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DISINTEGRATION AND INTEGRATION IN EAST-CENTRAL EUROPE

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Faculty of European Studies, Cluj-Napoca, 26-27 October 2017

CONTENTS

Panel: Crises as cracks in the foundations or determinants of deeper integration? Views from East-Central Europe

- I. Monica BURCĂ-VOICU, Horațiu DAN, Mircea MANIU: POLICY DESIGN FOR COMPETITIVENESS. A HETERODOX VIEW ON THE PRESENT DAY GOVERNANCE OF THE ROMANIAN ECONOMIC LIFE AND BUSINESS ENVIRONMENT

Panel: What are the new challenges for Europe from a historical, juridical, economic and political perspective?

- II. Lilia CAVALLARI, Simone ROMANO: FORESIGHT AND THE MACROECONOMIC IMPACT OF FISCAL POLICY: EVIDENCE FOR FRANCE, GERMANY AND ITALY
- III. Fabio MASINI: “IT CAN’T HAPPEN, IT’S A BAD IDEA, IT WON’T LAST”. US ECONOMISTS AND THE EURO; A REAPPRAISAL

Panel: Potentiality and accountability in conceiving Europe’s future. What are the means to reinforce the legitimacy of the European project in East-Central Europe?

- IV. Adrian-Gabriel CORPĂDEAN: ASSESSMENTS AND PROSPECTS FOR THE INTEGRATION OF THE WEST BALKANS. THE CASE OF MONTENEGRO

PhD Students’ Workshop:

- V. Shula MENACHEM: WHAT SHOULD POLITICIANS KNOW ABOUT BRIDGING THE GAP BETWEEN DECIDERS AND RECEIVERS?
- VI. Ori Nissim LEVI: FAILURE OF THE SUPERPOWERS (U.S.A., RUSSIA, JAPAN) TO HANDLE LARGE NUCLEAR EVENTS
- VII. Vidal YAAKOV: “AT THE EMPLOYERS’ GATES: THE EUROPEAN CHALLENGE FACING ASYLUM SEEKERS AS EMPLOYMENT APPLICANTS”
- VIII. Andreea STRETEA: THE FRENCH-GERMAN APPROACH ON THE FUTURE OF THE EUROPEAN UNION

**POLICY DESIGN FOR COMPETITIVENESS.
A HETERODOX VIEW ON THE PRESENT DAY GOVERNANCE
OF THE ROMANIAN ECONOMIC LIFE
AND BUSINESS ENVIRONMENT**

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Abstract

As the Romanian political outlook became much more clustered and therefore more predictable following the 2016 elections, though not clearer structured on left-right coordinates, the expectations of a sharper policy design and consequent actions of both micro and macroeconomic consistence were, and still are higher than ever in the country. Meanwhile, the obvious impact of a plethora of negative exogenous factors, emerging from EU and worldwide, induced new and unexpected types of constraints for the domestic economic policy framework. Within this juncture our research attempts to assess the present day situation, from a methodologically heterodox perspective. While the overall target of both political and economic consistence is a fixed one and consists in real EU convergence on a determined strategic horizon, the means (specific economic mechanisms) to reach this goal should be flexible and dynamic. Simply put the unsatisfactory outcomes of the last couple of decades induce this strong need to change methodological perspectives. First of all, we attempt to delineate, on historical coordinates, why the present state of the affairs and the governmental political economy that induced this state is inappropriate and is not serving the long quest for competitiveness of the Romanian economy within EU. Evaluating the growth potential of the economy on several layers and comparing stage results we try to point to creative solutions that would interlock public and private spheres and make a noticeable difference on the short run. In this endeavor we try to emphasize the delicate connection between the outlook of the economy and which institutional parameters of the economic culture and education would be relevant for the case of contemporary Romania. This paper would be only the inception of a larger research framework, meant to contribute with academic means to the overall economic policy design as well as refine the

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business environment governance procedures, an imperative must for competitiveness, sustainable growth and accelerated development of the country.

Keywords: business environment, competitiveness, economic policy, Romania

I. Starting points

This research has been mainly triggered by relatively recent events of mainly political consistence which generated a truly dramatic paradox of the Romanian economy's evolution during the last couple of years. The 2016 general elections paved the way to power to a social-democrat and liberal coalition that has a minimal parliamentary majority, but allowing the support of the governing process of such a manner that was valid only as an exception in this country. Meanwhile, despite the EU political turmoil, the present day international and domestic economic conjectures appear to favor the development of the domestic business environment in such a degree that Romania was in fact a growth champion of EU in 2016 and the 2017 macroeconomic outlook seems also to be placed under a good omen. It is obvious that under these conditions the rational expectations of both professional milieus and common people were that appropriate structural policies of strategic consistence could be taken now, allowing the country to make a significant developmental leap in the years to come and eventually to join the *Eurozone* as soon as possible. Unfortunately, even since the very inception of the new legislature the public discourse of the political establishment in power convey the message that nothing of the sort would happen soon, at least if one thoroughly interprets the obvious liabilities and less obvious assets in the evolution of the Romanian economic life, unfolding during the last year.

The above invoked rational expectations are usually built upon several endogenous and exogenous parameters of already historical consistency. We will tackle under these auspices only the endogenous ones, since we believe these are the most relevant for the case of economic policy we investigate. First of all, it is the so-called transition route, namely the period between the fall of the communist regime in December 1989 and the moment of joining the EU in January 2007. Secondly, we must acknowledge and elaborate on the intricacies and peculiarities of the path happening for already a decade within EU. But for a set of several reasons we believe that the present day bumpy journey of the Romanian economy cannot be revealed properly unless we point also to at least some of the features that

were relevant for the pre-1989 economy and economic policy and which we believe that unfortunately still reverberate on the present day economic competitiveness and performance of the country. We try to conduct this investigation aware of the fact that what we call the free world evolved after WWII mostly on Keynesian trade coordinates of American inspiration (Mann, 2015), so we acknowledge the role of the government in specific moments of the economic history of a certain country, despite the overall liberal outlook of the international economy today. Therefore, the itinerary we have in mind to research this topic would like to permanently parallel the political approaches with the economic outcomes, both observed from strategic and tactical angles.

