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BOOK REVIEWS

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Finn Laursen (ed.)
The EU and the Eurozone Crisis
Farmham, Surrey, UK: Ashgate, 2013, 242 pp.

The increasing spread in the yield between Greek and German sovereign debt in early 2010 presaged a financial crisis that could spill over not only into other Euro zone economies, but the entire EU.* Since then growth prospects have evaporated in some member states, and in many regions, unemployment remains perilously high. The EU is facing its greatest challenge to its fundamental viability as an economic and political entity. Finn Laursen's book does not only portray what is happening in the European Union as a matter of bond yields and debt-to-GDP ratios. It is an overview of the major policy challenges the EU is facing and the decisions its leaders face about its future, from how to stabilise debt markets to building democratic legitimacy to the future of EU expansion. It is an introduction to modern EU policy requirements, as well as an exploration of some of the more subtle tensions in certain policy areas underlying the more prominent (i.e., financial) aspects of the current crisis.

Kurt Huebner's chapter, "Eurozone: Creeping Decay, Sudden Death or Magical Solution?", presents three visions of the Euro's future: more of today's muddling through, a partial or complete breakup of the Euro zone, or the "magical

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* In the book review section Acta Oeconomica recently reviewed István Bences' book covering the same subject. See page 159–162. – Editor's note.

solution" – full political, fiscal, and banking union. Huebner makes known his dissatisfaction with the slow response by the member states and the EU to debt market instability. He presents us with a model of the equilibrium the crisis has assumed, in which sovereign debt crisis creates banking crisis, which in turn creates macroeconomic crisis, then democratic crisis, ultimately reinforcing the sovereign debt crisis and creating a loss of political legitimacy. The only solution Huebner sees is a leap into simultaneous fiscal, political, and banking union, as it would prove the resolve of the European project to keep moving forward.

Imtiaz Hussain's chapter, "Europe after the Greek Default: Widening, Deepening, or Splitting?", shows how "a Europe divided by economic culture, and overly top-heavy decision making" (p. 135) created an environment in which instability in Greece contaminated the entire Euro zone. The author argues that EU financial decision-making is increasingly out of the hands of national leaders, becoming the province of the German financial sector and foreign creditors. This environment could lead to a strong backlash against austerity and supra-nationalism. The essence of Hussain's chapter is that a two-speed, creditor/debtor dynamic created the Greek financial collapse, that the Eurogroup could have prevented if Chancellor Merkel had been willing to sacrifice her popularity, and decision processes in the Euro zone will widen the gap between core and peripheral member states.

In "The Eurozone Crisis and the Fiscal Treaty: Implications for the Social Dimension and Democracy", Robert Finbow looks beyond the economic implications of the financial crisis and the new fiscal treaty. According to him, "the new system (interim governments pandering to markets, fiscal treaty, ESM) strengthens an agenda of austerity and bureaucratic constraint" (p. 46). He summarises the provisions of the new fiscal treaty and the European Stability Mechanism, concluding that both serve to strengthen technocracy at the expense of democracy by conferring greater authority to unelected bureaucrats. Finbow argues that it may become difficult to impose austerity measures on weak economies without an eventual democratic backlash, and that Germany and the creditor states must consider the broader implications of austerity measures, not simply the economic outcomes. Otherwise, he envisions an increasingly delegitimised EU.

Ece Ozlem Atikcan's "Direct Democracy: Remedying the Democratic Deficit" investigates another, older criticism of democracy in the European Union: the idea that the structure of the EU is inherently elitist and makes real democracy difficult or impossible. According to him, "rising Euroskepticism since the 1990s has shown that the tacit approval of the public has come to an end" (p. 117). In examining the role that direct democracy could play in connecting the EU with its citizens, he argues that direct democracy cannot bring democratic legitimacy to the EU before the public commits to informing itself. Atikcan's wariness towards direct democracy essentially revolves around the idea of EU policymakers and institutions as detached from the public, which has only a vague, depoliticised notion of EU decisions and policies. The chapter closes with the argument that before direct democracy can improve the legitimacy of the EU, the Union needs to be able to communicate better with its citizenry.

