Bianchi and Johannes Niederhauser.

3 The questionnaire was elaborated with the use of the Unipark Website, a German online research tool which allows preparing high quality surveys and to extract the data collected in the statistical software SPSS, a leading global provider of predictive analytic software and solutions. The questionnaire was sent in 30 States (27 EU-States and 3 non EU-States such as Iceland, Norway and Turkey) to more than 2000 University professors active in the field of EU Studies.

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EUSA EU Law Interest Section

The Legal Response to the Financial Crisis in Europe[1]

Chiara Zilioli

Between August 2008 and today, the financial world has gone through what was initially qualified as "financial turmoil", then "financial crisis", then "the worst financial crisis since the '30s" until when, certainly in Europe, the threat of sovereign default and the challenge to the single European currency became the most worrying aspect of it.

Until now, the financial crisis has been fought quite successfully in Europe by (i) the Member States, through the introduction of national legislative measures aiming at restoring the solidity of credit institutions and the confidence of the citizens in the banking sector, also through the issuance of State guarantees, (ii) the European Central Bank and the Eurosystem, through a combination of measures that amounted in practice to increasing access to liquidity for the market participants, (iii) the European Union (EU) institutions, through the establishment of new instruments (a fund able to assist Member States in distress, bilateral loans, measures monitoring, and intervening in, national fiscal and economic policy rules) and new bodies (dealing with prudential supervision and oversight).

This article will neither deal with the national legislative measures,[2] nor with the crucial contribution given by the ECB and the Eurosystem to financial stability by ensuring, through different instruments, the liquidity in the market.[3] It will instead focus on the main steps taken by the European legislators (European Council, Ecofin Council, Parliament and Commission) to react to these events and prevent their recurrence.

1. Background: four important points on the institutional structure of the European Union

To fully understand the way in which the European Union and its Member States were affected by the financial crisis and are reacting to it, one has to have clear in mind the EU complex structure.

First, the European Union is composed by 27 Member States, which apply common rules, dealing in particular with the free movement of capital: no legal obstacle can exist to the transfer of capital and the investment of funds across borders.

Secondly, of these 27 Member States, 16 (soon 17[4]) of them have adopted a common currency, the euro. These 16 States (the Euroarea) no longer have a national currency, nor a national monetary or exchange rate policy: it is the European Central Bank (ECB) that, according to the Treaty of the European Union, adopts monetary policy decisions for the whole Euroarea and governs the Eurosystem, composed of the ECB and the national central banks (NCBs) of the Member States that have adopted the euro. These national central banks, whose governors are members in a personal capacity of the Governing Council of the ECB, have the task to implement the decisions of the ECB through operations in their legal system. The other 11 Member States continue to be sovereign in their currency and monetary policy decisions.

Thirdly, the Treaty has not conferred upon the ECB (nor upon another EU body) supervisory powers over financial institutions. This power continues therefore to be exercised at national level, sometimes by the central bank, sometimes by one or more specialised national supervisory institutions. Credit institutions established somewhere in the European Union, instead, operate in a completely transboundary manner.

Finally, among the 16 euro area Member States that have a common monetary and exchange rate policy there is neither a common economic policy, nor a common fiscal policy. The "Stability and Growth Pact" has been adopted to impose a peer monitoring and even to sanction those States that would not respect the obligation imposed by the Treaty to avoid incurring excessive government deficits, as these, in the long term, may have negative effects on the common currency and on the other Member Stares. This Pact has proven not to be effective, also due to the watering down of its rules few years ago.[5] As a result, broad differences in the national economic fundamentals exist among euro area Member States. Lately, when the financial crisis strongly impacted on sovereign debt, these unbalances in the Economic and Monetary Union construction became more critical.

2. European initiatives to improve financial stability

Immediately after the beginning of the crisis, a lacuna became blatantly visible: the lacuna relating to the supervision of financial markets. The absence of a European supervisor, sharply in constrast with the fact that the main credit institutions have today a pan-European reach, was to be blamed for some specific "crises" within the crisis: different applicable rules and lack of information and communication among national supervisors about the financial situation of credit institution on the other side of the border had made it impossible to realise how bad, in some cases, the situation was. In addition, it became clear that no institution was in charge of macroprudential oversight, deal-

ing with risks developing across countries and across financial sectors from the common exposure of many financial institutions to the same risk factors, independently from specific risks or weaknesses of a specific financial institution.

