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Notes from the Editor

The current "great recession" is having a marked impact on countries worldwide. Unexpectedly perhaps, given the widespread belief that this financial and economic crisis was "made in America" (perhaps with Britain as a junior coalition partner), European states are also feeling the brunt. Germany experienced an almost-unfathomable 14 percent decline in GDP in the first quarter of 2009—Spain, an eight percent contraction. Italy is facing its worst economic downturn ever and several Central and Eastern European countries, such as Hungary, Latvia and Ukraine, have had to be bailed out by the International Monetary Fund. The United Kingdom's debt is projected to surpass 90 percent, even 100 percent of its GDP and its bond rating is suffering as a consequence. As summer 2009 approached, the economic situation appeared to begin to stabilize in the United States, but many analysts predicted that the worst was yet to come in Europe.

Public policy debate raged already from the autumn of 2008 when the American stock market plunged. At times, a rancorous difference of opinion emerged in various European countries and across the Atlantic. On the one hand, conventional wisdom (represented by influential *New York Times* columnist Paul Krugman) in the United States and Britain counseled massive governmental spending as the only way out of the crisis. On the other hand, most continental European countries resisted such large-scale programs, fearing the future consequences of deficits, debt, and higher inflation. German Chancellor Angela Merkel, deemed "Madame No," led this camp, expressing a reluctance to borrow and spend at home (influenced both by the constraints of European Monetary Union and the "lessons of history," given the role that hyperinflation played in destabilizing the Weimar Republic) and to bail out other (East) European countries.

The authors in this issue of the *European Politics and Society* newsletter—David Cameron (Yale), Mitchell Orenstein (SAIS/ Johns Hopkins), Abraham Newman (SFS/ Georgetown) and Brent Goff (Deutsche Welle)—grapple with the political and social implications of this unprecedented financial and economic crisis. What accounts for the diverging policy responses in various countries? How will elites respond to plunging incomes and tax revenues, higher unemployment and elevated levels of debt? Will radical movements on the Left and Right become empowered, as was often the case in European history? Will European unity and solidarity be jeopardized? And what are the prospects for the countries as the recession worsens and then in its aftermath?

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A Message from the Section Chair

Anna Grzymala-Busse, University of Michigan

Welcome to the Summer 2009 issue of the *European Politics & Society Section's Newsletter*, thematically focused on the political and social implications in Europe of the ongoing financial and economic crisis. This issue also includes the program of the European Politics Section panels for the 2009 APSA, put together by our Program Chair, Sven Steinmo. I would like to thank Sven for putting together the panels for the meeting. It's a fascinating array, and please remember: the greater our attendance, the bigger our panel allocation for next year!

The Section's annual business meeting will be held during the Annual Meeting in Toronto, and I hope to see many of you there. The agenda includes the election of our new Section Chair and new members of the section's Executive Committee: Wade Jacoby as Program Chair for 2010 and Section Chair-elect, as well as three new Executive Council Members: Rafaela Dancygier, Ingrid Van Biezen, and Jan Kubik.

I would like to thank the outgoing members of the Executive Council: Karl Kaltenthaler, Milada Vachudova, and Jonas Pontusson, for their service to the Section. I am especially grateful to our past chairs: Chris Anderson and Jonas Pontusson, for their invaluable help over the past year.

We will also award the Section's book and paper awards and the Ernst Haas Dissertation Prize. I would like to thank all the committee members who performed an invaluable service to the Section, all the more so since they spent much time and effort reading the nominations at a particularly busy time of the academic year.

We will be recognizing these outstanding works at our Section Business Meeting, and conducting the section's business. And, as is our tradition, we will have a reception (open bar) immediately afterward, co-sponsored with Cambridge University Press and ECPR.

I'm looking forward to seeing you all in Toronto!

2009 Annual Meeting & Exhibition

American Political Science Association

Toronto, ON, Canada | September 3-6, 2009

Program Chairs: Simone Chambers and Bruce Jentleson

Politics in Motion: Change and Complexity in the Contemporary Era

The EU's Response to the Economic Crisis

David R. Cameron, Political Science, Yale University[1]

Europe is in the midst of a synchronized, continent-wide recession, the most severe economic contraction since the Depression of the 1930s. As of mid-2008, only one member state of the European Union—Ireland—had experienced the two consecutive quarters of negative growth that mark the onset of a recession. But, in the second half of last year and first quarter of this year, one country after another experienced the sustained contraction of the economy that defines a recession. By the second quarter of 2009, at least 16 of the 27 member states of the EU were in a recession.[2] In some parts of Europe—most notably, the three Baltic states—the extent of contraction was so great as to warrant the term "depression" rather than recession. In the wake of the severe, accelerating, and sustained contraction of the economy, existing jobs were lost, new jobs not created, and the rate of unemployment moved sharply upward in many countries—in some cases into double digits. The prospect is for even higher levels of unemployment in 2010 and beyond.

As one European economy after another contracted in late 2008 and early 2009, the issue before the EU was how to respond to the economic crisis and, in particular, how aggressively it should seek to stimulate aggregate demand in order to restore output and employment. In November, the European Commission proposed a European Economic Recovery Plan that featured a fiscal stimulus of 200 billion, equivalent to about 1.5 percent of EU GDP. Eighty-five percent of the stimulus would come from the budgets of the member states. The plan was approved by the European Council at its December meeting. For its part, the European Central Bank, after raising its benchmark rate in the summer of 2008, eventually began, several months later, to bring the rate down from 4.5 percent to the current one percent. But, the question remains whether the Council and the ECB responded to the crisis as quickly as they could have and should have. In March, for example, the Council rejected the advice of the IMF, the OECD, the Obama Administration, and others who urged that it inject a larger fiscal stimulus into the economy. Meanwhile, the ECB maintained its benchmark rate above those set by the central banks of the U.S., Britain, and Japan and resisted the "quantitative easing"—the injection of funds into the economy by purchases of corporate and public debt—undertaken by those central banks.

This paper discusses the EU's response to the ongoing economic crisis. It focuses on the fiscal stimulus and suggests that the EU's initial stimulus was unduly modest and that it could have done more, both initially and subsequently, to counter the accelerating economic contraction and coordinate the efforts of the member states to boost demand. Because the initial stimulus plan was quite modest, because the EU subsequently refused to modify the plan and inject a larger stimulus into the European economy, and because it failed to coordinate the efforts of the member states to stimulate demand, the contraction, in all likelihood, will be more severe, more prolonged, and more costly in terms of lost output and unemployment than it might otherwise have been.

I begin by presenting some data that convey the breadth, depth, and likely duration of the economic crisis and then briefly describing the recovery plan adopted in December. After noting the extent to which the EU underestimated the magnitude of the economic contraction, I consider some of the reasons why it adopted a recovery plan that was insufficiently aggressive, given the magnitude of the unfolding economic contraction, and why it subsequently refused to modify the plan and inject a larger fiscal stimulus into the economy. I then consider a two-fold coordination problem that impedes the ability of the EU to respond effectively and in a timely manner to an

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economic crisis and, in particular, diminishes the impact of a fiscal stimulus. After noting the considerable variation in the magnitude of the overall fiscal stimulus enacted by the member states, the discussion suggests the need, given the very high degree of trade openness in the EU, for a greater degree of coordination among the member states in responding to an economic crisis.

The Breadth, Depth, and Likely Duration of the Crisis

Table 1 (page 13) presents the quarter-by-quarter rates of change in "real" or constant-price GDP, with change measured from the same quarter of the previous year. The quarters in which GDP contracted are in bold fonts. The data illustrate the extent to which the economic crisis had, by the last quarter of 2008 and first quarter of 2009, spread to much of the EU. As of the mid 2008, only one EU member state (Ireland) had experienced the two consecutive quarters of negative growth that signal the onset of a recession. By the end of the third quarter, three more (Estonia, Latvia, and Italy) were in recession; by the end of 2008, two more (Denmark and Luxembourg) were in recession; and, by the end of the first quarter of 2009, ten more (Germany, the UK, France, Spain, Portugal, Belgium, the Netherlands, Sweden, Lithuania, and Hungary) were in recession. Thus, as the second quarter of 2009 began, at least 16 of the 27 member states were in recession.[3]

In the wake of the accelerating contraction, jobs were lost and new jobs not created and, with some lag, the rate of unemployment began to increase. Table 2 (page 14) presents the rate of unemployment in the 27 member states of the EU in April of 2008 and 2009. In six of the countries (Estonia, Latvia, Lithuania, Spain, Ireland, and Slovakia) unemployment was well into double digits by April, 2009. Indeed, in the three Baltic states the year-on-year increase in unemployment was more than 10 percentage points.[4]

The EU's most recent forecasts of growth and unemployment in 2009 and 2010, presented in Table 3 (page 15), give a sense of the breadth, depth, and likely duration of the crisis.[5] They indicate that the EU as a whole will experience an economic contraction of four percent this year and remain flat in 2010. Estonia, Latvia, and Lithuania will experience the most severe contractions, in excess of ten percent this year. But, other countries will also experience substantial decreases in GDP: Ireland is expected to experience a contraction of nine percent. Hungary more than six percent, Germany more than five percent, Italy and Finland more than four percent, Sweden, Austria, and Romania four percent. France, Spain and the UK will experience contractions in the range of three to four percent of GDP. Unemployment, which was seven percent in the EU 27 last year, is expected to rise above nine percent this year and to 11 percent next year. By next year, unemployment will be in double digits in at least a dozen member states, including Germany, France, Belgium, Sweden, Poland, Hungary, and Slovakia. Unemployment in the three Baltic states and Ireland is expected to be in the range of 15 percent, and in Spain, the rate will exceed 20 percent. As Robert Zoellick, the president of the World Bank, said in an interview—appropriately, with a Spanish newspaper—"what began as a great financial crisis and became a great economic crisis is now becoming a great crisis of unemployment."[6]