Whatever we will accomplish through this endeavor does make sense if predictable elements of economic policy could be forwarded at a later stage, or at least reasonable alternatives to be presented for public debate and assessment. We undertake this challenge only up to a point. Previous larger frameworks researches of the kind already taught us the lesson that straightly approaching the political elite from a purely academic research perspective, no matter how professionalized would be, never works properly, at least not in Romania. But when the discourse is methodologically focused on institutional building through enhancing various cultural layers that form the grounds of any developed society, the odds are that such a research could become in due time a much more pragmatic tool with economic policy consistence. As two reputed followers of Maslow and Sorokin, namely Dade and Ross point (2008) any society is driven forward by *pioneers*, those inner directed by new ideas. But they must coexist with the *prospectors*, namely those driven by success, material or/and social and *settlers*, those motivated by safety and obviously representing the bulk of a country's population. Our opinion is that at this point in its existence the Romanian society must find a proper cultural leverage in order to change the counterproductive, forged in time under various constraints, balance between these existing informal social contingents.

On July 26, 2017 Eric Maskin was awarded the honorary degree of *doctor honoris causa* of this university. It rewarded his outstanding contribution to the formulation of the Mechanisms Design Theory, a 2007 Nobel Prize honored research. Presenting this theory in a nutshell, professor Maskin explained how this reversed game theory was conceived focusing on strategic settings that ultimately allow the buildup of the necessary incentives, aggregated

into a specific mechanism, provided the players act rationally. Such an exposure seems to epitomize the methodology we have in mind, where the clear objective of a fully EU convergent Romania could be reached starting with heuristic approaches of the kind Herman Kahn envisaged in his alternative scenarios, and ending with the kind of counter-modeling that seems necessary when the very sense of economic causality in place seems wrong. (Hogwood and Gunn, 2000) How otherwise can we make operational the above-mentioned triad – pioneers/prospectors/settlers – but through the culturally built triad of umpires/players/public, which actually stand for the mechanism components of the subsequent triad policy makers/entrepreneurs/citizens. It is in our view one of the few heterodox ways to deconstruct the decades established classic, orthodox economic mechanism that allowed and still allows weak institutions to function undisturbed, as a follow-up of a defective cultural outlook. (Fudulu, 2003)

II. Brief diagnosis. Policy in retrospective

The process of transition from the centrally planned economy to free market was difficult, bumpy and associated with an excessively entropic economic policy, differentiating the country from most of the other transition ones across Central and Eastern Europe. The so called “transformational recession”, as Dăianu (2000) mentions, citing Kornai, was inevitable up to a certain point due to the fact that during the 80s Romania was the worst case of closed economy among socialist countries, with autarchic inflexions, witnessing a *sui generis* post Stalinist approach of the political economy of the time, this lethal combination of causes generating a major setback in the overall evolution of the Romanian economy and society. When starting the complex process of transition in the early 90s the country took a peculiar “own patterned” path of getting rid of its totalitarian past, path that proved to be considerably more erratic than in comparable countries. The explanations for this situation could be traced both to the Romanian political and economic peculiarities of the interwar years as well to the distinguishing features of the Romanian communism, notably of Nicolae Ceaușescu’s dictatorial regime during the 1980s.

These kinds of considerations could be relevant triggering factors for analyzing the specifics of Romania’s historical evolution in the comparative economic dynamics of inter-

war years, communist epoch, transition and post-transition towards the present day. And they are a must within the context due to the necessity to explain rationally why the documented lack of overall performance of the country when benchmarked to rational expectations is due mostly to wrong economic policy above all. It might be also said that there is a view considering this gap (expectations-reality) is due to the fact that the over optimistic expectations of the population following the fall of the communism were generated by the obviously wrong positioning of the political establishment, sometime even of the professionalized circles (economists), that overemphasized features beyond reality, features definitely could have been interpreted as competitive and comparative advantage of the country. (Albu, 2010). Moreover, a strongly disciplined population, both by the grim experience of a tough police state and by the overall effect of the severe domestic consumer goods crisis during the late 80s, was definitely prone to over rational expectations concerning the new economic system emerging in the 90s.

If one tries to peg the economic evolutionary framework to the governmental swap and succession to power since 1990, of social-democrats that were arguably former communists (1990-1996), a centre-right coalition (1996-2000), followed again by social democrats (2000-2004), to be followed by a Christian-democrat and liberal coalition (2004-2007), Christian-democrats (2008-2012), again social-democrats (2012-2015), a brief technocratic *intermezzo* (2015-2016) and again social-democrats since 2017, one cannot but observe a succession of conflicting policies, hardly consistent in message with the ideological affiliation of their promoters. Beyond the positive main trend steps, exogenously imposed by the necessity of creating a functional market economy as the Maastricht Treaty required, this could be interpreted as a continuous negative political cycle, which has undoubtedly influenced the overall performance of the country. Nevertheless, a peculiar note of caution is however valid in Romania too, as was the case in most of the Central and Eastern European countries, namely the fact that each government coming to power had to set its own policy and make adjustments in accordance with the legacy induced by the previous one and moreover to the “path dependency” generated by communist development occurring throughout the region for almost half a century. (Ehrenberg and Smith, 2012). In this context, one needs to acknowledge however that while the sluggishness of the economic

reform could be largely attributed the insufficient competence of the political leaders and social managers, as some sources emphatically, even violently accuse (Bompa and Porojan, 2010), it seems to be more important to acknowledge that a generation of citizens lacking democratic experience and consequent free market knowledge, represented the most active and comprehensive delaying factor to reform.

