The Rebalancing Process in the Eurozone: A Long and Tough Road Ahead

by Sotiris Serbos, Visiting Scholar Fulbright Fellow, Democritus University of Thrace

Editor’s note: Dr. Serbos visited the EUCE/ESC last semester on a Fulbright fellowship in the field of transatlantic relations. He is a Professor in International Politics at Democritus University of Thrace and Research Fellow at Jean Monnet European Centre of Excellence of the University of Athens.

A key issue for the European Union is always its role as a global power, but this will be particularly important in the years ahead, as globalization makes the balance of power between its institutions and member-states a principal concern. With Asia serving as the world’s economic center, larger capital inflows will come to Europe from developing countries rather than the other way around. For the EU, it is crucial to resolve the issue of highly indebted countries, a product of Europe’s incomplete currency zone, which allowed severe macroeconomic imbalances between its member-states and consequent divisions over creditor and debtor economies (instead of indebted state entities and citizens).

During the Asian crisis of the 1990s, the usually indebted economies soon turned their deficits into surpluses, and then went on to become export cham-
On Jan. 20, the EUCE/ESC continued its monthly virtual roundtable series, Conversations on Europe, with a videoconference devoted to “Dear Madam High Representative: Tasks for EU Foreign Policy.” The first Conversation of 2015 considered the demands on and capabilities of the European Union as a major global actor. A Carnegie Europe “Memo to the European Union Foreign Policy Chief” was used as a starting point. EUCE/ESC Director Ron Linden (top right, foreground) moderated the Conversation, and panelists included Sir Michael Leigh (left), Transatlantic Academy Fellow, Consultant, and Senior Advisor to the German Marshall Fund; Stefan Lehne, Visiting Scholar at Carnegie Europe; Ulrich Speck, Visiting Scholar at Carnegie Europe; Nathalie Tocci, Deputy Director of the Instituto Affari Internazionali; Kostas Kourtikakis, Political Scientist and affiliate of the EUCE at the University of Illinois at Urbana-Champaign.

The GMO Question in TTIP Negotiations

On Feb. 4, Dr. Patricia Stapleton presented a lecture titled, “The GMO Question in TTIP Negotiations.” Dr. Stapleton is the Director of Society, Technology and Policy Program Assistant Teaching Professor in the Department of Social Science and Policy Studies at Worcester Polytechnic Institute. In 2013, governments across the EU gave the European Commission a mandate to negotiate the Transatlantic Trade and Investment Partnership (TTIP) with the U.S. Since July 2013, the two sides have held seven rounds of negotiations, but they have not yet reached an agreement. A motivating factor of TTIP is “regulatory convergence,” bringing American and European standards closer together to facilitate trade. Dr. Stapleton reviewed the regulatory differences between the two sides and how different approaches to genetically modified organisms risk assessment create an obstacle to a TTIP agreement.
On Feb. 2, Dr. B. Guy Peters received an honorary doctorate from Katholieke Universiteit (KU) Leuven in Belgium as part of its Patron Saint’s Day celebration. Each February, KU Leuven recognizes individuals for exceptional achievements in science, society, and culture. In the “Laudatio” presented during the conferring ceremony, KU Leuven professors Bart Kerremans and Annie Hondeghem described Dr. Peters as “the most eminent Public Administration scholar of our time. He plays an important role in the ongoing conceptualization of governance and its application in the analysis of policymaking. Several of his contributions to the literature can be characterized as a call for a ‘return to the fundamentals’ of political science as a discipline. This is most obvious with respect to new institutionalism and governance.”

Dr. Peters, the Maurice Falk Professor of American Government in the Department of Political Science and an affiliated EUCE/ESC faculty member, has lent his expertise to international organizations such as the United Nations, the World Bank, the European Commission, and UNICEF. He has written and edited over 70 books, including *The Politics of Bureaucracy*, which has influenced the comparative study of public administration for three decades. He has written numerous articles and has founded several leading journals, including *European Political Science Review* and *Governance, an International Journal of Policy, Administration and Institutions*.

Dr. Peters has played a significant role in the development and application of new institutionalism in political science, and Professor Kerremans praised him as an “expert in American government, a leading comparativist, a much-read interpreter and creator of administrative paradigms, and a prolific author of profound research and engaging prose.”

This is Dr. Peters’ fourth honorary doctorate. He has received this distinction from the universities of Vaasa, Göteborg and Tallinn. He serves as Distinguished Professor of Governance at Germany’s Zeppelin University.
COMING UP

15th Annual Policy Conference
On April 9-10, the Graduate School of Public & International Affairs, will host, “Countering Violent Extremism in the United States and European Union;” its 15th annual policy conference, with faculty organizer, Dr. Michael Keeney, Associate Professor. Countering violent extremism remains a critical security challenge confronting Western democratic societies. Local communities also have an important role to play in countering violent extremism. This conference addresses these challenges through an exchange of ideas and perspectives among researchers, practitioners and the public. More information, including a full program and registration information can be found online.