Obviously, the timing, causes, and extent of the downturns vary across the EU. For example, the downturn began in late 2007 in Spain and Ireland with the end of the housing and construction booms but did not reach much of central and eastern Europe until the first quarter of 2009. It barely touched Greece, Cyprus, and Malta but has become a full-fledged depression in the Baltic states. In some

countries, it has swept in from abroad like a tsunami but in others it has, to some extent, resulted from their own policy choices. For example, the decisions of the Baltic states to peg their currencies to the Euro appeared at the time to be an ingenious way of attracting large amounts of foreign capital, and indeed massive amounts—in the form of private loans—flowed into all three and fueled economic booms. Nevertheless, the inflows contributed to enormous current account deficits and increasingly overvalued currencies, and after their export markets in the EU began to contract and the currencies of some of their non-Euro neighbors plunged, they faced the dilemma of either maintaining the pegs and absorbing exceptionally severe contractions or terminating the pegs and allowing their currencies to depreciate—a decision that would correct the current account imbalances, but would inevitably result in defaults on some of the foreign-denominated debt and bankruptcies. The hardest hit of the three, Latvia, was forced to go to the IMF, the World Bank, the EU, and six other EU member states for a $10 billion loan in December and may yet be forced to terminate its peg; whether Estonia and Lithuania will avoid the same fate remains to be seen.[7]

The December Recovery Plan

In November, as it became apparent that Europe would not be spared the economic contraction that began in the U.S. with the sub-prime mortgage crisis, the European Commission formulated a recovery plan that featured a fiscal stimulus of €200 billion in 2009 and 2010, equivalent to 1.5 percent of the EU-wide GDP. 85 percent of it—170 billion—would be provided by the member states through their budgets with the remaining €30 billion coming from the European Investment Bank in the form of loans for small and medium enterprises, renewable energy, clean transportation. The EU itself would simplify the procedures for, and distribute more quickly, some €6 billion in spending for programs financed by its Cohesion Fund and Structural Funds and would use its Agricultural Fund for Rural Development to strengthen investment in infrastructure. It would also fund up to €5 billion in specific projects to strengthen investment in energy interconnections and infrastructure, including, through regulatory incentives, broadband infrastructure in areas that are poorly served. And it would promote employment in key sectors of the economy through its Globalization Adjustment Fund, allow member states wishing to do so to reduce VAT rates in certain sectors, and provide a temporary two-year exemption in the maximum state aid for small and medium enterprises.

The European Council adopted the plan at its December meeting.[8] Taking into account the downturn in the European economy in 2009 and 2010, the Commission estimates these and all other discretionary measures will result in a fiscal stimulus over the two years equivalent to 1.8 percent of the 2008 EU GDP, with 1.1 percent occurring this year and 0.7 percent occurring next year. By way of comparison, it estimates the two-year fiscal stimulus provided by discretionary measures in the U.S. will be equivalent to 4.5 percent of GDP, 2.1 percent this year and 2.4 percent next year.[9]

Why the Modest Plan—and Why the Resistance to a Larger Stimulus?

It is easy, with hindsight, to second-guess the EU regarding the amount of fiscal stimulus it provided with its December plan. In questioning the adequacy of the stimulus, one must of course appreciate the fact that those who were formulating the policy were doing so in the midst of an unfolding crisis and in a context of great uncertainty. Nevertheless, it can be argued that by November and December of 2008 it was obvious to many, and should have been obvious to those formulating policy in the EU, that the contraction was very severe, it was accelerating, and there was no

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turning point in sight.

One reason the EU adopted a recovery plan that envisioned a modest fiscal stimulus equivalent to only 1.5 percent of GDP is because the Commission badly underestimated the magnitude of the contraction. That it did so is illustrated by comparing its January 2009 and Spring 2009 forecasts of growth and unemployment in the EU in 2009 and 2010. The January forecast, prepared around the time the European Council adopted the recovery plan, anticipated the economy would contract by 1.8 percent in the EU and 1.9 percent in the Euro area in 2009 and would increase by about 0.5 percent in 2010. Unemployment would edge up to about 9 percent in 2009 and a bit above that in 2010. Four months later, the Commission recognized that the contraction would be much greater in 2009—four percent—and the economy would remain flat in 2010. And unemployment would rise more sharply, approaching 10 percent in 2009 and reaching or exceeding 11 percent in 2010.[10]

As it became increasingly apparent during the first quarter of this year that the rate of economic contraction was accelerating and that the EU had badly underestimated both the breadth, severity, and likely duration of the crisis, a wide range of international organizations and observers—most notably, the IMF and the Obama Administration—urged the EU to do more to stimulate demand.[11] The Obama Administration had, of course, enacted a $787 billion two-year stimulus soon after taking office. Taking into account relatively large size of public revenues and expenditures, and hence of the "automatic stabilizers," in most European states, both the Obama Administration and the IMF urged the EU to aim for a two-year stimulus in the range of four percent of GDP. The OECD likewise urged that further stimulus measures be enacted quickly, especially measures that would have a short-term impact and would address the problem of increasing unemployment.

The EU leaders would have none of that. After the meeting of the Euro area finance ministers prior to the March meeting of the European Council, Jean-Claude Juncker, the Prime Minister and Minister of Finance of Luxembourg and chair of the Eurogroup finance ministers, said, "the 16 finance ministers agreed that recent American appeals insisting Europeans make an added budget effort were not to our liking."[12] At its March meeting, after following the advice of their finance ministers and rejecting any additional stimulus, the European Council expressed its confidence in the medium and long term outlook, asserted that "good progress has been made in implementing the European Economic Recovery Plan" and said that, "although it will take time for the positive effects to work their way through the economy, the size of the fiscal effort (around 3.3 percent of EU GDP or over €400 billion) will generate new investments, boost demand, create jobs and help the EU move to a low-carbon economy."[13]

Reporting to the European Parliament on the Council meeting several days later in his capacity as the head of the government holding the rotating presidency, Mirek Topolanek, the former prime minister of the Czech Republic, famously said, "the U.S. Treasury secretary talks about permanent action and we, at our spring council, were quite alarmed at that … the U.S. is repeating mistakes from the 1930s, such as wide-ranging stimuluses, protectionist tendencies and appeals, the Buy American campaign, and so on. All these steps, their combination and permanency, are the road to hell."[14]

Several factors may have contributed to the EU's unwillingness to modify its initial recovery plan when the full magnitude of the economic contraction became apparent in early 2009. For one thing, of course, the plan had been adopted only three months earlier and had not yet been fully implemented, the January forecast had not

yet been updated, and the first quarter results were, of course, not yet in. In those circumstances, rather than modifying the plan it seemed more reasonable to the leaders to ask the finance ministers to prepare an evaluation of the plan and report back at the June European Council meeting, which is what they did.[15]

For another, it is no doubt much easier to enact a substantial change in policy, as the U.S. did after January 20, 2009, in a single country in which the executive and legislative branches are controlled by the same party than in a union of 27 states that vary widely in the extent to which they have been adversely affected by an economic crisis and are willing and able to incur large budget deficits and additional debt in order to stimulate demand and promote growth and employment. It is probably also easier to modify an existing policy when the presidency of the EU is held by a large and influential member state in which the government is securely in control and committed to pursuing an aggressive fiscal policy rather than, as in the first half of 2009, by a smaller and less influential member state in which the government is in a precarious position at home and, perhaps because of its ideological proclivities or simply because the country had not experienced a severe economic contraction, not committed to pursuing for itself and advocating for Europe an aggressive fiscal policy.[16]

It is commonplace to assume, after the Depression and John Maynard Keynes' General Theory, that everyone understands and endorses the logic of countercyclical demand management. That assumption, however, is almost certainly incorrect and it is doubtful that all those responsible for macroeconomic policy in the EU are good Keynesians. And even if they were, and even if the political leaders of the 27 member states were of one mind about the need for and value of a fiscal stimulus, there is, of course, the problem that the EU itself has very little fiscal capacity. All of the EU's spending, taken together, comprises approximately €135 billion, roughly one percent of the EU GDP. That stands in marked contrast to the much greater fiscal capacity of the member states, in which public expenditures last year were, on average, 47 percent of GDP.[17] Moreover, the EU can not issue debt. The member states that participate in the Euro area do, of course, issue sovereign euro-denominated debt. But, the EU itself can not issue Euro bonds. Taken together, those two factors go a long way in explaining why the December plan envisioned that 85 percent of the fiscal stimulus would be provided in the budgets of the member states and the EU itself would provide a very small portion of the €200 billion.

The fact that the great bulk of any EU-mandated stimulus would, of necessity, come out of the budgets of the member states means that any such stimulus would face the potential constraint of the Stability and Growth Pact. Negotiated in 1995-97 when it appeared that most EU member states, even the weak-currency countries that often had large budget deficits, would attempt to meet the "convergence criteria" for entry to the third and final stage of Economic and Monetary Union in 1999, the Pact, slightly modified in 2005 after France and Germany ignored its strictures for several years, provides for the monitoring of budget deficits by the Commission, which issues warnings about "excessive" deficits, provides advice and timetables for restoring fiscal prudence, and, if warranted, recommends sanctions to the Council on member states that fail to correct such deficits. "Excessive" deficits are defined by the Treaty as those which are larger than three percent of GDP unless they are "exceptional and temporary" and "remain close" to that figure.

That the Pact looms over any consideration of a possible fiscal stimulus was illustrated by the European Council in its December meeting when, after endorsing the Commission's recovery plan, it stated: "the European Council

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emphasizes that the revised Stability and Growth Pact remains the cornerstone of the EU's budgetary framework. It affords the flexibility for all the Recovery Plan measures to be implemented. Aware that the latter will temporarily deepen the deficits, the European Council reaffirms its full commitment to sustainable public finances and calls on the Member States to return as soon as possible, in accordance with the Pact and keeping pace with economic recovery, to their medium-term targets."[18] The same view, expressed in nearly identical words, appeared in the Presidency Conclusions of the Council's March meeting.