With the exception of Romania, and to a certain extent neighboring Bulgaria, all of them started the switch towards market economy with radical policy makers in power, ideologically closer to the right, or at least willing to adopt appropriate shock therapies and sacrifice political petty populist tactics for the purpose of modernizing rapidly their countries. Was it a matter of institutional adequacy/inadequacy? While in terms of acquiring democratic institutions and long-time certified political procedures, this was easier to undertake for all the above-mentioned Romanian governments due to the plethora of European available models, coherently restructuring the economy was a much harsher process. The shrinking of the oversized industrial sector, while no alternatives were in place for the placement of the redundant industrial workforce, led to a counterproductive expansion of the agricultural sector that played the role of labor buffer. Meanwhile privatization and property ownership reforms were carried on at such a slow pace that real entrepreneurship effects, enabling a healthy private endogenous sector to exist, could not be observed. (Kallai and Maniu, 2007) The economic take-off was possible only following massive portfolio and foreign direct investments. That leaves an important open question: is the main debate about the soundness of the economic policy in contemporary Romania focusing enough on the regulation of the delicate balance between endogenous and exogenous factors?

We believe it is highly relevant to observe also how the professional environment reflects in time the need for radical change in terms of policy. From simple mimetic moves, to structural approaches embedded in the various angles transition took across CEE, (Aligică, 2009) the evolution of Romania seems peculiar from the standpoint of a certain evolutionary paradox. While the policy of most governments was heavily conjectural, regardless of the political affiliation of those in power, there is an obvious lack of continuity in major processes (privatization, foreign trade, state subsidies, public investment, etc.) that objectively induced the “hopping” process of the economy, with economic cycles that are still

patterned above all on the political (4 years) cycles. In a time when technocratic moves (hopefully this should be interpreted as EU supranational governance) induce a trend of continuity in major economic processes (CAP policy, Euro adoption, use of structural funds, environmental policy, etc.) no matter of the EU's political consistency of the moment, quite the opposite happens in Romania. Balancing between the EU inspired economic governance, as the strategic economic rationale demands and the domestically political more comfortable tactical inertia of the *status quo* seems to be an endless counterproductive game of the domestic political establishment. (Drăgan, 2013).

It is a fact that such a deficient evolution has various kinds of generating reasons, but in our opinion without doubts solid cultural roots too. Cultures underline differences among people and nations and build identity through exclusivity and sometime adversity and opposition. One could notice the overlapping and complementarities of such concepts as cultures and civilizations: while cultures design a certain status, civilizations assign roles in the evolutionary process, as one of the most reputed Romanian cultural philosophers, namely Mircea Malița, describes the phenomenon. There are substantial differences between what we usually call national cultures and even deeper inside of each of them, there are different layers of it, enabling society to act constructively or quite the opposite in critical moments. The truly great culture is that able to act as a moderator of the economic, social and cultural performance. If one investigates the historical roots of the institutional approach in Romania, as Păun (2009) does, it will discover there is no significant opposition in this country to follow procedures and adopt institutions that were developed in time throughout the developed world, mostly in Europe. Therefore, we can say that the real *de-institutionalization* of the country, when it comes to the framework of the economy, occurred only during communism, but the impact was hugely damaging on the long run, up to the present.

If society functions mostly through a sum of transactions and we perceive the costs of those transactions according to the peculiarities of this differentiated socio-culture, Romania acquired its share from obviously different sources, or socio-cultural suppliers, if we may say so. To a certain extent assimilation and imitation occurred, but also adaptation of the industrial patterns that were present across most of the developed countries of Europe. Analysing the Romanian social and economic environment after 1989, one conclusion

appears, both explicitly and in between the lines. During almost two decades, the endogenous political arena has displayed a relatively constant inability of its main forces (Parliament, Presidency, Government, political parties, trade unions, civil society, etc.) to agree on timing and sequencing of most important institutional reforms during transition. Therefore, progress in economic and social reforms has been significantly slower in Romania than in comparable countries in the region. The initial Romanian advantage of “starting from scratch”, imposing to a certain degree the re-thinking all institutions and socio-cultural aspects of life in Romania (Aligică, 2003) could be evaluated or at least branded more or less as a failure. And this failure has been the most instrumental tool in keeping alive a level of economic culture that is contradictory to the realities of the present-day world economy.