Brussels Study Tour Travel Grants
Instructors from K-12 schools, community colleges or minority-serving post-secondary institutions can apply now for travel grants to visit Brussels, Belgium this summer to learn more about the European Union. The EUCE/ESC at the University of Pittsburgh is pleased to offer grants for educators to learn more about the European Union – how it is organized, what it does, and how non-EU institutions work with the EU. More information and applications can be found online. Deadline: March 31, 2015.

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pions for the next decade, greatly driven by the fear of a potential regression. One is likely to observe similar developments among European debtors in the future. Historically, most countries have played both creditor-debtor roles. Last century, for example, Germany performed worse than Greece in the interwar period while the U.S. was the emerging power generating surpluses, similar to present day China. In the 1930s, it was the U.S. that opposed Keynes’s idea of caps on external surpluses and deficits alike. Now that the U.S. finds itself in the position of debtor, it is proposing the same Keynesian idea versus surplus economies and finds Germany, China, and Japan fiercely opposing it.

Yet, it is important to understand causality in a debt crisis to be able to propose sound exit policies. In Europe, for over a decade, strong vested interests that shaped current economic growth models have been developed within both debtor and creditor countries. In the case of the EU and members of the Eurozone (EZ), it was not the over-consumption of debtors that triggered the debt crisis but the under-consumption of creditors. Had it been the debtors that generated an excess demand for loans, then interest rates would have risen. But they fell throughout the decade because creditors pumped liquidity from their massive savings pool. Since 2010, we have witnessed the unraveling of this cycle. An agreement must be reached on how the burden will be shared between creditor and debtor economies, while bailing out the European banks.

Consider that the growth models of creditor-debtor economies seemed rational too, at least from a national point of view, but they added up to collective irrationality all the same. Even now, nations seem unable to adopt a collective rational stance as they are all trying to grow by exporting. Where to? Another planet? We face a generalized market failure exactly because individual decisions taken in isolation do seem rational. Can you blame Germany or China for their export model that elevated them to prime global exporters, enhanced their geopolitical status and, at least for China, secured strong growth? Can you blame the Club Med (Portugal, Spain, Italy, and Greece) for taking on cheap loans, trying to catch up in living standards? Can you blame the U.S. for using cheaply offered financial resources to recover from the dot.com crash and finance its geopolitical objectives? Would it have been possible for individual countries to take correct...
This month, EUCE/ESC Newsletter Editor Gavin Jenkins interviewed Aaron Abbarno, a USAID Democracy Fellow in Comparative Politics and Democratization in Washington, D.C. Abbarno spent most of his academic career at Pitt. From 2011-2013, he served as the EUCE/ESC’s Undergraduate Research Advisor, and while earning a PhD in Political Science, he also received a West European Studies certificate. From 2009-2011, Abbarno was a Graduate Teaching Fellow for the Department of Political Science, and he also attended Pitt as an undergraduate, earning a Bachelor’s degree in History and Italian in 2003. There was one break in Abbarno’s career at Pitt: he received a Master’s degree in Diplomacy and International Relations from Seton Hall University’s School of Diplomacy and International Relations.

Q: How did you become a USAID Democracy Fellow and what are your responsibilities?

A: I applied to the Democracy Fellows program at the Institute of International Education. The Fellows are technical specialists who will support USAID’s policy and programs in the Democracy, Human Rights and Governance (DRG) sector. I was recruited to serve the “Learning Division” – a research unit composed almost entirely of political scientists – within USAID’s DRG Center of Excellence. Our goal is to promote evidence-based programming in the DRG Sector. We import the social science research that exists outside of USAID to improve development programs; we evaluate DRG programs using experimental and quasi-experimental research designs; and we inject skepticism into the international donor community by challenging and testing the assumptions on which many development programs are built. My responsibilities basically reflect these three objectives.

Q: What was it like working for the University of Pittsburgh Governance Group, which evaluated the impact of USAID in West Africa?

A: Steve Finkel in the Political Science Department invited me to work with him and his colleagues in GSPIA on the baseline evaluation of a USAID program to combat violent extremism across the Western Sahel. This was my first taste of “applied political science” and I was hooked. We encountered several challenges to proper evaluation which can only be remedied by the donor agency. These frustrations were great primers for me since the Learning Division can tweak programs at the design stage to protect evaluations against threats to validity and to common sense.

Q: What were the benefits of working for the EUCE/ESC and how did it help you on your current path?