Alasdair Blair examines the UK's relations with the European project and the Euro in "Britain and Currency Union". He notes the inability of British leaders to ever convince their electorate that European integration has anything to offer their country and the complementary lack of support for pro-European measures in British media. Blair holds that this general inability to create popular support for integration and a widely held fear of the loss of sovereignty translated into an unwillingness to involve Britain in the monetary union. The same pattern ensued with the Exchange Rate Mechanism – Britain was slow to join and did so without a political mandate, leading to an opt-out clause in the 1991 Maastricht Treaty and withdrawal from ERM the next year. Blair ends with speculation on the future of UK–Euro zone relations, in which the crisis only reinforces the divisions between the Euro countries and Britain. He concludes that the new fiscal agreement, combined with a persistent lack of public engagement, makes the prospect of the UK adopting the Euro or increasing its EU support even less likely than it ever was.

Ruben Zaiotti's "Chronic Anxiety: Schengen and the Fear of Enlargement" evaluates current prospects of expanding the Schengen Area into Romania and Bulgaria in light of its previous enlargements in Italy and Scandinavia. Common threads running across the past and present scenarios are identified to dispel the sense of otherness surrounding Romania and Bulgaria. The author notes the concerns surrounding the Romanian and Bulgarian Schengen applications despite their EU membership, concerns "that echo those directed against countries that are, or may become in the medium to long term, EU membership candidates" (p. 154). Zaiotti sees the controversy surrounding their accession as a product of "enlargement anxiety". The current situation is compared with that of Italy, which created a similar controversy before acceding because of concerns about the movement of North Africans across the Mediterranean, and with the Scandinavian accession, which sparked little of the same controversy, both because of the geography of those countries and the general perception as secure. The recent Franco-Italian affair in which France imposed extraordinary border controls to block the entry of refugees fleeing the chaos of the Arab Spring is used to illustrate that a stigma remains on Italy because of its perception as a weak link in the Schengen zone, even though the predicted influx of immigrants was only a fraction of what was anticipated. The author concludes with a call to approach prospective Schengen members with an open mind.

In “Crossroads of Integration? The Future of Schengen in the Wake of the Arab Spring”, Kiran K. Phull and John B. Sutcliffe examine the effects of Middle Eastern political instability on EU immigration and the integrity of Schengen border controls. The chapter pays particular attention to the Franco-Italian Affair. While the prospect of mass migration from Tunisia was the ostensible motivation for France to impose extraordinary border controls, the authors view the French reaction as a product of internal dynamics, “underlying factors contributing to a general thickening of the EU’s internal and external borders, for instance, the ongoing sovereign debt crisis … the growth in recent years of the European far-right…” (p. 170). The crisis has created an environment of tension and fear, in which the basic assumptions that the Schengen Agreement is built on come under scrutiny. We are cautioned against assuming that the incident will alter the Schengen *acquis*, on the grounds that it was not the first time a nation unilaterally imposed border controls, that it involved third country nationals and not Schengen area citizens, and because border control remains a core part of the notion of state sovereignty.

In “Common Agricultural Policy: The Right Path versus Blind Alleys”, Jacek Chotkowski and Benon Gazinski analyse proposed CAP reforms and “demonstrate why it is necessary to change the philosophy governing the CAP” (p. 83). The original goals of the CAP (primarily food security) are contrasted with modern needs (food quality, environmental protection). Current reform proposals on the negotiating table are examined, the main goal of these being to simplify and deregulate agriculture and its subsidisation while making it more competitive. The thrust of the chapter comes with a critique of CAP reforms proposed so far. It is written largely from a Polish perspective, but is relevant across the various member states. The authors imply that much of the proposed change is just idle talk, especially to farmers in the new member states. To conclude, they call upon Poland to lead the Central/ Eastern European agricultural sector.

The motivations underlying the EU–Canada free-trade agreement are explored in the chapter “New Challenges for EU Policy Making: Why is the EU Pursuing a Comprehensive Economic and Trade Agreement with Canada?” by Stefanie Rosskopf. She analyses the strategic framework within which the decision to pursue an FTA was made, citing the 2006 and 2010 EU Trade Policies as the prime determinants of EU trade strategy. The two Trade Policies “laid out a framework under which new bilateral Free Trade Agreements were to emerge. The market potential and the level of protection against EU export industries were identified as the two key economic criteria on the basis of which FTAs should be pursued” (p. 106).