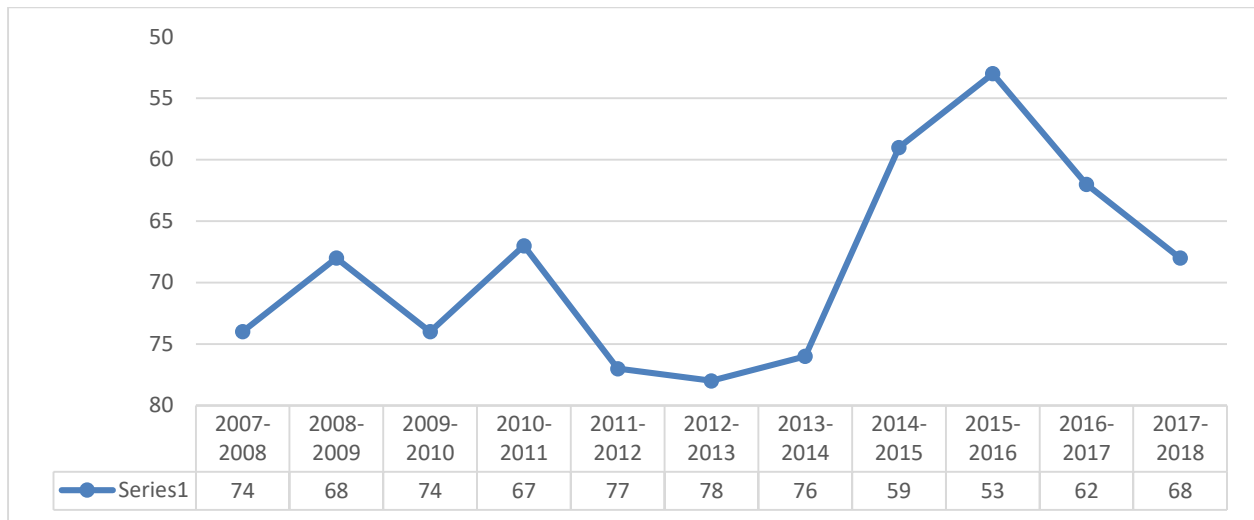
Meanwhile, to soften somehow this gloomy picture, we can observe a sort of continuity in the so called *exo-genesis* of the modernization process, which could be traced to topics generating national consensus, not only on such tracks as EU integration and NATO belonging, the already classical Romanian consensual features. At this point it might be that the main problem of generating critical mass to expand the exogenous trigger to the realm of the economic life could be considered neither the lack of will, nor the educational setbacks, but the defective approaches to properly interlocking institutions. (Brătianu et al. 2010) If one is tempted to associate all kinds of negative economic effects (corruption, irrational state monopoly, partisan developmental policies, etc.) with the legacy of the communist regime, culturally still alive, laundering the present day political approach, that would be a huge mistake in our opinion. But if we add to this judgment the assessment that during the communist regime the country faced almost the same liabilities, but less obviously socially perceived due to the lack of basic freedoms, it seems rational to say that the present day process of cultural change, assimilation of perennial values and overall progress, grounded on the freedom to choose the dominant culture, as Norberg puts it (2010), simply failed in Romania on the short run. The overall modernization of the country has been triggered, but is lacking consistency mainly due to the lack of adequate cultural support.

III. Romanian competitiveness – an international comparative perspective

In a present day global highly competitive environment, national competitiveness is one of the central issues on the agenda of governments, especially those of emerging economies, with policymakers striving to design and implement efficient measures that would boost competitiveness, thus paving the way for sustainable growth. It is without doubt a central issue in the specific case of EU's economic policy due to the multiple consequences concerning the extremely important issue of economic convergence. (Dierx et al., 2017) Romania's case follows this pattern, at least in a formal, declarative way, as the objective of increasing competitiveness is present in virtually all governmental programs and major strategies of the last decades. However, as our analysis shows, Romanian competitiveness policy has often been inconsistent and inefficient, generating suboptimal results, although the economy has enjoyed a rather long period of accentuated, consumption based, economic growth. Nevertheless, in order that our economy and society transcends this mainly consumption-led phase and ensure that growth is here to stay at least on a medium or even on a long-term perspective, increasing competitiveness, both general and in relevant economic sectors, is crucial.

One of the most popular measurements of competitiveness is provided by the Global Competitiveness Index (Schwab and Sala-i-Martin, 2016), a comprehensive research developed by the World Economic Forum, aimed at identifying, quantifying and internationally ranking competitiveness and all its functional elements, thus constituting an extremely valuable tool for deeper analysis, enhanced policy design and consequently improved implementation. Analyzing the Global Competitiveness Index (GCI) data, we notice that, after previous improvements, Romanian relative competitiveness is in decline (Graph 1), currently ranking 68th out of 137, behind other Central Eastern European countries like Poland (ranked 39th), Bulgaria (ranked 49th), Slovakia (ranked 59th) or Hungary (ranked 60th).

Graph 1: Romania's competitiveness ranking (Global Competitiveness Index)



Source: Own plotting based on GCI data

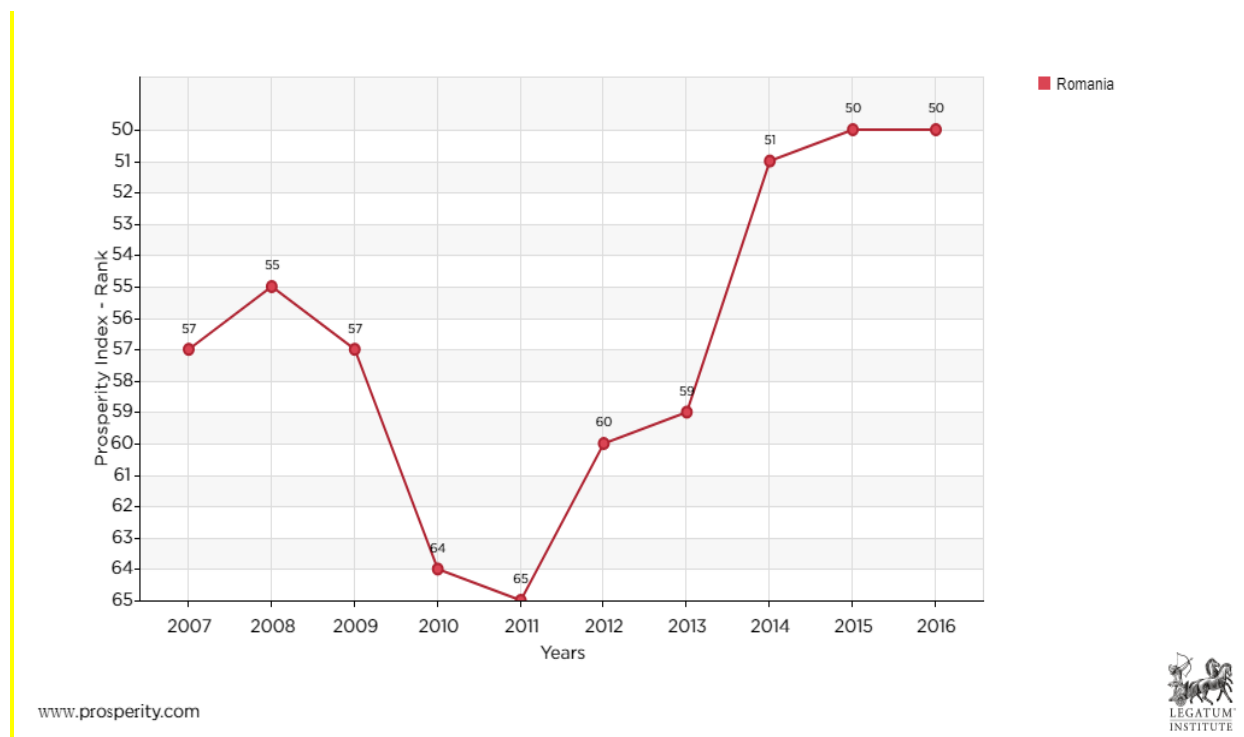
A closer look at the values of the 12 pillars that aggregate Romania's competitiveness rank reveals that institutions, infrastructure, business sophistication and innovation are the worst performers. In order to fully understand this situation, the analysis must be performed in the light of at least the following facts:

- (1) the GCI identifies high favoritism in decisions of government officials, high wastefulness of government spending, high burden of government regulation, low efficiency of legal framework in challenging regulations, high diversion of public funds and low levels of public trust in politicians, all of which potentially and effectively generate, among other factors, severe inefficiencies in the policy design and implementation process;
- (2) the poor condition of infrastructure, especially when it comes to roads and railroads represents a serious obstacle for competitiveness;
- (3) the pillars of health and primary and secondary education, higher education and training, and also the technological readiness score is placed above the overall competitiveness rating, which means that the reasons for the underperforming

business sophistication and innovation need to be sought elsewhere, prompting the question in the direction of competitiveness targeted policy.

These findings are reinforced by the 2017 version of the IMD World Competitiveness Yearbook, where Romania ranks 50th out of 63 analyzed countries, showing a similar relative positioning to that depicted by the GCI and the Legatum Prosperity Index 2016², which places Romania 50th out of 149, highlighting social capital and health as the underperforming main areas and the business environment as the best relatively positioned field. The dynamic of Romania's relative positioning is somewhat different from the s exhibited by GCI data, showing consistent accelerated gains in the last years, as detailed in Graph 2 below.

Graph 2: Romania's prosperity ranking (Legatum Prosperity Index)

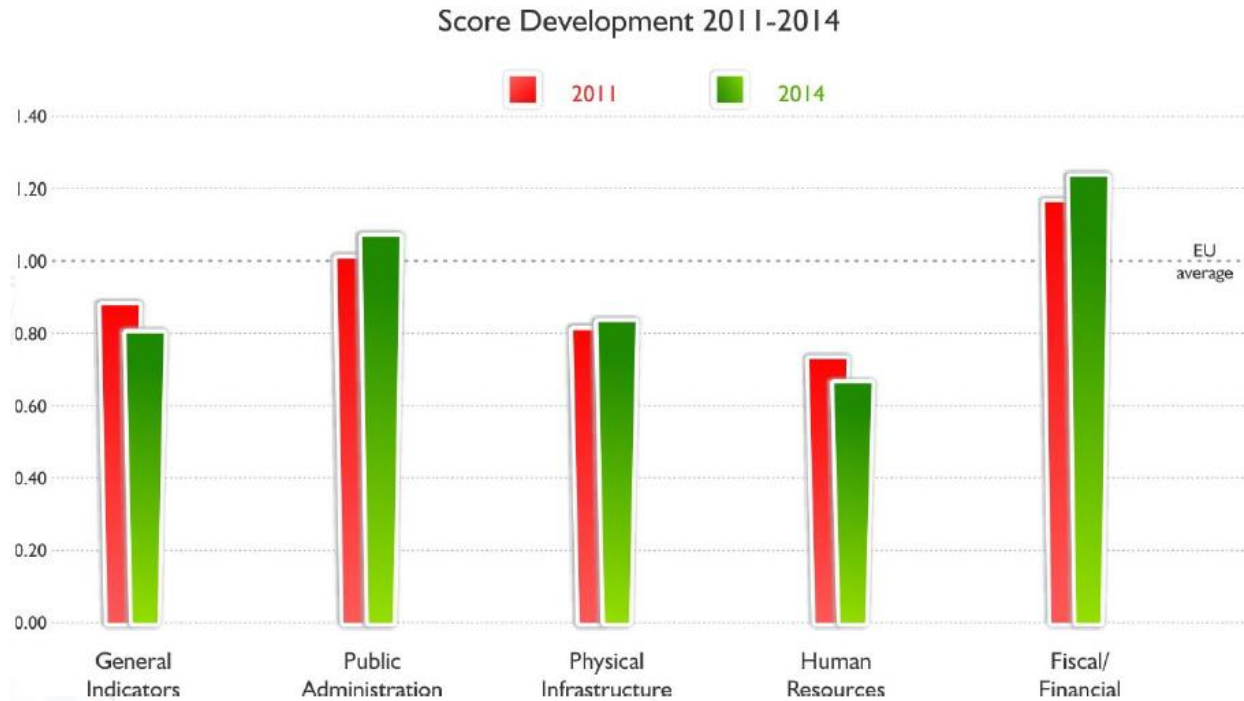


Source: Legatum Institute website, www.prosperity.com

² Legatum's Institute concept of prosperity is fairly similar to GCI's understanding of competitiveness, thus making comparisons possible. See: www.prosperity.com