A: I may have starved if not for Director Ron Linden’s willingness to employ me. I had fantastic colleagues and an intellectual environment that made me happy to come in to work every day. In the Center, I guided students as they developed and pursued their own research. I also assisted Hillman Library’s stellar archivist, Phil Wilkin, at the Archive of European Integration. I learned everything I needed to know about working with USAID field professionals from these two EUCE/ESC jobs. The average undergraduate – like the USAID field officer – will never become a professional political scientist. Many are skeptical that “science” even applies. I learned not to browbeat students with epistemology and instead unearthed empirical questions where students showed sincere interest in a topic. Students are quick converts to the scientific method when they sniff relevance. International development professionals are no different. I also learned best practices for “knowledge organization” from Phil at the Archive, which I am now cribbing for the DRG Center.

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SHAKESPEARE’S GENDER PROBLEM

by Shannon Reed, Assistant Professor
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William Shakespeare’s plays present over 1,150 characters for actors to play. That is, for male actors to play. There are fewer female roles in the canon, and even fewer than that which provide substantial parts — requiring more than twenty lines — for young women actors. Exploring this conundrum, as well as how it affected three female actors in their theatrical and educational careers, was the core of the paper I presented at the Shakespeare 450 Conference in Paris last April, entitled “The Twenty-Line Trap: Shakespeare Enacted by Young Women.” I was able to make the trip to Paris to attend the eight-day conference thanks to the generous help of the EUCE/ESC, as well as an Artist Opportunity Grant from the Greater Pittsburgh Arts Council.

The conference was truly wonderful, an opportunity to meet and discuss many elements of Shakespeare with scholars from all over the world. Although I have attended English literature conferences before, this was the first theatre-focused conference for me. Since I hold a BFA in Theatre: Acting and Directing from Otterbein University and an MA in Educational Theatre from NYU, being there was a huge pleasure. The emphasis of the conference was not simply to celebrate the work of Shakespeare (in commemorating 450 years since his birth) but also to consider the future: how will Shakespeare’s plays be performed? How will his poetry and dramatic works be taught? What can innovations in technology add to the study of Shakespeare, and what are we culturally losing because of the in-roads of the same? Choices of panels and readings were very broad, so I was able to attend panels on Shakespeare in the cinema, Shakespeare adaptations on YouTube, the role of courtship in Romeo & Juliet, and the element of location in his plays, among others.

My paper was part of the Shakespeare and Global Girlhood panel, so I was given the opportunity to meet and talk with scholars from the U.S., England, Canada, Australia, Norway and Taiwan. Several of the scholars on my panel are children’s literature experts, and they presented insightful papers on the rash of young adult novels that are based on the plots of Shakespeare’s works or use his plays as plot devices. Others wrote about film adaptations of Shakespeare and the feminine ending in Shakespeare’s verse. I worked in a group along with two other performance-based inquiries into Shakespeare. One scholar in our group presented her findings on the distressing way many of lines belonging to young female characters in A Midsummer Night’s Dream are so often cut, while the other’s paper explored how middle school students in America tend to stick to gendered expectations when choosing a role in MacBeth that they might like to play, even if the role they choose is not their “favorite.”

Thanks to the rigorous preparation demanded by our organizers, all participants had read each other’s work, and we conducted an organized round-table that was illuminating and interesting. Conversation flowed and the three hours we had set aside could have been doubled without a loss in new ideas coming from the group! There were about 40 people in the audience, and several afterward commented to me that it was the most interesting panel they’d seen. After the conference, I revised my paper to incorporate some of the innovative thinking about Shakespeare’s girl roles I had encountered and to include my fellow panelists’ insights. I’m pleased to report that the paper has been accepted to Dialogue: The Interdisciplinary Journal of Popular Culture and Pedagogy. This will be my first academic publication, and I’m very excited about it! Additionally, I made networking connections with a number of people who were on my panel, which have provided me with both artistic and academic opportunities, such as writing a play with one of the theatrical directors I met.

During my week in Paris, I was able to see many amazing sights, from Notre Dame at sunrise to the view from the Eiffel Tower at sunset. But my favorite memory from the trip is the dinner we panelists went to after our presentation. Although most of us had never met before, we spent three happy hours at a bistro on Saint-Michel Boulevard, laughing, eating and talking about the Bard. It was a wonderful event, and I’m so grateful for the opportunity to have attended. €
tive action or reverse course even if they had wanted to? Spain and Ireland had tightened pre-crisis fiscal policies but to no avail. Could the Fed contain borrowing by raising interest rates or would that have attracted even more capital inflows?

With no easy answers, one thing seems certain: the collective global economic model proved unsustain-able, as the automatic mechanism of the market did not function or took too long to reveal the problem. Is that inherent in the free market, or is it simply that the market is not really free? If it had even been free, then why were so many governments of large economies (the price makers) intervening to affect market outcomes? In any case, the global market failure naturally embraced financial systems and their signs, large or small.