The EU and the Eurozone Crisis surveys a broad swath of EU policy, from solutions to the financial crisis to improving democratic legitimacy. The authors are unified in the belief that there is a way forward for the EU if it is willing to integrate, compromise, and reform. Huebner's call for full political, banking, and fiscal union comes in the wake of similar proposal of a deeper union by previous writers (Marzinotto et al. 2011; Beck 2012). The ambitious scope of the idea allows one to speculate widely as to the benefits it could create for the Union. However, it also leaves much room for questioning the long-term implications of such a major change. Rushing into integration could have messy consequences, which Huebner chooses not to address, instead lamenting the unlikeliness of such an outcome.

Hussain's chapter questions how the Euro zone allowed the situation in Greece to spiral out of control and where the financial crisis is steering the Union. However, his *ad hominem* attacks against Angela Merkel rely on assumptions about her motives, assuming she put electability before her duty. Furthermore, his vision of a periphery increasingly at the mercy of external forces removes the burden of action from national leaders in the EU's distressed economies when they are most in need of leadership.

Two authors raise important questions about the preservation of democracy in the face of crisis. Finbow's view that EU efforts at creating fiscal stability jeopardise national level democracy largely matches Scharpf's (2011) and Kopits' (2012) concerns about the vulnerability of national governments and their constituencies in the face of supranational fiscal regulation. Atikcan's analysis of the shortfall of direct democracy given an uninformed electorate is also sound, and though his call for more substantial public discourse on EU legislation and a more informed populace is nothing new, it is all the more relevant given the scale of decision-making at EU level in response to the crisis.

The sections on the UK's relationship with the Euro, and on EU expansion and the Schengen zone serve as reminders that the European project is not a static and lifeless thing. Blair's conclusion that the UK's accession to the Euro zone is unlikely is unsurprising, but it shows that it is not a product of present circumstances. The currency union was not an arbitrary initiative, but the outcome of a long process of integration on the continent, a process that cannot be undone overnight by a crisis. Zaiotti, Phull, and Sutcliffe all reach a similar conclusion on the Schengen Area: that the present fears about expanding it are not new, and that the open border still stands as an enormous achievement in European integration. Zaiotti's call for understanding towards the applicant states, and Sutcliffe and Phull's conclusion that the Franco-Italian affair does not seriously undermine Schengen are important indications of the project's endurance.

The chapters on CAP reform and the Canadian FTA both speak to the potential of the European Union despite the crisis. The criticisms of proposed CAP reforms illustrate how integral it remains in many states, and CAP's potential to bridge the gap between old and new members with necessary reforms. The authors provide real insight into an often-overlooked area, from a marginalised (i.e. Polish) perspective. Likewise, the CETA chapter calls attention to the EU's formidable clout as a trade bloc. If the CETA is seen as the first in what will become a collection of Free Trade Agreements, the European Union could become the world leader in trade liberalisation. Rosskopf's chapter helps us to envision a post-crisis Europe living up to its potential economic influence in the world.

The limitation inherent in a book of such brevity yet such scope is that it can never serve as an exhaustive analysis of any one problem or policy area. What we have instead is an engaging and insightful introduction to the modern European Union and the issues it faces. This book cannot be viewed as a manual for resolving the EU crisis, but must rather be seen as a guide to understanding its context. It does not attempt to grapple with the realities of the EU's institutions or the difficulty of reform consensus. It should serve as a resource to scholars of political economy seeking an understanding of the crisis, particularly the impact it has had beyond the balance sheets of the European Union.

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István CSILLAG

István Benczes (ed.)
Deficit and Debt in Transition. The Political Economy of Public Finances in Central and Eastern Europe
Budapest: CEU Press, 2014, 242 pp.

In the 1990s, budget deficit and public indebtedness became one of the most popular topics of public debates and theoretical investigations.* At first, after the publication of Buchanan's book, *Democracy in Deficit*, it seemed to be the field of interest of political scientists and political economists, but a decade later, macroeconomists picked up these subjects, too. At the beginning of the 1990s, Alesina – Tabellini (1990), Alesina – Perotti (1994, 1995) and, later, Perssons – Tabellini (2002, 2006), Drazen – Eslava (2005), and Brander – Drazen (2005) identified the underlying problems as a consequence of the fierce fight between political parties for seizing and keeping political power. A balanced budget and the avoidance of large public debt are important for sustainable growth, but they are also evidence of good governance.