The picture is complemented by the World Bank's Doing Business in Romania Report and the American Chamber of Commerce (AmCham) Romania 2016 competitiveness report, which bring supplementary elements that help understanding Romania's precise competitive position. The former, i.e. World Bank's Doing Business Report, focuses on the business environment, an important component of competitiveness development. According to this study, Romania ranks in the top 20%, more precisely 36th out of 190, partly contradicting the theory of Romania's suffocating bureaucracy, a potential hurdle in the quest for competitiveness, especially for SMEs (Corpădean, 2014). On the other hand, AmCham's report, a comprehensive study that looks at Romania's competitive position from six perspectives (general indicators, legislative framework -not indexed-, public administration, physical infrastructure, human resources and fiscal and monetary policy) provides fresh insight on the issue, showing only some minor progress since the previous 2011 report, with three out of the five indexed dimensions registering a positive dynamic (public administration, physical infrastructure, fiscal and monetary policy), but still below EU average, while two of them (public administration and fiscal and monetary policy) scoring above the EU average. It is worth mentioning here that from a CEE comparative perspective, Romania's overall competitiveness score is higher than that of all Eastern Europe's Member States, with the exception of the Czech Republic.

Graph 3: Romanian competitiveness deconstructed (AmCham)



Source: 2016 Romania Competitiveness Report presentation, AmCham, March 29, 2016, Bucharest.

Breaking down the competitiveness picture, the report highlights 25 areas of competitive advantage, 43 of competitive disadvantage and 15 of a neutral nature. Out of these, the most notable advantages lie in the total public revenue as percentage of GDP (debunking the argument that the main obstacle to public investments and reform is the lack of budget resources and instead pointing towards low efficiency in allocation and implementation), the time needed to start a business, the availability of agricultural land, foreign languages taught at university level, the population's level of health, public debt, as well as several elements pertaining to energy infrastructure. Conversely, among the main competitive disadvantages a couple of domains stand out: tourism, the level of corruption, general governance (with the exception of fighting corruption), transport infrastructure,

education spending levels, innovation, and some elements pertaining to the healthcare system.

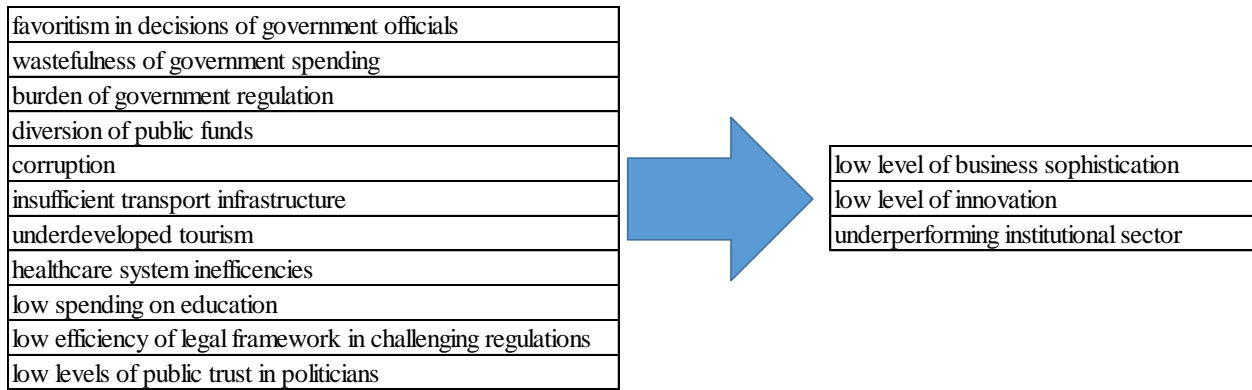
In order to underline the impact of all the above mentioned competitiveness facts we are going to present a brief picture of the way in which Romania has succeeded improving the state of its small and medium enterprises (SMEs) sector as an important key factor of interdependence between the level of competitiveness of the organizations and competitiveness of the entire national economy. One of the primary aims of this short insight is to identify and fully understand the necessary future policies needed in order to be able to generate comprehensive approaches to sustain a competitive Romanian business environment based on variables like innovativeness, internationalization, financial indicators and so on. We think that it is very important to present and not to ignore the Romanian SMEs level of competitiveness due to their very important role in enhancing the competitiveness position of the entire national economy. The 2016 SBA Fact Sheet for Romania reveals areas where our country has made significant progresses such as:

- Access to finance which was facilitated by the introduction of financing programs and tax reductions;
- Responsive administration where we can recognize measures like tax reductions and fiscal incentives for individual investors (business angels);
- Also the last noticeable improvement state aid & public procurement where we can name the reform of public procurement beginning with 2015 reform that was accompanied by two other important financial measures: the ‘state aid for SMEs’ and the ‘supporting investments of SMEs in rural areas.

The same source underlines the fact that criteria’s such as: Entrepreneurship, Second-chance, Internationalization, are above or in line with the EU average. The segments that are raising the most important challenges for the Romanian SMEs are represented by Skills & Innovation where our country it is indicated to be one of the poorest performing country in the EU and also by the Single Market where it is positioned under the EU average. Once having uncovered the main elements behind Romanian competitiveness (and lack thereof), the focus should be on using this information in correlation with existing policy in an attempt to adapt the policy approach in different sectors, as we will attempt in the next chapter. With

this in mind, Graph 4 below lists some of the most poignant obstacles to competitiveness in Romania.

Graph 4: Obstacles to competitiveness in Romania



Source: own analysis based in GCI, AmCham, Legatum, World Bank and IMD reports.