On the basis of the *de Larosière Report*,[6] issued on 25 February 2009, the Commission prepared five Regulations addressing the shortcomings that have been identified and establishing the new architecture for financial supervision in Europe. On 23 September 2010 these legal acts have been adopted by the European Council and Parliament.[7]

According to these rules, on 1 January 2011 the "European System of Financial Supervision" (ESFS) will be established, consisting of a European Systemic Risk Board (ESRB), with macroprudential oversight tasks, and three European Supervisory Authorities (ESAs) for the financial services sector: the European Banking Authority (EBA) based in London, the European Insurance and Occupational Pensions Authority (EIOPA) in Frankfurt and the European Securities and Markets Authority (ESMA) in Paris, that will have micro-prudential supervisory tasks.

The three Authorities will be made up of the 27 national supervisors and, working in a network, and in tandem with these national authorities, will focus on individual financial firms to ensure their financial soundness and protect consumers. They have been given the power to draw up rules for national authorities and financial institutions and to develop technical standards, the beginning of a European rulebook; they can take action and intervene directly in case of emergencies declared by the EU Council, also by temporarily restricting or prohibiting certain financial activites that threaten the stability of the financial market; they have the direct supervisory power on credit rating institutions, but they have not been given the power to directly supervise transboudary credit institutions, the control over which remains fragmented among the various national authorities (even though, within the new System, a much closer work relation among them is envisioned and the ESAs have a mediation role in case of disagreement among national supervisors).

The fourth entity of the System, the European Systemic Risk Board, is to be established in Frankfurt and has the task of macroprudential oversight, i.e. to prevent or mitigate systemic risk within the financial system. It cooperates closely with the three ESAs and exchanges information with them; it can issue warnings and recommendations addressed to the EU institutions, the Member States, European or national supervisory authorities[8] and it shall follow up on the compliance with these recommendations and warnings. It is chaired by the ECB President and composed by 36 voting members (27 of which are governors of national central banks) and 28 non-voting members (mainly respresentatives of the national supervisory institutions).[9]

The establishment of the ESFS is undoubtedly a qualitative step forward to fill in the gaps that were detected during the crisis. The important role given to central banks in the macro-prudential oversight for Europe confirms the high esteem tributed by the governments to independent central banks, and to the ECB in particular as one of the main actors of the successful reaction to the crisis. The doubt remains whether, for the legislator, taking a more energic step in the direction of a European Supervisory Authority would not have been a more effective move than the newly created structure, composed of complex bodies with so many members that, in a conflict or crisis situation, it will not be easy to take executive decisions. It has often been repeated by the opponents to a European supervisory authority that, as in an emergency it is for the national government (in the last end, the national tax-payers) to bail out its own banks, there cannot be a shared or delegated reponsibility for supervision, and this is the reason why the reform stopped short of a European supervisor. In reality, this comment draws the attention to another need, the need for creating an insurance system, supported by a tax payed by the financial operators, to avoid national tax-payers having to cover unexpected losses arising despite a well exercised prudential supervision. The creation of such a scheme should be prioritised; once in place, this would also clear the way from the political considerations against a European Supervisor, which is clearly needed for pan-european credit institutions, financial operators and infrastructures.

Despite these shortcomings what has been achieved through this reform is certainly positive. Now it is of the essence to put all the energy in avoiding heavy structures and politicisation paralyse the effectiveness of the new bodies, and to enable the ESFS to do its highly complex technical work properly, starting the January 1, 2011.

3. European initiatives to support a distressed Euroarea Member State

At the beginning of 2010 the financial crisis turned in Europe into a "sovereign default risk phase" and this created a lot of preoccupation around the world. For the first time there was the real risk of a developed country becoming insolvent. For the first time the country under attack did not have an own currency but a common currency, the euro: this meant that, on the one hand, the country could not use some of the instruments which could have limited the damage (in

particular devaluation of the currency) while, on the other hand, an insolvency could have had dramatic consequences for the States sharing the same currency, for the very existence of the euro and, even, for the European Union itself. This situation drew attention to the shortcomings of the fiscal policy coordination arrangements in the EU mentioned above and highlighted the importance of reflecting on how best to proceed in order to avoid a repeat (non) performance in the future.

That a problem existed became clear at the beginning of 2010. For a while, Greece managed to collect on the market the funds it needed while tackling, under pressure from the other Member States, its public debt problem. On May 1, after the ECB and the Commission had concluded that Greece had insufficient market access for the financing of its obligations, it became clear that the week-end would have been a decisive one: strong action was needed from all sides. In the early morning of Monday, May 2, a solution was agreed and a very strong signal was given to the markets that the European Union and its Member States were ready to go a long way to protect the Monetary Union and their currency. The Euro Group agreed on a package to support Greece, conditional upon the introduction of economic and fiscal measures in that Member State: under these conditions, a support up to 500 million euro via bilateral loans from the other 15 Euroarea Member States, centrally pooled by the Commission, was activated.