For the member states that generally incur substantial budget surpluses in good times—for example, Finland, Sweden, and Denmark—the Pact does not pose a serious constraint on the ability to provide a substantial fiscal stimulus in a time of economic crisis; the government can undertake a stimulus of several percentage points of GDP and nevertheless keep within the 3 percent limit on deficits.[19] But, for those which tend to run deficits in most years, even when experiencing average or better-than-average economic growth, the Pact may constrain their ability to provide as much of a fiscal stimulus as is needed in times of crisis. In June 2008, the Commission adopted an Excessive Deficit Report with respect to Britain's 2008 deficit and in February it adopted such reports with respect to the 2008 deficits in France, Spain, Ireland, Latvia, Greece, and Malta. The member states can and do ignore such reports and incur larger deficits in the short term. The reports, however, do put them on notice that they are expected to restore fiscal balance—which, of course, means pursuing a budgetary policy that has a net contractionary impact—in the next two or three years.

An additional constraint on the ability of a member state to undertake a substantial fiscal stimulus is the amount of existing public debt relative to GDP. Countries with relatively small amounts of debt obviously have more latitude to take on additional debt than those with relatively large stocks. Some of the member states—most notably, Italy, Greece, and Belgium—have stocks of public debt that are roughly as large as their GDP. In fact, eight of the 16 member states in the Euro area have stocks of public debt that exceed 60 percent of GDP, the maximum allowable ratio for countries seeking to enter the third and final stage of EMU. On the other hand, most of the countries that have very low levels of public debt—Bulgaria, Romania, the Czech Republic, and the three Baltic states all have debt/GDP ratios ranging from 5 to 30 percent—are not in the Euro area and some have experienced difficulty in placing public debt.

If those constraints were not enough, there is a widespread perception that in a union of states that are highly dependent on trade a good deal of any stimulus will "leak" abroad. That is, because the countries import a great deal, a substantial portion of a stimulus in a country will go abroad, via payments for imports, and ultimately benefit the firms and workers in the countries that produced the goods, rather than firms and workers in the country that adopted the stimulus. Therefore, it is claimed, a fiscal stimulus is intrinsically less effective in an open economy than would be in a closed economy.[20] That, of course, can become a rationalization for doing little or nothing.

Another widespread perception—one that, like the notion of "leakage," operates less as a constraint and more as a rationalization for passivity—is the view that the member states of the EU have relatively large automatic budgetary stabilizers. The magnitude of the automatic stabilizers depends on both the relative size and the composition of revenues and expenditures. Countries in which relatively large shares of GDP are absorbed by public revenues and expenditures and in which

revenues and expenditures are especially sensitive to changes in GDP will have relatively large stabilizers. A recent analysis by the OECD suggests that, indeed, the automatic stabilizers in a number of EU member states are 30 to 40 percent larger than those in the U.S. or Japan, meaning that European countries typically get a larger fiscal stimulus from the countercyclical movement in the budget in a contraction.[21]

The Aggregate Fiscal Stimulus in the EU in 2009-10

As noted earlier, the EU estimates the fiscal stimulus from the discretionary measures adopted in December (as well as all other discretionary measures) will be equivalent to 1.1 percent of GDP this year and 0.7 percent of GDP next year. However, that represents only a portion of the overall fiscal stimulus in 2009 and 2010 since there are, especially in Europe of course, automatic stabilizers. In addition, other changes in revenues and expenditures that are the result of neither discretionary measures nor the automatic stabilizers can increase (or decrease) the size of the overall fiscal stimulus. The overall fiscal impact of government, including discretionary measures, automatic stabilizers, and other changes in revenues and expenditures, can be estimated by calculating the year-to-year change in the surplus or deficit of the budget as a percent of GDP. A year-to-year decrease in the surplus or increase in the deficit relative to GDP—the result of a decrease in the ratio of revenues to GDP and/or increase in the ratio of expenditures to GDP—results in a fiscal stimulus.

Table 4 (page 17) presents measures of the overall fiscal stimulus in the EU 27 and Euro area in 2009 and 2010.[22] For comparison, the table also includes measures of the overall fiscal stimulus in the U.S. and Japan in both years. These data indicate that the overall fiscal stimulus in the EU will be equivalent to 3.7 percent of GDP this year and 1.3 percent of GDP next year, for a cumulative two-year stimulus of five percent of GDP. Surprisingly, given its greater fiscal resources and capacity to issue debt, the overall fiscal stimulus in the 16 countries of the euro area will be slightly less—3.4 percent of GDP this year and 1.2 percent of GDP next year.

The data in Table 4 make it clear that, while most of the EU member states have larger automatic stabilizers than the U.S. and Japan, they were not so large as to produce a larger overall fiscal stimulus in the EU. Owing in large part to the magnitude of the U.S. stimulus adopted after the Obama Administration took office, but also the magnitude of other changes in revenues and expenditures, the U.S. will experience a substantially larger fiscal stimulus in 2009—equivalent to 6.2 percent of GDP—and 2010—equivalent to 2.1 percent of GDP. As a result, it will experience a two-year fiscal stimulus equivalent to 8.3 percent of GDP, roughly 66 percent larger than that in the entire EU and 85 percent larger than that in the 16 countries in the Euro area.

The Coordination Problem in the EU

The EU's response to the financial and economic crisis has made it apparent that it has a two-fold coordination problem. One facet of the problem was created by with the move a decade ago to the third and final stage of EMU. The centralization of monetary policy at the supranational level in an institution that is independent of political instruction, while fiscal policy remains very largely decentralized to the member states, makes it difficult to coordinate the two strands of macroeconomic policy, notwithstanding the ECB president's participation in meetings of the Eurogroup finance ministers and the various means of communication between them. It also increases the likelihood that the EU's overall macroeconomic policy will be sub-optimal. For example, interest rates will tend to be higher than they should be, given the state of the

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economy, and would be if the member states controlled monetary policy, and they will tend to come down more slowly than they should and otherwise would in a time of economic contraction. On the other hand, precisely because they have no ability to reduce interest rates, the budget deficits of the member states will tend to be larger than they would otherwise be in good times and the states would, therefore, be less able to inject a substantial stimulus into the economy in bad times.

The second, related facet of the coordination problem has been the absence of any effective coordination among the member states in fiscal policy. The sum total of coordination among the states in the EU's recovery plan was the agreement that 85 percent of it would be provided through their budgets. There was no designation of which states would provide how much of the stimulus, when they would undertake the stimulus, how much additional stimulus certain states might undertake, and how the stimulus would be targeted. There was no recognition of the fact that, given the inability of some of the member states—most notably, those of central and eastern Europe—to incur a large or larger deficit and debt, in order for the stimulus to be sufficiently large to promote a recovery other member states would have to incur a larger deficit than they might incur were they concerned only about the performance of their economy. Instead, the states were left entirely to their own devices.

Because of the lack of coordination of their fiscal policies, the member states have varied widely in the extent to which they have sought to stimulate demand. The data in Table 4 illustrate that variation. Britain and Ireland, both of which are expected (like the U.S.) to have budget deficits in the range of 12 percent of GDP this year and even higher next year, will inject a stimulus in the two years equivalent to about eight percent of GDP. Several other member states—most notably, Denmark, Finland, and the Netherlands—will experience a two-year stimulus in the range of seven percent of GDP—without incurring large deficits, it should be noted. And several others—for example, Germany, Sweden, and Spain—will have a two-year stimulus in the range of 6 percent. On the other hand, some of the member states, especially the other participants in the Euro area, appear to be dragging their feet in using fiscal policy to stimulate demand; in particular, France and Italy are underachieving on the fiscal front.

I noted earlier the conventional wisdom that some of the effect of a fiscal stimulus is lost in an open economy because of "leakage." That is no doubt true. On the other hand, as the IMF notes in its most recent regional outlook for Europe, that argument can be turned on its head by noting that countries with high levels of imports also have high levels of exports.[23] The member states of the EU have high levels of exports and, in particular, high levels of exports to other member states. Last year, for example, exports of goods and services were equivalent to more than 40 percent of the GDP of the EU 27, and more than two-thirds of those exports went to other member states.[24] In a union of open economies, a fiscal stimulus, if undertaken simultaneously throughout the union, would create demand for exports throughout the EU. The problem, of course, is that in order for the EU to carry out a simultaneous fiscal stimulus, the member states would have to agree to coordinate their fiscal policies. And that would mean they would have to agree to move at least part of the way toward that most elusive of concepts, an "economic government" in the EU.

Conclusion

Last November, with the EU in the midst of a quarterly economic contraction of 1.6 percent, the European Commission proposed a recovery plan, approved in December that would inject some €200 billion, equivalent to 1.5 percent of the EU GDP, into the economy.

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85 percent of the plan consisted of a fiscal stimulus that would be provided through the budgets of the member states. In the first quarter this year, the European economy experienced a much more severe contraction. By the end of March, at least 16 member states were in recession. Unemployment increased sharply and the Commission estimated that the rate would be in double digits in at least a half-dozen member states this year and at least a dozen next year. Yet, the EU adamantly resisted all calls to modify its initial recovery plan and inject a larger fiscal stimulus into its shrinking economy, even as it became apparent that it had badly underestimated the severity of the contraction. This paper has considered some of the reasons why it refused to do so.

In mid-March, soon after the equities markets turned up, Ben Bernanke, Chairman of the US Federal Reserve Bank, noted, amid the debris of the financial collapse, the "green shoots" of a possible recovery. There is some reason to think the rate of economic contraction in the European economy diminished in the second quarter and will continue to diminish in the third and fourth quarters this year. The "green shoots" of a tentative recovery may even be visible in some parts of the EU. But, in other parts, the recession shows no signs of abating and Europe as a whole remains mired in a synchronized, continent-wide severe recession. And largely because the EU failed to do more on the fiscal front as the full magnitude and severity of the crisis became apparent, the recession will be more severe, more prolonged, and more costly in terms of lost output and lost jobs than it otherwise would have been.