IV. Romanian competitiveness – policy induced or policy deterred?

The issue of competitiveness is widely discussed today in Romania, at all levels, being them public or private. One of the main resulting documents is the National Strategy for Competitiveness 2015-2020, approved by government decision in autumn 2015 with the task of providing with clear policy guidelines and objectives that would allow policy decisions to improve competitiveness in the following 5 years period. More precisely, several strategic priorities are identified:

- improving regulation (done through to some limited measures regarding taxation, setting up mechanisms that ensure that impact on SMEs is taken into account before passing new laws, improving transparency of public institutions, less bureaucracy, improved access to financing for the private sector),
- promoting public-private partnerships (through institutionalization of research centers in PPP, developing PPPs aimed at improving regulation, development/consolidation of competitiveness clusters),

- aiding factor and support services (through actions among which improving the education system, better correlation between the education system and the labor market, allocating 1% of GDP for R&D, aiding private companies engage in innovation, supporting setting up of companies that operate within the creative industries sector, improving road infrastructure connecting Romania to neighbor countries, extending and improving broad band communication, improving SME density infrastructure,
- promoting 10 viable sectors among which tourism, education, creative industries, health, energy, agriculture, automotive (by increasing investment attractiveness and increasing exports),
- preparing the 2050 generation (through actions that include increasing social cohesion, the competitive development of agriculture and rural space and the transition towards a low emissions economy).

However, a closer look at the document reveals that professionally speaking it looks less like a strategy and more like a wish list, as very few concrete measures are defined. Moreover, the numerous (and most of the time vague) objectives indicate that perhaps the purpose of the entire exercise was just to draft a strategy that would capture as many of the existing problems as possible and not to really implement it. This same impression, although maybe not so poignant, emerges when analyzing the current government's 2017-2020 governing program, as measures and their estimated impact seem very loosely correlated. Moreover, the policy proposals, in this form, are prone to severely destabilize the equilibrium between revenues and expenses, reason that makes us think that not all could be implemented, a conclusion that seems to be confirmed by the first three trimesters of 2017. Not only a series of policies have been scraped (examples include the reduced VAT level for housing transactions, the global revenue taxation system, the pensions system, etc.) but new measures that would supposedly increase immediate government revenues were announced without prior debates involving the main stakeholders. In fact, it can be argued that the most vivid debates are often a reaction to *ad-hoc*, untested policy decisions, an *ex-post* character that seriously cripples the overall efficiency of the process.

The instability and still incoherent communication of tax measures to be implemented starting with the next year, not counting the fact that we find ourselves at the end of 2017 and the private environment is already preparing its budgets for the next fiscal year, are important factors determining a series of uncertainties with significant implications on the agents' predictability of the national economic environment. Among the most widely conveyed future measures we can name here the following: application of the split VAT, the transfer of social contributions to the employee, the elimination of the dividend tax or the deduction of VAT. Law no. 177/2017 also brings important changes to the Fiscal Code, among which we can mention here the income ceiling for micro-enterprises, which has been increased from 100,000 Euros to 500,000 Euros. All these hurried measures meant to improve the state of the budget's balance cannot but weaken on the medium and long run the overall situation of the Romanian competitiveness.

Elaborating in the area, we note the highly controversial decision to introduce a split VAT system which would immediately block companies' access to the VAT they collected, thus having a negative impact on cash flows (both their own and their suppliers') and ultimately affecting costs and competitiveness. After initially deciding in early August 2017 (without previously signaling the intention and having any consistent prior debate) a mandatory application for all Romanian companies starting October 1st, 2017, the deadline was moved to January 1st 2018, with the possibility for companies to opt starting the application in October 1st, with a series of fiscal advantages provided as an incentive. Ultimately, only four days before the beginning of the voluntary application period, the budget commission within the Senate has voted for yet another version of the bill, with mandatory application only for companies which are involved in business with the state (starting January 1st 2018) and voluntary application for all other companies until January 1st 2019, when the measure would become compulsory for everybody.

It is obvious that such a degree of policy indecision baffles the private sector, creating distortions due to the high degree of uncertainty that it entails, thus negatively affecting competitiveness. Far from being an isolated event, the split VAT odyssey is just another big impact policy (in)decision, after a complete change of the revenue tax system, announced as a done deal, was (at least for now) scrapped, adding to the impression that fiscal policy lacks

reforms lack solid analysis to back them up. Based on the information provided by the Country Report for Romania 2017, it should be noted that at the moment, the tax compliance is quite low in our country. Romania is registering today the largest VAT gap in the EU, namely the difference between theoretically expected VAT revenues and effectively collected VAT. Moreover, the same source states that the medium-term fiscal strategy does not guide the annual budget process which can generate serious long term implications.

Another yet very controversial decision is the one that will determine an excessively taxation of short-term work contracts beginning with January 1st 2018. The issue is having high risk implications that could determine the employers to give up short-time employees and their work to be distributed to full-time employees and will also shift the tax contributions from the employer to the employee, measures that are lacking a natural process of public consultation with the business environment. On the same note the tax base increases by moving contributions to the employee, which allows a lower tax rate to be applied. In this case the salaries in the public sector will not increase even though significant wage increases will occur at the same time, creating even the premises of real wage cuts in the private sector. Without a bill yet, we are discussing today a possible change in the gross salary base and at the same time reducing the cumulative share of contributions from 39% to 35%, contributions that in this context will fall exclusively on the burden the employee, while reducing concomitantly the income tax from 16% to 10%.