Economics always reflects the behaviour of economic players, among them politicians, voters and governments, as well as adaptive or rational expectations of market forces, sometimes without a knowledge of what they are doing (Karl Marx), and deficit is also produced without an express intention to do so. Deficits and growing public debt are produced even in the more developed countries, but it is also the tendency in most countries in Central and Eastern Europe (CEE), where the economic and political transformation is taking place. The phenomenon of budget deficit and public debt is identified and analysed in the recently published book of Hungarian economists under the double title, *Deficit and Debt in Transition. The Political Economy of Public Finances in Central and Eastern Europe*.

The 9 studies and a short introduction offer more than a thorough glimpse into the problems of public finances of CEE countries, but less than a summary of the common and special features of transformation in the field of public finances. The appealing volume of papers consists of the application of the different methodologies of newly-developed directions of schools such as Varieties of Capitalism (VoC), New Institutional Economics (NIE), and Historical Institutionalism (HI), as well as the identification of the significance of trust-building, and the relation-

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* In the book review section Acta Oeconomica (2014/2) reviewed Beáta Farkas' book covering the same subject. – Editor's note.

ship between economic freedom and public debt. In addition to theoretical studies, the selection of papers comprises also case studies about the special problems of the Baltics, Slovakia, Hungary, Poland, and Croatia.

As the concept of the Editor was to emphasise the underlying inherited economic and social structure, which might have an influence on the efforts of governments to consolidate the public finances of their home country, the volume reflects a quite valuable historical aspect: namely the application of path dependency. In my recently published book (Csillag 2013), I tried to underline the significance of the inheritance, because the economic performance of the countries is dependant on what past they would like to get rid of, and what the values, institutions to be preserved are. I emphasised that deficit and public debt are the outcomes and not the objectives of the complex web of interactions of the political players. If political actors are able to grasp that the well-being of a nation is the fruit of the good performance of the economy, rather than a gift of the government, only then are they able to avoid the greatest temptation of newly born democracies: securing of the support of voters through the reduction of taxes or increased transfers. These are the sins what we can aptly call macroeconomic populism (Dornbusch – Edwards 1991).

Are there any benchmarks of good governance of public finances? Is it worthwhile for the CEE countries to copy the more developed, the old democracies? Are there any convergences of mistakes or errors which will inevitably produce a high budget deficit, a low rate of growth, or a highly piled public debt? The present volume convinced us that there is not much difference between the more developed democracies' derangements, tactical tricks for keeping governmental power, and the infantile disorders of the newly born democracies.

One of the most valuable analyses of the book is the short contribution of Vera Takács – István Benczes, "The Strategic Use of Public Debt in Central and Eastern Europe". The authors are able to demonstrate which countries are inclined to apply public debt as a strategic variable in political competition, and why others refrain from the application of this variable. Their paper is one of the first attempts to identify the application of the classic model of Alesina – Tabellini (1990), which showed how incumbents of political actions are building the constraints against the choices of future governments. The case study focusing on the Hungarian case, also written by Benczes, adds to the application of the use of public debt as a strategic variable of the historical aspects, namely the influence of the inherited post-communist Kádár-era:[1] "the premature welfare state"

[1] János Kádár was a Hungarian communist leader and the General Secretary of the Hungarian Socialist Workers' Party, presiding over the country from 1956 until his retirement in 1988. His 32-year term as General Secretary covered most of the period the People's Republic of Hungary existed.

(Kornai 1992). In this quite interesting paper, "Critical Junctures and Unintended Consequences", Benczes is able to alloy historical aspects – even Braudel's "long duration" concept is recalled – categories and methodology of political economy. "Path-dependency matters" is the main explanation of his paper for the insurmountable deficit problems of Hungary.

The volume features two interesting experiments to apply the new methods of VoC and Economic Freedom relations. Oliver Tveidler's "Economic Freedom and Public Finances in Central and Eastern Europe" and Zsolt Szabó's "Varieties of Capitalism and Public Finances in Central and Eastern Europe" are also part of the volume, but the results of the application are not too convincing.

A quite promising study by András Olivér Németh looks at the political business cycle hypothesis. It is a valuable contribution because it demonstrates the findings of the theory on political business cycles, and applies the methods on the experiences of the CEE countries. Especially noteworthy is the case study on the Baltics written by Zsolt Kutasi, as it convinces the reader that macroeconomic populism can have a thousand faces. If a country is able to avoid a high rate of redistribution, or inherited public debt, the desire to satisfy the impatience of the population to consume by financing it from foreign savings will end the fine economic performance once the channels of foreign savings are blocked.