Notes

1 Earlier versions were presented at the BMW Center for German and European Studies at Georgetown University, the Paul H. Nitze School of Advanced International Studies of Johns Hopkins University, and Yale University. I wish to thank Jeffrey Anderson, Kate McNamara, Mitchell Orenstein, and all those who contributed helpful comments and suggestions.

2 The European recession has, of course, extended beyond the boundaries of the EU to Iceland, Russia, Ukraine, the Western Balkans and other non-member states. I concentrate here on its impact on the member states of the EU.

3 The quarterly data on changes in GDP are reported by the European Commission in "Eurostat News Release: euroindicators," 82/2009, June 3, 2009. The change in GDP in the first quarter of 2009 is not reported for Finland and Slovenia. If both experienced a drop in GDP in that quarter, the number of member states in recession at the start of the second quarter would rise to 18.

4 The data on unemployment are reported by the European Commission in "Eurostat News Release: euroindicators," 79/2009, June 2, 2009.

5 The data are presented in Directorate-General for Economic and Financial Affairs, European Commission, "Economic Forecast: Spring 2009," May 2009, pp. 134, 145.

6 Quoted in El País, May 24, 2009.

7 Latvia is by no means the only country that has had to go to the IMF and others for loans. Ukraine negotiated a three-year $16.5 billion standby loan in October; Iceland an $11 billion loan in November; Hungary a $25 billion loan in November; Romania a $27 billion loan in March, and Serbia a $4 billion loan in March. Bosnia and Bulgaria, which like the three Baltic states has pegged its currency to the Euro, are currently negotiating loans. In addition, Poland negotiated a $20 billion flexible credit line in April.

8 See Council of the European Union, "Brussels European Council, 11/12 December 2008: Presidency Conclusions," 17271/1/08 REV 1, p. 5-7.

9 See European Commission, "Economic Forecast: Spring 2009," May 2009, p. 45.

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10 Directorate-General for Economic and Financial Affairs, European Commission, "Interim Forecast: January 2009" and "Economic Forecast: Spring 2009."

11 See, for example, "Atlantic rift over stimulus widens," Financial Times, March 11, 2009, p. 2.

12 Quoted in "Europe rejects extra stimulus appeal," Financial Times, March 10, 2009, p. 4.

13 Council of the European Union, "Brussels European Council, 19/20 March 2009: Presidency Conclusions," p. 3. The 3.3 percent figure, of course, includes the so-called automatic stabilizers as well as the discretionary measures adopted at the Council's December meeting.

14 Quoted in "EU leader condemns US 'road to hell'," Financial Times, March 26, 2009, p. 1.

15 At their meeting on June 8-9, the finance ministers agreed that a majority of the measures were timely, targeted, and in line with the EU's long-term priorities, but they also noted the need to closely monitor their efficiency. The European Council met on June 18-19.

16 The day before his 'road to hell' speech in the European Parliament, Prime Minister Topolanek's government lost (by one vote) a vote of confidence in the Czech parliament.

17 See European Commission, "Eurostat News Release: euroindicators,' 56/2009, April 22, 2009.

18 Council of the European Union, "Brussels European Council, 11/12 December 2008: Presidency Conclusions," p. 7.

19 Sweden and Denmark (and nine other member states) are, of course, not members of the euro area. However, the deficits of all of the member states are subject to monitoring by the Commission and Council.

20 The OECD endorses this view in its recent "Economic Outlook: Interim Report," March 2009, p. 115.

21 See OECD, "OECD Economic Outlook: Interim Report," March 2009, p. 118. The EU member states with the largest automatic stabilizers are Denmark and Sweden, followed by France, the Netherlands, Belgium, and Germany.

22 The data in Table 4 (page 17) are the first-order changes in the budget surplus or deficit as a per cent of GDP. A positive sign indicates a fiscal stimulus. The data were calculated from data in the European Commission's "Economic Forecast: Spring 2009," May 2009, p. 152.

23 See IMF, "World Economic and Financial Surveys: Regional Economic Outlook: Europe: Addressing the Crisis," May 2009, ch. 2.

24 Data are reported in the Eurostat Database, available at http://epp.eurostat.ec.europa.eu.

Table 1: Quarterly Economic Growth in the European Union in 2008 and 2009

	2008				2009
	Q1	Q2	Q3	Q4	Q1
Belgium	1.9	1.9	1.1	**-1**	**-3**
Bulgaria*	7	7.1	6.8	3.5	**-3.5**
Czech Rep.	4.9	4	2.9	0.7	**-3.4**
Denmark	-0.4	1	**-1.5**	**-3.6**	…
Germany	2.8	2	0.8	**-1.8**	**-6.9**
Estonia*	0.2	**-1.1**	**-3.5**	**-9.7**	**-15.6**
Ireland	-1.3	**-0.6**	0.3	**-7.4**	…
Greece	3.2	3.4	2.7	2.4	…
Spain	2.7	1.8	0.9	**-0.7**	**-3**
France	2	1	0.1	**-1.7**	**-3.2**
Italy	0.4	**-0.3**	**-1.3**	**-3**	**-5.9**
Cyprus	4.2	4.1	3.4	2.8	1.6
Latvia	0.5	**-2.9**	**-5.6**	**-10.4**	**-18.6**
Lithuania	7	4.6	2	**-1.3**	**-11.8**
Luxembourg	0.9	1.6	**-0.7**	**-5.4**	…
Hungary	1.4	1.3	0.1	**-1.7**	**-4.7**
Malta	2.7	3.3	2.5	1.4	…
Netherlands*	3.7	3.5	2	**-0.6**	**-4.5**
Austria	2.5	2.3	1.6	0.4	**-2.9**
Poland	6.1	5.5	4.9	2.6	1.9
Portugal	0.8	0.7	0.3	**-2**	**-3.7**
Romania*	8.2	9.3	9.2	2.9	**-6.4**
Slovenia	5.9	5	3.7	**-0.9**	…
Slovakia*	9.3	7.9	6.6	2.5	**-5.4**
Finland	2.6	1.9	1	**-1.8**	…
Sweden	2	1.2	0.2	**-5.1**	**-6.4**
UK	2.6	1.8	0.4	**-2**	**-4.1**
EU 27	2.4	1.7	0.7	**-1.6**	**-4.5**
Euro 16	2.2	1.5	0.5	**-1.7**	**-4.8**
U.S.	2.5	2.1	0.7	**-0.8**	**-2.5**
Japan	1.4	0.6	**-0.2**	**-4.5**	**-9.1**

* Data are not seasonally adjusted

Table 2: Percentage of Labor Force Unemployed in European Union (seasonally adjusted)

		Apr-08	Apr-09	Change
Belgium		6.7	7.5	0.8
Bulgaria		6	6.2	0.2
Czech Rep.		4.3	5.7	1.4
Denmark		3.1	5.5	2.4
Germany		7.4	7.7	0.3
Estonia		3.7	13.9	10.2
Ireland		5.2	11.1	5.9
Greece		7.5	7.8(12/8)	0.3
Spain		10	18.1	8.1
France		7.6	8.9	1.3
Italy		6.8	6.9(12/8)	0.1
Cyprus		3.6	5.4	1.8
Latvia		6.1	17.4	11.3
Lithuania		4.3	16.8	12.5
Luxembourg		4.7	6.3	1.6
Hungary		7.6	9.6	2
Malta		5.9	6.8	0.9
Netherlands		2.8	3	0.2
Austria		3.7	4.2	0.5
Poland		7.3	7.8	0.5
Portugal		7.6	9.3	1.7
Romania		5.8	5.8(12/8)	0
Slovenia		4.4	5.5	1.1
Slovakia		9.8	11.1	1.3
Finland		6.2	7.8	1.6
Sweden		5.7	8.5	2.8
UK		5.1	6.9(2/9)	1.8
EU	27	6.8	8.6	1.8
Euro	16	7.3	9.2	1.9
U.S.		5	8.9	3.9
Japan		4	4.8(3/9)	0.8

Table 3: EU Forecasts of Growth and Unemployment in 2009 and 2010

	Growth		Unemployment	
	2009	2010	2009	2010
Belgium	-3.5	-0.2	8.5	10.3
Bulgaria	-1.6	-0.1	7.3	7.8
Czech Rep.	-2.7	0.3	6.1	7.4
Denmark	-3.3	0.3	5.2	6.6
Germany	-5.4	0.3	8.6	10.4
Estonia	-10.3	-0.8	11.3	14.1
Ireland	-9	-2.6	13.3	16
Greece	-0.9	0.1	9.1	9.7
Spain	-3.2	-1	17.3	20.5
France	-3	-0.2	9.6	10.7
Italy	-4.4	0.1	8.8	9.4
Cyprus	0.3	0.7	4.7	6
Latvia	-13.1	-3.2	15.7	16
Lithuania	-11	-4.7	13.8	15.9
Luxembourg	-3	0.1	5.9	7
Hungary	-6.3	-0.3	9.5	11.2
Malta	-0.9	0.2	7.1	7.6
Netherlands	-3.5	-0.4	3.9	6.2
Austria	-4	-0.1	6	7.1
Poland	-1.4	0.8	9.9	12.1
Portugal	-3.7	-0.8	9.1	9.8
Romania	-4	0	8	7.7
Slovenia	-3.4	0.7	6.6	7.4
Slovakia	-2.6	0.7	12	12.1
Finland	-4.7	0.2	8.9	9.3
Sweden	-4	0.8	8.4	10.4
UK	-3.8	0.1	8.2	9.4
EU 27	-4	-0.1	9.4	10.9
Euro 16	-4	-0.1	9.9	11.5
U.S.	-2.9	0.9	8.9	10.2
Japan	-5.3	0.1	5.8	6.3

