Emerging Europe and the Great Recession, by Daniel Dăianu, Cambridge Scholars Publishing, 2018, pp. 332, ISBN (13): 978-1-5275-0881-1

Book Review by **Laurian Lungu**[1]

Abstract: *The impact of the global financial crisis on the European Union and the New Member States has been the subject of a large body of literature. This review assesses arguments made in Dăianu's 'Emerging Europe and the Great Recession', a book exploring failures leading to the Global Recession. It summarises key themes evoked in the book, namely causes of the global financial crisis and its implications for industry's entrenched models, democracy and monetary policy; it also considers whether it is possible to redesign the international financial architecture as to minimize the disruptive effects of future crises. Moving on, the review highlights Dăianu's thinking as being rooted also in his experience as a member of the European Parliament and other official duties; the depth that this provides to his arguments, especially as the book moves towards practical policy considerations. The review draws to a close by focusing on the effects of the crisis on Romania, such as the effects of Romania's capital account liberalization, before raising the question as to under what terms New Member States should join the Eurozone.*

Keywords: *Great Recession, Financial Crisis, European Union, USA, Protectionism, Romania*

The Great Recession has been the subject of much interest within both the economic profession and the policymaking community. The crisis severely tested some well-established notions, namely that price stability would guarantee macroeconomic stability, or that financial markets can self-equilibrate at a price that society, as a whole, can afford. Moreover, it showed that prudent frameworks focused on individual institutions as stand-alone entities failed dramatically. In his new book "*Emerging Europe and the Great Recession*", Daniel Dăianu captures these themes and explores their multi-facet implications in the economy, ranging from economic and social to financial and security.

The book deals with the impact of the financial crisis on the European Union and the New Member States, with a particular emphasis on Romania. It is not a memoir of the financial crisis. Rather, Dăianu gives us a remarkable account of the economic drivers behind it. What makes these interpretations unique is the fact that they are seen, simultaneously, through the lens of a policy-maker, a legislator and an academic. Dăianu's rich professional

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experience in all these fields helps shape the ideas and arguments presented in the book.

The volume "Emerging Europe and the Great Recession" is a collection of texts, some updated, written in a comprehensively articulated manner, over the last decade. It consists of three sections. The first part, "Society and the Great Recession" comprises six chapters and examines the role of finance in the global economy and its implications for policies, trade and society.

The book opens with a chapter that puts into perspective the limits of openness. A completely open global economy risks facing "recurring major crises" leading, in the end, to "an eventual breakdown and proliferating fragmentation effects". Preserving the openness while avoiding this undesirable outcome could be achieved either through an increased role of the state in the economy or through the consolidation of common currency trade blocks. Both trends are clearly visible enough nowadays. But, can the international financial architecture be re-designed in such a way as to minimize the disruptive effects of future crises? Dăianu is sceptical of such outcome as own interests of the world's major players would hamper coordination efforts.

The next three chapters look at the implications that the financial crisis has had on industry's entrenched models, democracy and monetary policy. Here, the word models should be understood more loosely as describing patterns of behaviour. The examples presented cover a large spectrum, from specific business models employed in the assessment of market risk, such as Value at Risk, to the oversized banking growth model of Cyprus and the necessity to revise the rules of the international financial architecture.

It is widely accepted by now that finance has risen to such a prominence that, prior to the crisis, it dominated the economy, particularly in the US. It did so not just directly, via its growth of often unproductive activities, but also indirectly, via its impact on corporate management and politicians. The outcomes of this are reflected in a reinforced moral hazard, due to repetitive bailout operations of financial entities, soaring inequality, along with various ethical issues. The will of the financial institutions to effectively carry out their respective mandates in consistency with societal expectations is fundamentally questioned by Dăianu. Moreover, as he astutely notes, the "'too big to fail syndrome', unless properly tackled, would maintain a captivity status towards [the giant] financial groups". These ideas are not new in their own right but, when considered in relation to the broader failures in the financial system, they present new explanations and highlight potentially adverse consequences.

The volume retains the advantage of talking about issues in an accessible way, which translates across disciplines. This is demonstrated in the chapter on resilience and robustness, which is engaging and intellectually stimulating. Dăianu's remark that "even though we have ever more information and scientific and technological advance never stops, societies do not automatically have superior cognitive capacities and capabilities to respond to shocks and challenges" posits a paradox. But there are potential responses to this. Recursive learning a la Evans and Honkapohja, for instance, is one of them. Dăianu does not specifically make a reference to this concept, but indirectly hints to it by stressing the role of technological advances and by avoiding past policy mistakes.