For the present reviewer, the most valuable paper is Dóra Győrffy's study, "Structural Reforms in a Low-Trust Environment: The Case of Slovakia", about the trust building capacity in Eastern Europe. The paper analyses from all aspects why it was possible to introduce structural reforms for the better performance of the economy and for the sake of accession, which resulted the consolidation of public finances as well.

In the book, we have the chance to read about the Polish and the Croatian development, based on the research of Judit Kozenkow and Fruzsina Sigér. These two studies are also instructive. It would be nice to believe that not only graduate students, but practicing politicians will be also able to learn lessons from this valuable book on public debt and budget deficit.

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Tomislav LEKO

Thomas Mayer
Europe's Unfinished Currency: The Political Economics of the Euro
London – New York: Anthem Press, 2012, 262 pp.

The book provides a thorough analysis of the common European currency.* As Thomas Mayer worked for the Deutsche Bank Research Group and for the International Monetary Fund, he offers a unique insight into the deficiencies of the European Monetary Union (EMU) and the further steps that need to be taken in order to stabilise and increase the efficiency of the EMU. This book contributes to the ongoing discussion of reform triggered by the crisis. Most of the attention in the academic discussion is on the idea of a banking union as a further step towards European integration, which incorporates an EU-wide bank resolution mecha-

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* In the book review section, Acta Oeconomica (2014/1) Dóra Györffy's book covering the same subject. – Editor's note.

nism, deposit insurance scheme, and supervisory mechanism. Mayer concentrates in his work on the characteristics of the Euro and the internal problems in the structure of the EMU that need to be changed. The book gives a clear-cut analysis of the EMU and presents issues that preceded the EMU in order to become more stable in times of crises. Mayer contributed to the discussion and his idea of the European Monetary Fund (EMF) is mirrored in the further steps EMU countries took to reform the system of crisis management. The European Financial Stability Facility (EFSF) and, later, the permanent European Stability Mechanism (ESM) established a system whose task is similar to the idea of the EMF and Thomas Mayer's reasoning can explain issues that the new reform had to solve.

The book is aimed to give an image of the state of affairs in the EMU before the establishment of the ESM to academics, policy-makers, and others who are responsible for proposing reforms to this structure. The historical overview of different monetary arrangements in the world also contributes to the discussion around the future EMU structure and gives the reader a clear reasoning why certain elements of the EMU are present, and which other elements should be incorporated in order to fix its structure.

The book starts with the historical perspective of the European unification with the analysis of the incentives that led European countries towards deeper integration (Chapter 1), but it is mostly aimed at presenting the role of the Euro in the process of unification. In this timeframe of European integration, Allied powers decided to integrate Germany into the European structure without the burden of money reparations as after the First World War. This section on closer political union ends with the fall of the Berlin Wall and the changes in Europe it brought. Chapter 2, "No longer a Question of War and Peace", focuses on German unification and French fears that this could cause problems in the European Economic Community. France wanted firmer integration of Germany in the EEC in exchange for backing German unification. The aftermath of the unification and the new incoming Treaty (Maastricht) made the idea of monetary union crucial to completing the European Internal Market and therefore more attractive to German and other EEC governments.

Chapter 3, entitled "History of Failures", presents different types of monetary integration schemes (Latin Monetary Union, Scandinavian monetary integration, United States of America, etc.) that failed to maintain themselves. These examples all lacked centralised money issuance and lacked strict fiscal discipline among the participating countries. The main problem identified by the author lies in "the ability to create money and thus to obtain credit unavailable by other means". The lessons here were used in the establishment of the EMU and the author highlights that previous experience with monetary unions structures the aim of preventing the monetisation of government debt.

From the presentation of monetary unions in history, the author analyses the beginnings of the Euro in Chapter 4, "The Euro's Happy Childhood and Its Abrupt End". The ECB quickly gained ground and "the Euro developed into the second-most important international reserve currency after the US dollar" (p. 79). However, in the author's opinion, the ECB failed to set interest rates strictly symmetrically in an environment of increased divergences in economic growth (p. 89). Another three factors that contributed to the crisis were, firstly, inefficient bank supervisors, secondly, the inability of national fiscal policies to counter country-specific effects of the common monetary policy, and thirdly, the lack of means to impose discipline in fiscal policy among EMU members by the Stability and Growth Pact (p. 94). The common denominator of the whole EMU structure is the deficiency in the legal framework of the EMU, which was caught without a crisis management framework when the financial crisis emerged.