Table 4: Aggregate Fiscal Stimulus in EU: Increase in Deficit as Percent of GDP or Reduction in Surplus as Percent of GDP

	2009	2010	2009 + 2010
Belgium	3.3	1.6	4.9
Bulgaria	2	-0.2	1.8
Czech Rep.	2.8	0.6	3.4
Denmark	5.1	2.4	7.5
Germany	3.8	2	5.8
Estonia	0	0.9	0.9
Ireland	4.9	3.6	8.5
Greece	0.1	0.6	0.7
Spain	4.8	1.2	6
France	3.2	0.4	3.6
Italy	1.8	0.3	2.1
Cyprus	2.8	0.7	3.5
Latvia	7.1	2.5	9.6
Lithuania	2.2	2.6	4.8
Luxembourg	4.1	1.3	5.4
Hungary	0	0.5	0.5
Malta	-1.1	-0.4	-1.5
Netherlands	4.4	2.7	7.1
Austria	3.8	1.1	4.9
Poland	2.7	0.7	3.4
Portugal	3.9	0.2	4.1
Romania	-0.3	0.5	0.2
Slovenia	4.6	1	5.6
Slovakia	2.5	0.7	3.2
Finland	5	2.1	7.1
Sweden	5.1	1.3	6.4
UK	6	2.3	8.3
EU 27	3.7	1.3	5
Euro 16	3.4	1.2	4.6
U.S.	6.2	2.1	8.3
Japan	3.8	2	5.8

Recession. Newspapers. Nothing New in Germany

Brent Goff, Senior Business Anchor for the English Program, Deutsche Welle TV, Berlin

Europe's largest economy may be mired in the worst recession in a generation, but don't tell that to the online world dependent on advertisers. Business is booming. Online ad spending rose more then eleven percent in the first quarter of 2009 compared to the same period in 2008. This trend could bode well for newspapers here in Germany, which are suffering from shrinking circulation and falling ad revenue. But, at a recent forum of German newspaper editors and publishers in Frankfurt dedicated to the lessons learned from the financial crisis, the benefits of the online future received only cursory attention. In fact, when I suggested that many local and regional newspapers would have to cease their print operations and focus entirely on online editions in order to remain fiscally viable, I was scoffed at and told that the German market was not comparable with the American one. The common refrain was: "wir wollen keine amerikanische Verhältnisse haben" (We don't want an Americanization of our market).

I do not want to argue about the similarities of the American and German newspaper business models, because there is another, more significant story here worth exploring. Ever since the financial crisis began last September with the bankruptcy of Lehman Brothers, Germany's political and journalistic elites have invested much intellectual capital to convince their constituents that the world's fourth biggest economy is wrapped in economic teflon. Their motto was: "we didn't create the crisis and it won't affect us!" For example, on September 25, 2008, German Finance Minister Peer Steinbrück hailed the end of American hegemony in the global financial market and told the Bundestag that the government would not endorse a bail-out scheme, saying the crisis was principally a U.S. problem. His assertion was emboldened by the European Union, which declared there would be no U.S.-style rescue plan for the continent's financial system.

Since those heady autumn days, a lot of humble pie has had to be eaten in Berlin. The German government has signed off on two economic stimulus packages, and the Bundestag has passed legislation allowing the

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state to expropriate privately held banks if their survival is deemed a matter of national economic security. Berlin is poised to take over Hypo Real Estate, after propping up the property lender with 90 billion Euros in state guarantees. Nevertheless, the recession is not limited to banks. Germany's GDP is expected to shrink this year by six percent—the biggest decline since the end of World War II. Companies are struggling to prevent mass layoffs by implementing short-time hours. There are now a record number of workers on short-time in Germany—more than 170,000 in the auto industry alone. Despite these measures, 1.7 million jobs are predicted to be lost in Germany this year.

One would expect this full-blown case of economic anemia to dominate public discourse as national elections approach. They are scheduled in September—exactly a year after the initial outbreak of the financial crisis. Yet, politicians are activating their reality deflectors and talking as if the trauma of the Great Recession has long passed.

What Happened to that Humble Pie?

German Chancellor Angela Merkel and her conservative Christian Democrats (CDU) are luring voters with a promise to sink taxes. And conveniently, the liberal Free Democrats (FDP) now have declared that they will campaign on a platform of tax reductions for the middle class. It is obvious that both the CDU and the FDP are positioning themselves for a possible coalition. They are assuming that voters will have forgotten the recession and the rising unemployment while they motor around in their new autos—financed by the government's generous car scrapping premium—a crass example of government largesse that will have to be financed later with higher taxes.

In the land of *Grossdenker*, it has taken a literature Nobel laureate to thrust the financial crisis into the campaign. Günter Grass has vowed to fight against the FDP, blaming the "neoliberals" for the crisis. Despite his past run-in with the Social Democrats (SPD), Grass has endorsed the party and its current Foreign Minister Walter Steinmeier for chancellor. But, the SPD is not talking about neoliberals or recession. So far, it refuses to back down on current tax levels, saying a reduction of tax revenues would benefit the wealthy and force the state to abandon its role of providing social services. Nothing new there. The Greens are focusing on a nationwide minimum wage, improvements in education, and reform of social entitlement programs. All issues only indirectly tied to the recession. The financial crisis and the recession do, however, garner attention from the Left Party, the successor of the communist party in East Germany. But the calls for higher taxes on the rich and expanded entitlement payments do not represent a substantial change in the party's established platform.

Strange, but true, the leaders of the world's largest exporter are running a political campaign in an economic-crisis-free bubble. They have much in common with many of the journalists I spoke with at that newspaper forum. Just as the editors dismiss the systemic breakdowns occurring in the traditional newspaper business model as an American phenomenon, politicians have an enormous ability to label the challenges of the worst economic downturn in more than six decades as an American problem.

Germany is celebrating sixty years as a democracy. Perhaps its elites cannot be troubled to bother voters with the unpleasantries of the worst recession since WW II. But the recession will not go away for a while. It will continue to make headlines. Some of those headlines will be in print. But more and more will be online.

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Flight from Risk: Unified Germany and the Role of Identity in the European Response to the Financial Crisis

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Since the end of World War II, scholars have attempted to make sense of German policy-makers, who repeatedly sacrificed their nation's sovereignty for highly ambiguous and uncertain goals of multilateralism and European integration.[1] Many concluded that this sacrifice resulted from a deeply ingrained political identity, which stressed international cooperation and shunned parochial national politics.[2] Since the end of the Cold War, however, German leadership has suggested a willingness to weaken its role as global altruist and reassert its interests in Europe and abroad.[3] Most notably, Chancellor Gerhard Schröder entered the debate in 2001 on German pride. This has been complemented by German demands for a reallocation of the European Union budget, strict adherence to the Stability and Growth Pact, and most recently a refusal to bail out financially stressed member states in Eastern Europe. Several scholars have thus concluded that the role of German identity in European and global politics has waned, replaced by a more traditional interest-based agenda.[4]

This article argues that core German attitudes towards regional and global cooperation have changed. But, rather than a shift to "national self-interests," I argue that the unification process elevated long-held beliefs about risk, which now compete with the postwar multilateral policy frame within the foreign policy elite. In addition to the pro-European, multilateralist agenda, a second powerful lesson of the interwar period emphasized the dangers associated with sudden change and risk-taking behavior. This flight from risk is embedded both in the institutional logic of the federal republic (e.g., the five percent rule in parliament, the independent central bank, the requirement that a new government must be proposed before a vote of no confidence is possible, cooperative federalism) and in the public narrative concerning the Nazi's rise (e.g., hyperinflation, cycling governments, emergency rule). And it is increasingly finding its way into Germany's policy towards the EU, with the Stability and Growth Pact probably the most infamous example.

The rise of risk aversion within German foreign policy is in large part a product of the transformative effects of German unification. It is hard to imagine that an event as dramatic as unification would not shape policy makers' beliefs about the world. In particular, unification has undermined the primary narrative supporting German multilateralism—the lack of a resurgent German military threat to the continent. In fact, the economic drag imposed by unification severely weakened Germany's position within Europe and globally.[5] Dubbed a civilian power in the late 1980s,[6] the country retreated into high unemployment, low growth, and sizable deficits through the 1990s. Unified Germany, then, faced the shock of sudden integration and in response has returned to its base belief in risk aversion.

Such beliefs matter as policy making is embedded within highly uncertain environments.[7] In other words, leaders are frequently in a position where they are unable to calculate the probability that a particular action will result in a specific outcome. In the run up to unification, for example, an equal number of scholars predicted a resurgent German nationalism as those that predicted a continuation of cooperative multilateralism. In a much more mundane, but equally important way, the prevalence of "unanticipated consequences" associated with public policy underscores the tenuous relationship between means and ends. Owing to the uncertainty associated with sociopolitical events, decision makers must rely on their beliefs about how the world works to guide their decisions.

To demonstrate the importance of risk

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aversion in Unified Germany's European and foreign policy, I examine two recent decisions by the German leadership—the role of economic stimulus as a European response to the global economic crisis and the need for a European initiative to resolve the bank crisis in Eastern Europe. The two examples, while at first blush seeming to reflect a national interest story, highlight the role that beliefs about risk play in German policy making. Understanding the German position on these issues is not only critical to explain the specific policy maneuvers but lay at the crux of both resolving the global economic crisis and the future of European integration.

This essay is organized around three sections. The first builds the core argument of the paper by emphasizing the role of beliefs in policy making and highlighting the competing beliefs within German policy elite. The second section examines the argument within the debates on economic stimulus and the Central European banking crisis. The final section concludes by drawing out implications for German policy within Europe and the role of identity in international affairs more generally.

From Partner to Scrouge?