The first section of the book concludes by introducing the concept of "new protectionism". The chapter highlights the shortcomings of protectionist policies, which have been resurrected by national policies, not only in the US but also in Europe, in countries such as the UK or France.

Dăianu's hands-on experience as a member of the European Parliament emerges forcefully throughout the five chapters that form the second part of the book. There is a more tangible unity across the topics addressing the impact of the Great Recession on Europe. The analysis starts with an assessment of the causes that contributed to the emergence of the financial crisis. Eventually, these are funnelled down to a common denominator: "a 'drifted' financial cycle [which] has, arguably, been at work in the global economy during the past two decades". There is a brief description of the usual suspects, inter-alia the deregulation of financial markets or loose monetary policies, which have been identified by a plethora of existing research. Later on however, the analysis dwells on aspects that relate to the economic policy dimension. Practical questions are asked, and subsequently answered, referring to the policy coordination for the benefit of common goals or the collective stance of Eurozone members when it came to establishing the banking union.

A recurrent question across various chapters of "Emerging Europe and the Great Recession" is that of how to bring back into balance the financial system. The search for answers of how to regain financial global stability is a central theme of the book. Dăianu advocates "a return to the initial logic of the Bretton Woods". It is only by controlling capital flows that free trade could support durable economic growth. The need for a revised Bretton Woods system, as a response to the effects of the crisis, has been advocated by many as a viable policy option in drawing up a new world financial and monetary architecture. Without a doubt, there is a need for a new approach to monetary policy and a greater degree of cooperation between currency blocks. While such a task is undoubtedly a complex one, Dăianu attempts to address, at least in part, the issue by putting forward specific principles for a reformed regulatory and supervisory international framework. It is consequently no surprise that the Glass-Steagall legislation takes a centre stage among the advanced proposals.

Dăianu's deep understanding of the intricate workings of the European Monetary Union is reflected in the chapter that deals with the Euro area crisis. It focuses on the roots of the crisis in the Euro zone and on the subsequent policy options. Reading the chapter gives the feeling of being an "insider" in the complex process of Euro zone policy debates. The key to figure out the multi-level strains prevailing in the European Monetary Union is "structure". This structure "should be understood in terms of rules, networks, institutional arrangements, and common policies". With prerogatives on fiscal policy in national hands and rigid labour markets, the existing flaws in institutional and policy arrangements have exacerbated the effects of the crisis. After highlighting the causes of the Euro crisis, Daianu spells out the EU policy response, from crisis management to measures aimed at increasing competitiveness, spurring up employment and overhauling the regulatory and supervisory structures of the financial system.

The final section of the book consists of three chapters which deal with the effects of the crisis on the new member states with a particular focus on Romania. This section is a blend of past and future and offers a comprehensive view on the policy challenges new member states had been facing during the crisis. The abrupt correction in both external and internal balances has been a salient feature of these economies. Drawing from his vast experience at the National Bank of Romania, Dăianu goes through the list of dilemmas central bankers and policymakers had during the crisis. Some of the policies are now evaluated in retrospect, such as the effects of Romania's capital account liberalization, prior to the European Union accession, or the challenges brought about by the adoption of inflation targeting. This approach offers useful insights in regards to the timing and the efficacy of those policies.

As it is with all new member states, the assessment of the 'catching-up' process takes centre stage. The last chapter of the book looks to the future and raises the question of under what terms new member states should join the Eurozone. Rushing into adopting the euro in the absence of a critical mass of both nominal and real convergence would entail further risks down the road.

Overall, "*Emerging Europe and the Great Recession*" is a book full of valuable detail and insight. It does an important job of establishing the contours of the discussion on the Great Recession both in Europe and beyond.

About the author of the book:

Daniel Dăianu is Professor of Economics at the National School of Political and Administrative Studies (SNSPA) in Bucharest and a Member of the Romanian Academy. He is a Member of the Board of the National Bank of Romania and was a Member of the EU High Level Group on Own Resources. He is the co-editor of The Crisis of the Eurozone and the Future of Europe (2014) and author of Which Way Goes Capitalism? (2009). His publications also include The Macroeconomics of EU Integration: The Case of Romania (2008); Balkan Reconstruction (2001); Transformation as A Real Process (1998); and Economic Vitality and Viability: A Dual Challenge for European Security (1996), among others. He previously served as First Deputy President of the Financial Supervision Authority (2013-2014), Member of the European Parliament (2007-2009), Finance Minister of Romania (1997-1998), Chief Economist of the National Bank of Romania (1992-1997), and Deputy Minister of Finance (1992).