In such an environment, the issue of European policy coordination is difficult to resolve in a short period of time. Inevitably, what comes next for the EZ’s creditor and debtor economies alike is the necessity to abandon their growth models under the natural dictate of economic forces whether their culture, politicians or electorates prefer it or not. Will debtors be capable of buying exports like they used to? Certainly not. Then how will creditors sustain their economic growth? Inevitably by consuming more. What if instead they continue to inflict austerity upon themselves? In this case, next to universal recession, debtors will be finding it increasingly difficult to generate surpluses to ensure debt repayments unless they can keep saving an increasing share of their shrinking income. This is unsustainable for both, leading to a downward spiral and potential defaults.

However, there is the play of market forces. Will creditors and debtors alike place their savings in the toxic assets of Southern Europe or the safer Northern economies? The choice is obvious. Thus global money will naturally be directed towards creditors, inevitably boosting their domestic demand and appreciating real exchange rates versus debtors. It has already been happening if you consider that over 2009-2012 around $4 trillion of private capital inflows have entered the overall under-borrowed emerging markets. Similarly, EU creditors have seen significant moderation of their capital inflows, while also receiving inflows of deposits from debtor economies.

As the main global debtor, the U.S. has been trying to enforce this natural play of market forces. More importantly, the U.S. is inflating creditors via quantita-tive easing (QE), eroding their competitiveness as market forces ensure that the generated dollar liquidity ends up with creditors to spend. However, this is a second-best policy entailing protectionist and currency war risks plus other collateral damage via elevated commodity prices or asset bubbles that can derail some key emerging economies with catastrophic results.

At the moment, the critical issue for the next few years in the EZ is whether the rebalancing process will happen through a violent market-imposed adjustment entailing the risks of a prolonged global recession or through policy coordination with the least possible cost. In regards to the latter, the seeming paradox is that policy coordination requires that the creditors follow expansionary policies, while debtors inevitably deleverage any case where no one is prepared to provide them with the financing required to adopt expansionary policies. The U.S. is an exception because it holds the global reserve currency, but even that has its limitations. The large public deficit in the US might have sustained moderate domestic growth counteracting private sector deleveraging, but it could also have sustained creditors’ exports, thus perpetuating the state of global imbalances. This dilemma illustrates why the global economy has been struggling to exit the crisis without global policy coordination.

Is global coordination likely? Not really. There is no strong precedent of countries persisting long enough and at such a scale while the globalized market might be too complex for the task. A market imposed resolution with combined efforts to patch-up crisis areas as they surface is more likely. This is an overall risky scenario with stop-go global growth circles in the hope that time will cure the ills of economies and banking systems. This is what has actually occurred so far. The recovery from the 2009 dip relied on refueling imbalances and, as a result, proved unsustainable, leading to renewed global weakness even despite China’s policy shift towards expanding domestic credit. All in all, the rebalancing process for both creditors and debtors might prove tough, requiring structural reforms next to macroeconomic action. Ironically, it would be easier to implement policy coordination within the Eurozone. For this to happen, a more balanced political consensus across Europe has to come forward, before a greater deepening of the current crisis evolves and a further weakening of globalization occurs or – due to time lag – policy instruments run out. The unfinished business should not be put on hold.
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Q: What inspired you to earn a West European Studies Certificate and how does it help you now?

A: As an American, Western Europe’s history and its veneer of cultural fixedness always fascinated me. I wanted to understand how immigration and demographic shifts chipped away at this image and what the consequences were for politics. The ESC awarded me a Foreign Language and Area Studies fellowship combining Modern Standard Arabic and West European politics to do so. The Certificate still pays dividends. Identity politics are typical in many democracy-aid recipient countries. Many of these are also shaped by colonial legacies that can be understood by examining Western European political and electoral institutions. And these days there’s no ceiling on the value of learning some Arabic.

Q: How many languages do you speak and how is it an asset to you in your research?

A: I can speak eight or nine languages, but I’m proficient only in five. Spanish, French and Arabic are extremely useful in applied development work. My job involves travel to USAID field missions to determine what program evaluations are possible. This requires meetings with USAID’s NGO and national government partners, local academics, national statistics offices, etc. Speaking the local language builds trust and helps secure local buy-in for methodologically complex evaluations.

Q: What do you want after your time at USAID, and what advice do you have for current students?

A: Frankly, I don’t know what’s next; I’ve never had a five year plan. You can look at life successfully, like Nick Carraway, through a single window, or you can take Mark Twain’s advice and Explore, Dream, and Discover. I’m with Twain. A prominent political appointee recently told me that there’s no such thing as a planned career path – people will offer you various choices and you just have to keep moving up and to the right. If I had to offer my own advice to students, I’d say don’t get bullied into unhappiness, and recognize blind luck when you see it. €