Scholars interested in the role of identity in international relations have frequently turned to the case of Germany as an important example. This was driven among other reasons by the German political elite's deep commitment to sovereignty reducing strategies in the postwar period. Time and time again, Germany pursued multilateral cooperation within Europe and regionally even though it constrained its ability to act independently. Running counter to traditional realist predictions about state behavior, research examined the role of the German past in the creation of a distinct foreign policy identity to make sense of this empirical puzzle.[8]

Since unification, however, German European policy has subtlty shifted. Far from abandoning the European project, Germany has been more critical of potential free riding by other members.9 In a series of high profile debates including the EU budget negotiation and the Stability and Growth Pact, Germany has signaled its unwillingness to continue integration at any cost. This has led a number of scholars to conclude that the role of German identity is waning and that it is moving towards a more self-interest based politics.[10]

It seems clear that unification has tempered the narratives that long supported and maintained the multlateralist identity.[11] On the one hand, German militarism/nationalism have not been stoked by unification. There has been no debate in Germany about proliferation, one of the key great power status symbols. Nor has Germany attempted to develop an offensive military capability outside of the NATO or European defense architectures.[12] Economically, Chancellor Helmut Kohl's promise of "blooming fields" in the East never materialized. Instead, the economic powerhouse of the postwar period has been struggling over the last decade to manage rising public debt and high unemployment, producing serious reflection on the country's long term economic competitiveness.[13]

At the same time, unification has reinforced another set of beliefs held by German elites concerning risk aversion. A central part of German political identity rests on notions of caution and incrementalism. Reflecting the rapid downward spiral into economic chaos and fascism during the interwar period, societal and political narratives stressed the danger of high public debt, rapid inflation, and quick political change. These ideas are embedded in a host of political institutions such as the independence of the central bank, the five percent rule for parties to enter the parliament, cooperative federalism, rules on no-confidence votes, and strong judicial review.[14] In the private

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sector, similar beliefs prevail within the coordinated market economy privileging incremental change and gradual adjustment.[15] In many respects, then, unification was quintessentially un-German. It happened with little preparation and proceeded in the most radical of forms. The painful reality of unification has then elevated the narratives surrounding risk aversion to the top of the public policy agenda. With mounting deficits and escalating unemployment reaching their highest levels in the postwar period, triggers for risk aversion reverberated through the public sphere. In terms of identity, the unification process had the simultaneous effect of undermining self-reinforcing narratives of a revitalized Germany (which would necessitate further cooperation) and prompting a flight from risk.

Rather than positioning identity concerns in opposition to self-interests, the argument in this paper is that the two are largely inseparable. It would be difficult to construct a theory of politics in which actors repeatedly acted irrationally. That does not mean, however, that identity and belief do not pay a role in interest construction. This is for two primary reasons. First, meaning is socially and historically embedded. An actor's understanding of her environment and context shape how she calculates her interests and the factors that go into that calculation.[16] In the imperial era, direct colonization was a strategy that had to be considered (and was often preferred) as a foreign policy tool. Similarly, rational economic policy meant very different things during periods dominated by mercantilism, Keynesianism, and monetarism.[17] Second, in situations of uncertainty, beliefs play a critical role in interest construction.[18] Following work on the sociology of markets and recent work on constructivism in international relations, uncertainty refers to those situations where an actor is unable to calculate the probability that a certain action will produce a specific outcome. This contrasts to risk, in which probabilities can be assigned.[19] Given the complexity of social relations, decision makers frequently find themselves in conditions of uncertainty. Unlike the natural sciences, most policy debates center on contested cause and effect relations. The empirical reflection of this fact is the widely documented (and oft ignored) unintended consequences of policy actions. Given such high levels of uncertainty, decision-makers must rely on identity and beliefs to adjudicate the dispute and guide their behavior. In short, there are often multiple self-interested solutions depending on one's socially-embedded identity. From this perspective, German postwar multilateralism should not be contrasted to interest based politics, but rather as a period when German preferences were embedded in a specific set of historically rooted beliefs. Faced with the daunting task of postwar reconstruction and managing its position on the front line of the Cold War, German beliefs about regionalism offered a straightforward path to make sense of a highly complex and uncertain environment. The recent rise of risk aversion, similarly, conditions German understanding of both policy problems and solutions and offers policy makers concrete strategies to deal with the global economic crisis.

The following section explores the role of identity in the German response to the current financial crisis. The crisis offers a useful set of cases to explore the argument for both empirical and theoretical reasons. Empirically, the German position has stood out as the key to the European and perhaps global response. Theoretically, the cases offer interesting examples which seem to conflict with both a standard story focusing on self-interest and an identity-based argument centering on regional cooperation. According to the former, one would expect Germany to act swiftly to prop up its export market, which accounts for roughly half of the countries GDP. Under the latter, one would expect Germany to emphasize regional solutions to the problems. Instead, German elites have ignored calls for both and instead

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emphasized risk aversion, even when such a policy could undermine its national economic interests and broader solidarity within Europe.

A Teutonic Approach to the Global Financial Crisis

German policy makers have repeatedly taken a strong and unique position with regard to the financial crisis that struck the global economy starting in 2008. Generally speaking, they have downplayed the domestic ramifications of the crisis, highlighted irrational lending promoted by the U.S. as its primary cause, and been reluctant to promote economic stimulus via Keynesian economic policies as a plausible solution. On all accounts, German policy seems guided by a deep belief in the danger of quick action and risk taking. Importantly, much of this risk aversion is focused on European decision-makers outside of Germany, where institutional constraints are perceived to be weaker.

The clearest example of the role of risk aversion in German policy comes in the debate concerning the use of economic stimulus to revive the global economy. The United States and the United Kingdom, supported by projections from the World Bank and IMF, have been strong advocates for large scale domestic spending packages as a means to kick start the global economy. These efforts have been augmented by large spending packages in China and other developing economies.

By contrast, Germany has repeatedly denounced the strategy as short sighted with Finance Minister Peer Steinbrück infamously denouncing British policy as “crass Keynesianism” and Chancellor Angela Merkel receiving the nickname Madame Non in the French press.[20] While the German government has committed itself to a significant stimulus, it is not as large as other governments had hoped and Germany has nixed the idea of further spending in the near future.[21] More important for Europe, Germany has blocked large-scale European efforts at a stimulus and argued against similar policies by its neighbors.

This later point seems particularly puzzling as Germany depends heavily on other European consumers to purchase its exports. A failure to reignite the European market will have significant ramifications for the German economy and bring widespread unemployment. Already, German exports have fallen 20 percent from their 2008 level and over half a million works have been placed on short hours (where the government picks up roughly 60 percent of the wage bill to prevent job cuts). Projections by Commerzbank expect German GDP to fall six percent in 2008 and the World Bank expects global growth to fall by at least two percent. Given the immensity of the crisis for the German economy, it is at least a plausible argument that a broad based European stimulus would be in Germany’s self-interest.

The German argument against the stimulus solution rests on two basic arguments both of which are steeped in the logic of risk aversion. The first concerns the long-term macro-economic consequences of pumping enormous amounts of money into the global economy—inflation. Merkel has dubbed this the “crisis after the crisis.”[22] In short, the economic meltdown was the product of lose monetary policy in the U.S. which led to an under valuation of risk in the global economy. A stimulus will have a similar effect by throwing money on the fire. Both the government’s rhetoric and analysis seems steeped with its deep belief in risk aversion. Speaking in the Bundestag in November 2008, Merkel argued, “excessively cheap money in the U.S. was a driver of today’s crisis ... I am deeply concerned about whether we are now reinforcing this trend through measures being adopted in the U.S. and elsewhere and whether we could find ourselves in five years

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facing the exact same crisis."[23] Finance Minister Steinbrück concurred, "so much money is being pumped into the market that capital markets could easily become overwhelmed, resulting in a global period of inflation in the recovery."[24] Far from a cynical move by Germany to free ride on U.S. policy, German policy elite hold a unified view that U.S. policy might in fact augment the crisis and have vocally opposed further efforts in this direction. Merkel continued, "we were living beyond our means …After the Asian crisis and after 9/11, governments encouraged risk taking in order to boost growth. We cannot repeat this mistake."[25]

Second, the German government fears the potential loss of control that might result if other European governments are unshackled from the Stability and Growth Pact. Promoted by Germany as a condition of monetary union, the Pact commits Euro members to a three percent debt ceiling. A pan-European stimulus would give countries like Italy and Greece free license to expand already bloated government deficits. Axel Weber, the Bundesbank president, has warned that this would be the wrong time "to lose sight of the sustainability of public financing."[26] Once again, this scenario plays on a deeply rooted risk aversion within Germany to public debt. If other countries lost control of their budgets, the potential exists that the Euro could be destabilized. This would, in turn, realize German fears about giving up the D Mark, the holy grail of postwar German stability.

Finally, the German counterproposal based on expanded regulation of the financial services sector smacks of the more general set of risk aversion concerns. Through new rules on hedge funds, credit rating agencies, and other non-bank alternatives, Germany hopes to bring a sense of renewed stability and calm to the sector. Banking (as opposed to securities markets) lies at the center of the German political economy. Patient capital focused on reasonable rates of return underpin a large small- to medium-sized industrial sector, which plays a critical role in wage growth and job stability. The financial services boom of the last decade has placed tremendous pressure on German banks to increase their profitability or risk acquisition. Similarly, hedge funds, which take advantage of short term shifts in market positions, have further exacerbated such pressures. The German strategy to restrain non-bank activity, deemphasizes a return to rapid economic growth through financial services, and instead emphasizes the stability provided by a more traditional banking sector. *Der Spiegel* summarizes the German risk aversion approach to the financial crisis, "Mrs. Merkel is crawling across the slippery surface on all fours, slowly and cautiously."[27]

Trouble on the Eastern Front

German risk aversion seems to be playing a similar role in its response to the banking crisis in Eastern Europe. During the last decade, west European banks lent central European citizens money in foreign denominated loans. This seemed like a good bet while eastern European currencies were strong and their economies were growing at a brisk pace. The global slowdown, however, revaluated eastern European currencies, instantly increasing loan payments. Western banks ignoring such risk made an extraordinary number of such loans—for example, Austrian banks alone made loans in the East equivalent to 70 percent of Austrian GDP and over 50 percent of consumer loans in Hungary and Poland are foreign denominated. The first wave of loans already has been going bad and foreign investment is withering. Several new EU member states have seen double digit declines in GDP with Hungary, Latvia, and Romania negotiating rescue packages from the IMF.