On 10 May this agreement was implemented through the adoption of three important legal instruments.[10] First, the EU Council addressed a Decision to Greece with a view to reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy its excessive deficit situation.[11] The Decision sets out the main elements of policy conditionality for the granting of that support; is unparalleled both in its prescriptiveness and in its level of detail. It could become a precedent for future EU interventions in the fiscal policies of Member States that do not observe their commitments under the Stability and Growth Pact (SGP) in case of a Euroarea Member State in distress. It could even be the beginning of an enhanced EU economic policy coordination.

Secondly, the ECOFIN Council adopted a Regulation[12] establishing a 'European Financial Stabilisation Mechanism': a fund capable of extending financial assistance, in instalments, to troubled Member States (not only of the Euroarea but also of the EU), in the form of a loan (to be repaid with interest) or a credit line.[13] The Council decides upon its activation, acting by qualified majority on a proposal from the Commission after hearing the views of the ECB.[14] Its funds are to be secured by way of borrowing on the capital markets or from financial institutions, up to the amount of 60 billion euros, to be raised by the European Commission, acting for the EU.

Finally, the ECOFIN Council decided that the 'European Financial Stabilisation Mechanism' was to be complemented by a so-called 'European Financial Stability Facility', in the form of an SPV, a separate legal entity to be established by way of an Intergovernmental Agreement among Euroarea Member States, which could provide a further 440 billion euros in financial assistance to Member States facing a liquidity crisis in the market for its government debt. To access the 'Facility', Member States would first need to agree on a macroeconomic adjustment programme with the Commission and the Eurogroup, in liaison with the ECB and, depending on the circumstances, also the IMF. The Eurogroup would retain its decision-making responsibility with regard in particular to the evaluation of conditionality and the authorisation of disbursements. The 'Facility' would issue bonds on the market using pro rata basis guarantees by all Euroarea Member States who would commit upfront to their total share of 440 billion and provide loans at interest rates determined on the basis of a pricing formula consistent with the lending rates of the IMF. The obligation of the euro area Member States to issue guarantees entered into force on 4 August 2010, when the guarantee commitments of the euro area Member States to the EFSF reached more than 90% of the total amount. The facility is now authorised to issue bonds in the market with the help of Finanzagentur, the German Debt Office.

4. Conclusion

The EU has fought the financial crisis through three main actions, ensuring the provision of liquidity to markets, establishing a European Supervisory framework, creating instruments to support a member State in distress and tightening the controls on that State's fiscal policy soundness. These new measures are qualitative steps towards deepening integration in the EU, and have proven to be effective in containing the crisis. Time will tell which oter steps might be needed.

What is certain is that Europe did not shy away from using its legal, political and economic tools with energy, creativity and flexibility, within the limits of the conferred powers, to fight and defend the European construction. This, in itself, is a very good piece of news for the future of Europe.

Chiara Zilioli

Notes

[1] Dr. Chiara Zilioli is the Deputy Director General HR, Budget and Organisation of the ECB. Opinions expressed in this article reflect exclusively the personal conviction of the author and do not in any way commit the ECB.

[2] For an overview on all these new legislative provisions, aiming mainly at recapitalization and restructuring of banks, cfr. A.Petrovic & R.Tutsch, "National rescue measures in response to the current financial crisis," 2009, available as n.8 under www.ecb.int/pub/scientific/lps/date/htlm/lpsall.en.html, n.9. For a specific view at the reforms in the United Kingdom, cfr. S.Dhama, J.Taylor, C.Proctor, "The reform of Financial Regulation in the United Kingdom after the Crisis," in Giovanoli, Devos eds., *International Monetary and Financial Law*, 2010, p.234 ff; for the German legislative amendments, cfr. B.Krauskopf, "Legislative Measures to support Financial Market Stability: The German Example and its European Context," ibidem, p. 329 ff.

[3] For a more extensive analysis of the role of the ECB in the financial crisis, I refer to my article on The ECB response to the financial crisis, which is being published in IMF –Seminar on Restoring Financial Stability –The Legal Response.

[4] Estonia will adopt the euro as of 1 January 2011.

[5] Following the court case C-27/04, Commission v. Council. See also www.euractiv.com/en/euro/stability-growth-pact/article-133199

[6] The High Level Group on Financial Supervision in the EU, chaired by Jacxques de la Rosière, see http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf

[7] They have not yet been published on the Official Journal of the European Union. For an interesting comment, focusing on the ESRB, cfr.: Phoebus Athanassiou, "The Role of Regulation and Supervision in Crisis Prevention and Management: A Critique of Recent European Reflections" (2009) 24(10) Journal of International Banking Law and Regulation, 501-508.