The lack of crisis management mechanisms is discussed in Chapter 5, "A Crisis of Legitimacy". The author poses the dilemma encountered by the ECB board, whether to end their support to banks in the Euro zone at the cost of a collective failure (p. 109), or to fund those banks and government bonds of indebted countries with the aim of "extending credit to governments cut off from capital markets because of unsound fiscal policies" (p. 111). The author concludes that "central bank's exclusive focus on the purchasing power of the common money and governments' full liability for their financial decisions had been destroyed by the way the Euro crisis had been managed" (p. 114).

Although many critics accuse the ECB for exceeding its mandate, Chapter 6, entitled "A (Hidden) Balance-of-Payments", answers why the EMU did not collapse immediately after the burst of the credit bubble in 2007–2008 (p. 117). The author gave an example of deficiencies in the EMU monetary transmission system, specifically the TARGET 2 system that is based on inter-bank lending of Euros and therefore dependent on the interaction and the trust that exists between the banks in the Euro zone. Banks in the GIIPS countries obtained a rising share of ECB loans to compensate for the loss of credit from banks in other countries from which they import products (p. 126). The conclusion that is presented by the author is that "continuous funding of balance-of-payments deficits of EMU member countries with money created by the ECB would lead to an excess supply of money and eventually raise inflation in the surplus countries" (p. 133.)

Chapter 7, entitled "Forward or Backward", introduces proposals for the further consolidation of the EMU. As the Treaty of Lisbon showed, the intergovernmental character of the EU has been kept and further transfer of national sovereignty in fiscal policy cannot be shifted to the supranational level. Mayer argues that the European method of integration in which elites would pull citizens towards deeper integration lost its significance with the exclusion of the threat of conflict in Europe, and the public rejection of the Lisbon Treaty in France and the Netherlands were both signs of this shift (p. 139). This kind of integration would be a double-edged sword because national sovereignty in a European political union could be restricted by the common interest aggregated at the European level as it is often argued in case of the limitation of the sovereignty of local or regional entities by the national level in each state (p. 139). The potential divisions that would occur could harm the whole process of integration.

An important point the author highlights is that although the system was prohibiting the bail-out of member states and banks, the ECB did not have any other choice than to engage the secondary market to help governments fund their debt. One of the main reasons for the rising debt of member states in the Euro zone was that "financial markets did not believe in the no-bail out clause of the Maastricht Treaty until the beginning of the Euro crisis and it treated government debt of EMU member states as if it had been issued under joint liability" (p. 140). This way, states enjoyed "unlimited" access to borrowing at very low cost (p. 141). In the author's opinion, the casualties of this system were fiscal discipline in the entire EMU and the price stability influenced by the constant injection of money by the ECB on the market to fund government debt issuance. Therefore, "the essence of political union would have to be giving the national sovereignty to EU level and not fiscal transfers (bilateral or from funds) and joint debt issuance". The author suggests that the EMU can only be stabilised if it is pulled back to its default principles of a common currency which is independent of politics (p. 142). He believes that the European Central Bank (ECB) should aim at price stability and lending to solvent banks. If the ECB would refrain from funding and helping with maintaining the stability of government's finances, who would finance the debt for governments when the markets have no trust in sovereign bonds? Mayer gives a few possibilities on how to transition from the current system to new-rules based system that would help to re-stabilise via a lender of last resort, the EMF (p. 145). Elements enforced by the EMF would be pressure for adjustment in fiscal policies on the national level, spreading the threat of sovereign bankruptcy with the consequence of being cut off from capital market (p. 145), and the joint liability of EMU member states for a certain amount of the debt in case of default. The scope of influence of this institution would also include debt restructuring on a case-by-case basis.