Importantly, Germany has taken a rather aloof policy stance to the crisis. It refused a

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European bailout package promoted by Hungary at a spring 2008 European summit. And it has waffled on its commitment to the region if the situation should worsen.[28] A chorus of German elites including the head of the central bank and the finance ministry have denounced proposals that new members quickly rush to join the Euro.[29] Counter to the Germany-through-Europe identity, German policy has both rejected European initiatives and direct bilateral aid to the new member states.

Some have argued that Germany's stance reflects the relatively small exposure of its banks to the crisis.[30] While this might be the belief of German elites, it is difficult to imagine that the German economy is truly decoupled from what transpires on its eastern borders. In terms of exports, German sales in 2007 to just the Czech Republic, Hungary, and Poland surpassed exports to the U.S. Additionally, a meltdown of the Austrian and Swedish banking systems would have severe repercussions for the Eurozone.[31] Politically, the German position also undermines solidarity within the Union for its newest members. The idea that member states in the East must negotiate with the IMF stands in stark contrast to regional rescue packages negotiated in the early 1990s during the last currency crisis. Already, Polish and Hungarian leaders have questioned the German position in such terms with Polish Prime Mister Tusk arguing, "we see the biggest risk in crumbling solidarity in Europe, and in growing national egoism."[32]

Underlying German policy sit concerns that a German-led bailout would reward risk-taking by others in Europe. Over the last decade, Germany has dealt with the difficulties associated with unification by enacting a number of austerity programs and suffered slow growth and job losses. They have now emerged as the largest among a small group of economically responsible member states and attribute this success to their focus on stability and risk aversion. In order to check the potential of moral hazard, Germany turned to the IMF to oversee and manage the bailout of Hungary, Latvia, and Romania. While these packages have limited the short term instability in the countries, they came with strict austerity packages. As a result, all three countries will see domestic spending contract in the coming years. While the IMF provides a useful institutional mechanism to externalize German risk aversion, this reverse stimulus will do little to jump start demand for German exports.

Conclusion

German foreign policy, especially European policy, has long interested scholars of international relations. Upsetting standard realist logics, German elites have repeatedly sacrificed their own sovereignty for the potential long-term benefits of European integration. Whether due to a deep seated post-nationalism or an alternative path toward power, German policy makers believed in the slogan Germany-through-Europe. In the face of a number of highly uncertain situations (postwar reconciliation, cold war reemergence, and unification), they returned to this regional identity to guide their behavior.

Since unification, however, a competing narrative has been elevated, which emphasizes risk aversion and stability. Long part of the German domestic policy discourse, it has emerged as a fundamental feature of its European policy. In both the case of the stimulus debate and the Eastern European banking crisis, Germany has rejected European solutions and instead followed an austerity politics, emphasizing fiscal discipline and institutional constraints. German elites have pursued this policy strategy even in the face of dramatically falling exports, the lifeblood of the German economy. Rather than a free riding strategy, German decision-makers have cast the debate as instances where they are on the right side of an ambiguous economic debate. While definitive proof of either a self-interest or identity explanation is difficult, policy

makers in Germany seem to hold a clear set of beliefs that run through the narratives they chose to justify their actions: a narrative that relies on a flight from risk.

If this shift in identity persists, it will mark an important turn for European politics more generally. Above all, Germany could become an important counter pole to those advocating a swift return to fast growth strategies. By contrast, Germany could push for a set of policies that prioritize stability and minimize business cycle fluctuations. This would set Germany on a different path than past U.S. and UK policy. It will be interesting to watch how it resonates with emerging markets that long privileged growth, but have recently come to respect the violence of market volatility.

Theoretically, the article builds on a growing constructivist literature, which stresses the role of beliefs in shaping national preferences. National preferences remain one of the least understood workhorses in political economy. While the majority of research in this area relies on arguments stressing materialist claims of self interest, the literature on uncertainty argues that such self-interests are embedded within socio-historical beliefs. In the face of a global financial crisis, means-end relationships become attenuated. Policy makers face conflicting explanations of the problem and the solution. They (intentionally and unintentionally) rely on their identity to make sense of the world. Politics is thus not a debate about rational versus irrational or material versus appropriate, but distinct beliefs about what is materially and normatively appropriate.

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What Happened in East European (Political) Economies? A Balance Sheet for Neoliberal Reform[1]

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In the past decade, one increasingly heard the claim that the transition is over and Central and East European countries have returned to (boring) normality. While the global financial crisis imperils that normality, the publication of a devastating attack on the effects of mass privatization in *The Lancet*, a leading medical journal, shows that assessments of transition economic policies remain hotly contested twenty years after 1989.

The Lancet article takes aim at one of the central policies of the capitalist revolutions of 1989, mass privatization. It shows that rapid privatization through vouchers, a key tenet of neoliberal economic policy in the region, is strongly associated with mortality increases in post-communist countries from 1989-2002.[2] The relationships are not small: mass privatization is found to be associated with a 12.8 percent increase in male mortality rates. The claim is that social stress caused by rapid economic transition results in high mortality. Countries with mass privatization programs experienced 61 percent more unemployment than countries with more gradual privatization. In countries of the former Soviet Union, unemployment was highly associated with increased mortality rates. Social capital, measured by membership in social organizations, however, reduced the effect of mass privatization on mortality in Central Europe. Overall, "four of the five worst countries, in terms of life expectancy, had implemented mass privatization, whereas only one of the five best performers had done so."[3]

Since a brief write-up of the article was published on the front page of the *Financial Times* on January 15, 2009, this broadside against mass privatization garnered an instant reaction from Jeffrey Sachs, one of the leading advocates of mass privatization in the transition countries. Sachs wrote in a January 19, 2009 letter to the editor of the *Financial Times* that the findings of the *Lancet* article will not stand up under serious scrutiny, that correlation is not causation, and that it is speculative to tie any one policy to the mortality crisis in post-communist countries. He argued further that Poland did not experience a mortality increase, despite having one of the most radical economic reform programs. No doubt, the research program into the effects of mass privatization will gain from the publicity and controversy of the *Lancet* study.

The stakes in the debate are high. It concerns not only whether the neoliberal economic project works in post-communist countries, but whether free market policies will continue to be adopted in other parts of the world. Central and East European countries have a unique place in these debates because these countries provided a testing ground of neoliberal economic policy in the heartland of communism. Moreover, many former communist countries simultaneously implemented free market economic policies and democratic political regimes, an approach that has invited duplication in developing countries around the world.

Sadly, an assessment of the results of neoliberal economic reforms in Central and Eastern Europe must be mixed. While the communist heritage has been thoroughly transformed, the results have not been as positive as initially hoped. Neoliberal economic reforms brought on a tremendous transitional recession that most post-communist countries struggled to exit from even a decade after the initial shock. Just as free markets seemed to finally be delivering on their promise of high growth in the 2000s, the global economic crisis has shown the market economies of Central and Eastern Europe to be especially vulnerable to economic downturn and capital flight. At the

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same time, countries that reformed faster have generally done better. The stage is set for continued debate about the effects of neoliberal reforms twenty years after the fall of the Berlin Wall.

Radical versus Gradual Reforms

When communism collapsed in 1989, a debate broke out over the best way to transform communist economies. Battle lines were drawn between radicals, who believed in a sudden jump to a market economy, and gradualists, who believed that sudden transformation would cause too much social dislocation and that a more gradual change would bring better economic results. Most Western economists, international organizations, and governments sided with the radicals. The radicals ultimately won the day. They were assisted by a so-called “Marriott brigade” of foreign consultants deployed to help Central and East European governments set up laws, regulations, and strategies on nearly every matter of economic policy, while staying at the best four-star hotels in the country.[4] The rest is history.

The radical strategy was articulated by Adam Przeworski in his 1991 work, *Democracy and the Market*. A radical leap to the market was risky. The economic decline would be sharp as the old economy ceased to operate in the absence of subsidies, government financing, and fixed prices. Unemployment would rise, perhaps to catastrophic levels. But with rapid privatization a new private sector would quickly emerge. Assets would be transferred into private hands and free markets would work their magic, allocating assets into the hands of those firms that could use them best. Production would increase. New technology and know-how would flow over newly opened national frontiers, and growth and consumption would resume. Radical reform would be painful but it would set Central and East European countries on a steeper growth trajectory. Gradual reforms offered less pain, but also less gain.

In most countries, the answer was obvious. Radicals like Leszek Balcerowicz in Poland, Vaclav Klaus in the Czech Republic, and Yegor Gaidar in Russia, rose to power as if by an unwritten law of gravity. They imposed shock therapy programs of economic reform, including monetary austerity, sudden removal of subsidies, rapid privatization, and liberalized trade and investment. Sudden liberalization had an electric effect on former communist countries. It bankrupted thousands of companies that had been oriented towards the Soviet and COMECON markets and forced companies to compete with Western firms with much greater market experience and technology. At the same time, it created opportunity for whole new businesses, particularly in the consumer sector, where demand had been depressed for so many years. Suddenly, kiosks arose selling all manner of goods on main thoroughfares and market places. Shops began to transform themselves from dingy operations to glitzy Western palaces of consumption. Enterprises began a wrenching transformation and many local entrepreneurs built successful companies and substantial wealth very quickly.