[8] Article 16 of the Regulation of the European Parliament and of the Council on European Union macro prudential oversight of the financial system and establishing a European Systemic Risk Board, not yet published.

[9] Cfr. Article 6 of the EU Regulation cit. in fn.9.

[10] http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/10/104&format=HTML&aged=0&language=EN&guiLanguage=de

[11] Council Decision of 10 May 2010 addressed to Greece with a view to reinforcing and deepening fiscal surveillance and giving notice to Greece to take measures for the deficit reduction judged necessary to remedy the situation of excessive deficit OJ L 145, 1.6.2010, p. 6. See also: http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/10/104&format=HTML&aged=0&language=EN&guiLanguage=de

[12] Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism, OJ L 118/1, 12.5.2010, p.1.

[13] This approach to providing financial assistance is inspired by the existing 'Medium-Term Financing Facility' (or Balance of Payments facility), in the administration of which the ECB is also involved. The implication of the nature of the assistance granted by the fund is that this is not contrary to Article 125 TFEU.

[14] Council Regulation (EU) No 407/2010, Article 3.

Book Reviews

Martin Heipertz and **Amy Verdun**. *Ruling Europe: the Politics of the Stability and Growth Pact*. Cambridge: Cambridge University Press, 2010.

This book has two main purposes. The first is to provide a review of the main theories that political scientists use for explaining European integration, using the Stability and Growth Pact (SGP) as a case study. The second is to provide a detailed exposition of the initial steps taken on the way to forming the Pact, the problem period for the Pact in and around 2003, its process of reformulation and it operation since the reformulation in 2005 and through to the early stages of the present crisis. There is thus an historical picture covering some 15 years of considerable debate.

The book is brilliantly successful in its second task. Anyone who wants to understand the thinking behind the SGP, what the major players did and how the various compromises were hammered out will want to use this book. It has a long and helpful Appendix setting out the legislation covering the Pact and its revision as well as the judgements from the European Court of Justice (ECJ) over the attempt by the Council to get round the Commission's recommendations in 2003. A simple contents list for the Appendix and a short readers' guide would have made this valuable resource much more accessible. As a study of the politics involved in the SGP the coverage is thorough.

If this excellent exposition of the events and the factors behind them had been accompanied by an analysis of what the SGP was intended to achieve and how well it had succeeded then the book would have covered in a single place what all readers are looking for. Clearly some extension of the work will be required when the EU emerges from the global financial crisis and passes through its first 'normal' downturn thereafter. The Pact has been strained in two major respects. The first is that 15 years of hard work in fiscal consolidation has been blown and the fiscal position of many of the member states is now worse than it was before the struggle to qualify for Stage 3 of EMU started. The second is that with such a severe recession countries have been able to run very substantial structural deficits. The countries therefore face both a difficult problem of a long run path to sustainable debt and a path of short run adjustment to get to equilibrium and stop the problems escalating. I look forward to seeing the authors' analysis of these issues.

The first objective of the book is a different issue. The authors set out four hypotheses that political scientists use to explain integration in the EU, labelled: intergovernmentalism, neofunctionalism, domestic politics and the role of experts. They come to an eminently sensible conclusion that all factors have a role to play but that there relative importance varies over time. Anyone without a doctrinal axe to grind would have thought that beforehand. However the fact that they vary over time makes them rather more explanatory factors than theories. Other disciplines such as economics and geography offer hypotheses for both the enthusiasm for integration and the success with which it achieved. These theories discuss structures, systems, institutions, preferences etc. all of which seem to have explanatory power. It is a pity that political scientists resort to such an internecine world and that these two authors bother to put so much emphasis on these particular theories. Their pragmatic or what they describe as 'eclectic' approach makes plenty of sense in its own right and they could step away from these doctrinal disputes which offer little stimulus to the general reader interested in the politics of the SGP. Since this discussion occurs first there is a real danger some readers will put the book down and not get on to the wealth of detail and useful insight that characterises the rest of the book. The aspects of the analysis that rely on questionnaires and interviews may prove contentious but the authors have been thorough and this book is likely to remain a definitive exposition of this interesting period. The EU under the SGP has been an improvement of the previous period without it but unless something better replaces the weakened post 2003 system the outlook for fiscal sustainability does not look good. The authors are quite upbeat about the continuation of the Pact itself in the future despite the challenges (p.204) but their discussions are speculative and they do not attempt to look at the projections that have been made by the Commission or the IMF, which give an idea of the extent of action required, which in the case of Greece, Italy, Portugal, Ireland and Spain is harsher than anything required under the SGP thus far.