The EMF would fill the vacuum in crisis management and it would play the role comparable to the IMF for the international financial system. Chapter 8, symbolically entitled "In Search of a Lender of Last resort", highlights the issue of identifying the institution which would give the crucial financial injection to states that are insolvent and are in danger of default. Until now, "[the ECB] lent at low rates even to banks whose solvency was in doubt through the justification of those government bond purchases with the goal of oiling the monetary transmission mechanism" (p. 149). Conditionality was also used to create legitimacy for the funding of member states that found themselves in financial deadlock. As the author rightly stated, "when [the ECB] lends to an insolvent debtor it devalues the money it creates and when it lends to an illiquid debtor it prevents unnecessary defaults" (p. 153).

The discussion about the roots of this crisis moves to the nature of the "flat money system" which stops the "material anchoring of money" to gold, establishes the central bank as an independent actor in controlling the supply of money and thus influences its purchasing power. In addition to the central banks' role, the author highlights a few elements that influenced distortions on the financial market, namely the diversification of portfolio packages in which "credit was extended on the belief that credit risks could be accurately measured and minimized … where risky single assets were aggregated into an asset pool with seemingly low risk" (p. 189). This is explained as the combination of "constructivist monetary policies that followed inflation targets (and Taylor rule) with a laissez-faire approach to the financial sector" (p. 190). The author points out that legal tender in this case can only come from the central bank. This caused the perception of the lack of crisis mechanisms and the need to establish an institution based on IMF principles that will provide adjustment credits to governments under policy conditionality (p. 153). The author debates whether the new EMF would be more efficient with the access to the ECB financing with clear conditionality towards structural reforms in the debtor country. Why did EU member states decide to save the Euro and to share the burden with indebted countries by giving money in those Funds?

This is answered in Chapter 9, which deals with "The Politics of the Euro Rescue" and perceptions of what EU member states should do in order to stabilise indebted countries. In this system's weak legal framework for dealing with the crisis, discussion of reform brings the issue of burden-sharing to the table. It is critical to ask who should pay the debt of countries that are indebted and are threatened by the default. The author highlights the division between Germany's conditionality and claims of other countries such as France and Italy that urge for a more sympathetic approach to the demands for help (p. 162). As a result of these discussions, it is often discussed who profited the most from the monetary arrangement and the common currency. When considering gains from the monetary union, Thomas Mayer concludes that "the biggest gains came from lower interest rates and the GDP effects of more intra-EMU trade" (p. 164). Thomas Mayer analyses the position of Germany in the EMU and concludes that the German strong currency policy was beneficial for both capital and labour in Germany, and that the exit from the EMU might be a possibility for Germany if the Euro becomes "softer currency". With these claims, the author refutes all the critics and claims that Germany is the one that profited the most from the EMU arrangement and therefore needs to "pay the bill". When assessing the potential solutions for the payment of sovereign and bank debt, Germany insisted on the financial participation of private-sector creditors and on bail-in packages that would be paid by speculating bondholders. Germany accepted the involvement of the IMF and the strict conditionality towards countries that apply for help. However, Angela Merkel saw that the forgiveness of the debt of private creditors was a false move and "declared that private sector participation in the restructuring of Greek's public debt was exceptional and unique and would not be repeated in other countries" (p. 172). Despite these restrictions and strong attitudes, Germany accepted the ECB's reaction on the market while working on a new arrangement outside of the institutional architecture of the EMU, which had to be dealt with in a separate treaty because the UK vetoed a revision of the EU Treaties (p. 180). The New Treaty meant further austerity measures, and was criticised because of its policies that potentially undermine growth. The main idea promoted in the new crisis management structure by the author was that "fiscal austerity is needed to restore confidence in the sustainability of government finances, stabilization and restructuring of the banking sector is needed to rebuild confidence in the financial sector, and structural reform is needed to improve external competitiveness and restore confidence in the external solvency" (p. 182). The book cites a wide range of reasons that fuel the opinion that the Euro must be maintained and that the collapse of the common currency would lead to the dissolution of the Union.