The problem was that the growth of the private sector did not keep pace with the decline in production in the old state sector. Foreign capital was at first wary of investing in the post-communist economies. Doing business there was new. The rules were often unclear or changing. Few initially trusted that these countries would quickly join the European Union, as ten of them did in 2004 and then 2007. Jeffrey Sachs heroically called for a major Marshall Plan effort to support the Central and East European economies. No such effort occurred. Thus, these economies lacked the investment to avoid what turned out to be a colossal post-communist recession, wiping out between 15 (Czech Republic) and 75 (Georgia) percent of 1989 GDP.

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While rapid reform produced many success stories, it also caused massive dislocations. State firms suddenly faced the loss of markets, tough competition from better foreign producers, and a lack of state financing. Ninety percent of trade shifted from East to West in two years. Many enterprises began shedding jobs or were forced to shut for good. Central and East European economies declined precipitously, at a level not seen since the Great Depression of the 1920s and 1930s. While neoliberal economists and politicians promised a quick recession, the transitional recession in Central and East Europe proved much more long-lived. According to the European Bank for Reconstruction and Development, in 2002, twelve years after the start of transition, most post-communist countries had not returned to their 1989 levels of economic output.[5] Increased inequality during the transition has led to an important if surprising result: despite all the economic improvements of recent years, most households in Central and Eastern Europe surveyed in 2006 reported that they were economically better off under communism.[6]

As a result, poverty and mortality rates skyrocketed and fertility rates declined sharply. Men, in particular, suffered from increased mortality rates. Losing their jobs and no longer being able to feed their children, many took refuge in drink and literally drank themselves to death. This was highly visible to anyone who took a train in Central and Eastern Europe during the 1990s, as train stations had become colonies for intoxicated men. Women suffered differently. They were more affected by poverty and more often survived. In some countries such as Bulgaria, Romania, and Ukraine, emigration became the norm as people sought refuge from catastrophic economic conditions abroad. Some of this migration was spawned by prostitution and human trafficking which exploded among the desperate population.

It is unclear how much suffering can be placed at the door of neoliberal economic policies. Liberal economists have pointed out, rightly, that Central and East European countries that went furthest with neoliberal policy reforms did better economically than their neighbors. Poland, one of the most radical reform countries, reached 127 percent of its 1989 economic level by 2000, while non-reformist neighboring Belarus was still at 62.7 percent.[7] During the 1990s and early 2000s, this data provided evidence for the view that neoliberal shock therapy had been "inevitable" or "necessary." While reform clearly produced some unfortunate results, the alternatives were worse. Slower reforms would only empower communist-affiliated elites to gorge off exceptional rents and keep these countries in a partial-reform equilibrium, where the average person would suffer. Not engaging in neoliberal reforms also risked the return of communism, a risk that was too great for the West to endure.

Rapid growth that started in the region after 2000, however, began to unravel this seemingly clear relationship between neoliberal reforms and economic growth. Most Central and East European countries experienced rapid economic growth after 1998-2000, whether or not they had imposed radical reforms. Russia and Ukraine were among the growth leaders, along with reform countries like Slovakia and Latvia, and even communist laggard, Belarus. By 2007, Poland was at 169 percent of its 1989 level, while Belarus was at 146. The EU-8 average was 151. Albania (which achieved 152 percent of 1989 GDP in 2007), Armenia (143), Azerbaijan (160), Mongolia (153), Turkmenistan (204), and Uzbekistan (150) also posted rapid growth rates in the 2000s.[8] Oil and other commodity price rises clearly played a role, but other factors such as lack of conflict and geopolitics also played a part. In 2007, the worst off countries were the ones that had neither advanced to membership in the European Union nor strongly allied with Russia as well as those with a history of civil strife, such as Moldova, Georgia, and parts of the Western Balkans. According to the EBRD,

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those countries that did not return to 1989 levels of GDP by 2007 included FYR Macedonia (96 percent of 1989 GDP in 2007), Kyrgyzstan (95), Montenegro (85), Serbia (68), Ukraine (68), Georgia (60), Tajikistan (56), and Moldova (51). The paths to growth have thus been varied—and not clearly connected to the extent of neoliberal economic reform.

This suggests that while neoliberal reforms cannot claim all the responsibility for the collapse, neither can they claim credit for the return to growth. A major factor for the former Soviet Union (and indeed the rest of the region) was the oil price boom of the 2000s and the transition to the Putin regime. Another was the accession of the Central and East European countries to the European Union. EU membership gave these countries enormous growth prospects by making their markets, regulatory environments, and trade relations much more secure. Foreign direct investment flowed in just as progress on neoliberal reforms more or less stopped and EU regulatory reform began to take its place after 1998.

In the global economic crisis that started in September 2008, neoliberal reform countries were not spared. Indeed, their greater openness to international trade and their foreign-owned banking systems[9] may have made them more vulnerable to the collapse of the Western financial system. Latvia's growth rate changed from positive 10 percent to negative 10 percent. Hungary became one of the first countries to fall under an IMF recovery program, while Ukraine also suffered. At the time of this writing, Central and Eastern Europe is seen as perhaps the first most vulnerable region to the current economic collapse.

Finally, there is the comparison with China. While Central and East European countries have experienced a roller-coaster ride after the end of communism, China has managed successfully to transform its socialist economy without a deep transitional recession. It has done this by keeping the hand of the state firmly on the tiller and maintaining a very large state sector that employs millions of workers in less than fully productive jobs. For those who believe that the comparison with China is valid, the shock therapy strategy of reform has proven disastrous.[10] Others, who believe that a Chinese path was excluded from the beginning, believe that neoliberal shock therapy paid off. In particular, they argue that the Chinese strategy is not one that could have been applied under conditions of democracy.

The Central and Eastern European experience since 1989 has been shaped by the shock therapy strategies of economic reform adopted in much of the region and the deep economic crisis it helped to induce. In East-Central Europe, the European Union accession process was a third force. Countries have had different results from these policies. The new member states of the European Union experienced a U-shaped recession, eventually returning to growth after three to eight years. Countries further to the south and east took longer to embrace reforms and return to growth after the initial plunge. Some countries, like Moldova, remain economic basket cases. Others, like Ukraine and Latvia, have proven vulnerable to crises in the international economy and are again on a trajectory of despair.

Conclusion

Twenty years after 1989, it remains unclear whether the neoliberal reform programs that shaped the Central and Eastern European economies were really the best path to reform and whether they (alone or in combination with other factors) were responsible for the upsurge in growth after 2003. The last word on the relation between democracy and development also has not been spoken. In some respects democracies have done better among the

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post-communist states, but in a broader global context, China has been the big winner with its gradual and authoritarian reform strategy. Russia has lately returned to authoritarianism, causing a major uptick in growth. For new member states of the European Union, democracy and advanced capitalism have indeed gone hand-in-hand. Whether the rest of the world would care to follow its model of shock adjustment remains to be seen.

With Europe currently in the grip of a global recession, we are about to write a new chapter in the history of post-communist economic reform. As the debate about mass privatization shows, however, we are very far from a consensus view. Twenty years may simply be too early to judge the results of the massive economic experiment launched in the heady days of 1989.

Notes

1 This article is a shortened version of an article that will appear in *East European Politics and Societies* 23, no. 4 (November 2009).

2 David Stuckler, Lawrence King, and Martin McKee, "Mass Privatisation and the Post-Communist Mortality Crisis: A Cross-National Analysis," *The Lancet* 373 (2009): 399-407.

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7 Fidrmuc (2003), 586. Moldova's output in 2000 was 32.2 percent of its 1989 level. Russia's stood at 62.3 after hitting a nadir of 55.8 in 1998.

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10 Gerard Roland, *Journal of Economic Perspectives* 16, no. 1 (Winter 2002): 29-50.

Announcements

The preliminary program for the 2009 APSA Annual Meeting in Toronto has been posted. For detailed listings please check http://www.apsanet.org/mtgs/program_2009/. Here is an overview of the section's panels:

15 European Politics and Society
15-1 Institutional Origins of Capitalism
15-2 Roundtable: Where is Europe and What Does it Mean to be European?
15-3 Conditions for Change: Reforming Advanced Welfare States
15-4 Responses to New Immigration: The European Union in Comparative Perspective
15-5 Welfare Preferences in a Post-Industrial Era
15-6 The Historical Turn in Democratization Studies: Lessons from Europe
15-7 France and Europe: A Rekindled Affection?
15-8 Welfare State and Inequality
15-9 Extreme Politics
15-10 A 'Second Transition' in Spain?
The Socialist Government of José Luis Rodríguez Zapatero (2004-08)
15-11 The Ambiguous Political Legacies of EU Enlargment
15-12 Varieties of Change in European Political Economy
15-13 Elites vs Citizens: Who Wants the European Union, Who Doesn't and Why
15-14 Where is the Left?
15-15 Youth, Culture and Football: Varieties of Nationalism in Advanced Industrial States
15-16 The Human Rights Regime in Europe: Issues and Challenges
15-17 Immigrants vs. National Identity? The Problem of Integration in Europe
15-18 Rethinking Party Politics in Comparative Welfare State Research
15-19 Judicial Politics in the European Union
15-20 Facing a Religious Divide? Europe in the Twenty-first Century
15-21 Causes and Consequences of Party Positions in European Democracies
15-22 Europe and Elections

Cas Mudde will be a visiting fellow at the Kellog Institute for International Studies at the University of Notre Dame for the year 2009-2010. Cas Mudde's book *Populist Radical Right Parties in Europe* (Cambridge University Press, 2007) has won the 2008 Stein Rokkan Prize for Comparative Social Science Research.

Bonnie N. Field, assistant professor of global studies, Bentley University, and **Kerstin Hamann**, professor of political science, University of Central Florida, edited *Democracy and Institutional Development: Spain in Comparative Theoretical Perspective* (Palgrave Macmillan, 2008). The volume analyzes the development of political parties and institutions during the first thirty years of democracy in Spain. Two primary themes unite the book: first, institutionalization and second, the relationship between institutional design and representation. http://www.palgrave.com/products/title.aspx?PID=309627