David G. Mayes, University of Auckland

Taylor, Paul. *The End of European Integration. Anti-Europeanism Examined*. Routledge Press, 2007.

Paul Taylor's book covers a wide range of topics, but generally takes "a hard, realistic look at the risks facing European integration" (1). He begins by discussing the history of integration in terms of waxing and waning over time. Periods of waxing are jumps forward in integration while waning represents periods of status quo or reversal. The first half of the book maintains that the current state of affairs is represented by a long waning period following Maastricht in 1991 and that hopes of transitioning to a period of enhanced cooperation and integration appear less likely. Taylor argues that the grand projects and conducive leadership that had been successful in pushing integration forward in the past are no longer characteristics of the 21st century European Union.

Taylor emphasizes three elements in the waning of integration: enlargement, goals, and consensus. The inclusion of Britain in 1973 is argued to have increasingly worked against European integration through their consistent support and pursuit of balancing returns and their push for subsidiarity. In terms of goals, the problem is that there is no clear next step. Where many of the other periods were sustained by an overarching goal, there seems to be less agreement on what the next step should be. Consensus relates to the first two in that more actors cannot agree on new goals. The days of the permissive consensus seem to be over and the next step in integration will always be more contested than in the past. Taylor links this to the success of anti-EU coalitions, particularly in Britain.
The second half of the book is a more forward looking, solutions oriented approach. Noting that previous recoveries often hinged on grand projects, he assesses possible ways forward. One is for the EU to become both a soft and a hard power in the international realm. That means defense mechanisms as well as clear representation in international bodies. A chapter on the EU in international bodies highlights the issue of not being able to collectively act in other international organizations. The reader can't help but wonder how far the implementation of the Lisbon Treaty will go to solve the ills that Taylor perceives on this dimension.

The final chapters of the book are billed as a way forward with "a new European Project" (147). He suggests the consistent application of rules and values in the process of enlargement, increasing defense mechanisms, and increasing the role of social policy as goals to move Europe into a new waxing phase. While the author admits that these have been on the agenda for some time, it is through these paths that further integration must pass. In the end, however, Taylor remains skeptical that the 21st century EU will move beyond its role as "a facilitator of enterprise" and overcome the judgment that "it failed to develop international power" (167).

This book represents well a trajectory of European integration, but recent events necessarily confront research. Will scholars look back and see the completion of the Central and East European enlargement and the completion of the Lisbon treaty as evidence that the EU was able to overcome anti-European forces that caused the waning described by Taylor? We must wait for such answers but Taylor's book still represents a well rounded, pragmatic account of Europe in the 21st century.

Tristan Vellinga, University of Florida

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2011 EUSA PRIZES

2011 EUSA Haas Fund Fellowship Competition

The 2009-2011 EUSA Executive Committee is pleased to announce the 2011 EUSA Haas Fund Fellowship Competition, an annual fellowship for graduate student EU-related dissertation research. Thanks entirely to contributions to our Ernst Haas Memorial Fund for EU Studies, launched in June 2003 to honor the memory of the late scholar Ernst B. Haas (1924-2003) we will offer at least one unrestricted fellowship of $1,500 to support the dissertation research of any graduate student pursuing an EU-related dissertation topic in the academic year 2010-2011.

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The EUSA Prize for Best Conference Paper will be awarded in 2011 to an outstanding paper presented at the 2009 Biennial Conference in Los Angeles. All those who presented an original paper at the Conference are eligible, excepting persons who are current members of the EUSA Executive Committee and persons who have already won the EUSA Best Conference Paper Prize. The prize carries a cash award of $100. To submit a paper for consideration, send an electronic version in Microsoft Word to eusa@pitt.edu. Please put "Best 2009 Conference Paper Prize" in the subject line. The deadline is January 7, 2011.

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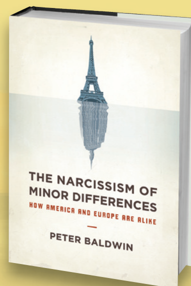

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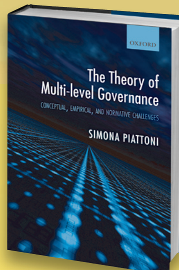

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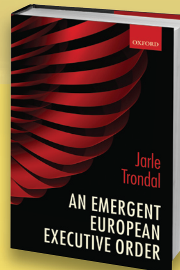

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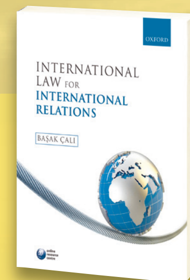

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