The author claims that "if [the Euro is] managed as non-political money in an EMU where member states are liable for their sovereign financial decisions, the Euro offers the participating countries the opportunity of crafting a hard currency that can stand on its own against the currencies of other global economic powers" (p. 185). In Chapter 10, entitled "Why Europe Needs the Euro", the author clearly states that the EMU brings many advantages to the European Union. However, the strong Euro needs a stronger EMU and in the Chapter 11 ("A New Foundation for EMU"), the author summarises the whole message of the book, that is "to establish a federation of sovereign states where interstate fiscal transfers play only a minor role, member states are fully responsible for their financial affairs, the common currency is managed by a politically independent Central bank and economic and financial crises can be effectively dealt with" (p. 198). In this concept, the author states that member states would transfer part of the national sovereignty to the supranational level and this structure would have five fundamental blocks. The first block is the full responsibility of governments for their financial decisions and fiscal solvency with the option of exiting the EMU and allowing default (without exiting the EU) (p. 198). The second and third block aim at the

Central bank's responsibility for price stability (while overseeing the emergence of asset price bubbles) and its role as a lender of last resort conducted in close cooperation with the European Systemic Risk Board and a European Monetary Fund (EMF) (p. 199). In addition to the role of the Central Bank, the role of the EMF would be to "give financial support to governments cut off from capital markets in return for binding commitments" to restore solvency (p. 201). The fourth block of this structure is the EMF's role in the supervision of national economic policies for consistency while providing sovereign bond insurance, management, and funding adjustment programs (debt restructuring) of indebted member states (p. 201). The fifth block includes the EFSF that ensures financial and banking regulation to safeguard financial stability and provide common deposit insurance and a mechanism for restructuring or resolution of insolvent banks (bank resolution mechanism) (p. 202).

To conclude, the author states that "no set of rules imposed by Brussels can replace the disciplinary influence of the risk of failure" (p. 215). The author's arguments in this book: "de-politisation" of money, developing the framework of crisis management and the reform of the EMU, raising trust in the financial system by aligning fiscal policies and the comprehensive surveillance of the banking system will indeed lead to a stronger and more effective European Monetary Union. The arguments presented in this book are well elaborated and the author clearly states that the issue of moral hazard is of extreme importance when considering the future structure of the EMU and member states have to be in constant fear of default, while wrongly led fiscal policies should be punished by the market to eliminate the moral hazard. However, as markets play a valuable role for every country, it is hard to "enforce" this default immediately, without the insurance of the rest of the Union and Euro zone member states should be careful in stabilising the EMU. Since the market held sovereign bonds as equally safe prior to the crisis, this was also a form of joint liabilities without it being an official goal. During the growth of the Euro zone, none of the member states officially requested the single supervisory mechanism and the enforcement of the Stability and Growth Pact, and this led to the crisis. In my opinion, Eurobonds would have the same characteristic as the system prior to the crisis and it would only function if fiscal policies would follow the fiscal framework defined in the Treaties. I agree that the moral hazard caused by cheap credit shows that fiscal policies were not punished in time and that this was wrong. Speaking about the time when the crisis began, Mayer obviously shows the internal problems of the crisis management framework inside the EU Treaties and calls for a change in the EMU crisis management structure where the main role will be played by the EMF and not by the ECB. The ECB has its mission independent from any market distortions caused by unsustainable fiscal policies. In addition to this, the author identifies the important aspect of the banking system, which is the need for a supervisor that will oversee big systematic banks to counter any bigger bubbles on the financial market. Furthermore, it is important to mention the input in this discussion given by examples of past monetary unions in Europe that identify significantly similar problems before their collapse which are fiscal imbalances, the monetisation of deficits, the emergence of balance-of-payments deficits among regions, etc. Although many critics of the book claim that the times are different and it is hard to compare two different eras, I think Mayer's input could easily gain ground and help shape the EMU structure. Another contribution to the discussion that Mayer pinpointed is the "hidden" mechanism that poses a serious internal problem to the EMU system that makes importing member states dependent on loans from the ECB in order to keep the supply of Euros in the bank. This system is based on trust between banks and it is making a division between importing and exporting states. In addition to this aspect, the constant pivoting of the ECB on price stability failed to see the emerging bubble on the asset market and the new EMU structure should oversee the market and identify those distortions. Also, as Mayer showed, a political union is not possible for the European Union, and the danger that exists is its further dissolution because of economic problems. However, he is optimistic and thinks that lessons can be learned from history and that if crisis mechanisms had been defined with a lender of last resort; the EMU structure could become effective in dealing with the crisis. The gist of the current situation is clearly identified by the author and the possible failure of the Euro could lead to further disintegration. In my opinion, if member states want to retain the EU, they need to find a solvent mechanism that will function in times of crises, but one that would restrict fiscal imbalances.

Reference

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