The relatively recent public debates brought to light a series of other policies with negative implications for the stability and attractiveness of the Romanian business environment, such as the solidarity tax or the elimination of the Pension Pillar II. As a real relevant example it was sufficient to have only the Minister of Finance's statements about the potential intention to remove the pension pillar II to generate serious implications on the capital markets at the time the intentions were communicated to the press. Much has been discussed about a possible tax on companies' turnover, as it may turn out to be a counterproductive measure in view of our desire to encourage the internal economic environment. Not only does it disfavor those businesses that have very large sales volumes and small profit margins but it is also in contradiction with the EU's practice in this area and can significantly affect Romania's competitiveness in the region. Among the recent fiscal

measures that have been already applied is the increase in excise duties on fuels and has been implemented in two stages, the first one from 15 September and the second one from 1 October 2017 in order not to generate a shock on consumption. However, the effects of such a measure are felt to some extent in the cost of the economic agents. Fiscal policies of this nature must be carefully considered as a result of research based decisions on impact studies as they can unbalance the macroeconomic and budgetary stability that Romania has gained over time with a series of significant sacrifices, undermining this way the investors' confidence in the potential future attractiveness of the business environment and consequently decreasing competitiveness.

V. In a nutshell

We must acknowledge that most of the interpretations focusing on the realities of the Romanian economy following 1989 were directly or indirectly placed, or at least perceived, as existing only and only under the *aegis* of a dominant, at that peculiar moment, mainstream of economic thought. The deeply entrenched dogma of building the “multilaterally developed socialism” to be straightforwardly continued by a situation that was depicted as “a true stampede of Western liberalism”, sometime even flavored with mimetic libertarian inflexions, all these extremes and whatever stays in between actually co-existed for a while during the early 90s and then were followed by a *sui generis* neo Keynesianism that was illustrated by the “stop and go” economic policy discourse of the mid and late ‘90s. The fact that no clear economic model could decently capture the essence of the Romanian economic environment during transition and even later was quite often attributed to the reality that the domestic political establishment was poorly educated towards market economy mechanisms and, roughly said, too corrupt in order to manage professionally and ethically such a profound task. At this point we believe that managing such a task would mean highlighting by all means the educational track towards an adequate institutional culture, including that forging the delicate area of competition.

Still, what should be accounted during the quarter of century as relevant for the present day economic outlook, generated by the economic policy in place? As the economic realities were observed during the last couple of years, it is obvious that Romania in transition

(1990-2006) had suffered initially from what has been called “loss of momentum”, generated by the initial misallocations that were the pre-EU accession period norm. No coherent macroeconomic approach was done, even if possible, in order to counterbalance unilateral moves of the economy, only to be regretted one step further and to be compensated by excessive and unbalanced governmental involvement. Moreover, and a stage later, beyond the plethora of assets it brought to the country by the accession to EU, the process also induced a sort of “new distortion” in allocating resources, which situation at its turn influenced the domestic economic landscape and the international dimensions of the Romanian economy as a whole. There is no school of thought grounded on a clear and consistent doctrine, no matter if of liberal or of conservative consistence that could properly explain the connection between during the economic policies and the emerging results during the last two decades.

Therefore, we strongly believe the only professional way to focus on these issues would be to combine various domains’ perspectives and attempt to conclude an aggregate theoretical pattern of interpreting the evolution of the Romanian economy from a cultural angle. Catching historical, anthropological, sociological and overall cultural dimensions and framing them into a model that could be without doubt branded as heterodox, could have a stronger explanatory force for the setbacks and liabilities as observed by so many during the last couple of decades. To what extent such an approach means in fact counter-modeling what has been more or less modeled during time, this would be challenge of an extended future research that has been only sketched in these lines. The challenge has a peculiar consistence: the prospective potential of forecasting consistency, never thoroughly and comprehensively followed to our knowledge, a feature that almost completely lacked from the contemporary Romanian economic life and has to be reinstated. After all, at the peak of the cold war, following a plethora of deep international crises, a situation which has a lot of resemblances with the one today, Furtado (1983) expressed the rationale for an optimist view of the history, a vision that was luckily endorsed in less than a decade. If we could extract, formalize, model and more important institutionalize through the political framework the cultural components that allowed such a foresight to become alive, the future of this country and not only could look much brighter indeed.

It is only because of this fuzzy juncture of the domain of domestic policies, notably in the area of competitiveness that drives us to acknowledge and state the fact that this paper constitutes only a preliminary step of a more comprehensive approach, aimed at fully understanding and assessing the *status-quo* and politically induced dynamics of the Romanian policy concerning competitiveness. It is our purpose to research on a larger scale and with appropriate means this topic in order to identify paths towards the enhancement of the overall competitiveness of the Romanian economy, especially in the higher added value areas.

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FORESIGHT AND THE MACROECONOMIC IMPACT OF FISCAL POLICY: EVIDENCE FOR FRANCE, GERMANY AND ITALY³

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Abstract

This contribution provides evidence in support of the hypothesis that fiscal policy is largely anticipated and its effects depend on expectations. Based on a 2-country Bayesian VAR model between major European economies, we found that an unanticipated fiscal stimulus leads to expectations of strong deficit reversals. This in turn depresses domestic and foreign activity. Foresight shocks, on the contrary, have positive effects on domestic activity. Differences in the responses to surprise and foresight shocks reflect the role of expectations. The evidence in our study is consistent with a regime where deficit reversals are mainly based on taxation alone.

Keywords: Fiscal policy, VAR model, Fiscal spillovers, Fiscal multiplier

1. Introduction

Evidence about the macroeconomic impact of fiscal policy is abundant yet controversial. Estimates of the government spending multiplier range from 0.5 to 2.5 in the United States depending on the estimation approach.⁶ Moreover, they vary considerably over time and across countries. It is by now well-understood that fiscal multipliers are higher in recessions (Auerbach and Gorodnichenko (2012)) and depend on such a large set of circumstances, including the exchange rate regime, trade openness, financial development, financial health and the state of public finances, that the notion of multiplier itself is put into

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⁶ The Congressional Budget Office (2012) provides a detailed survey. See also Reichling and Wahlen (2012) and Ramey (2011b).

question.⁷ Results are mixed when it comes to evaluating the international effects of fiscal policy. In the euro area, Caporale and Girardi (2013) document a significant impact of fiscal imbalances in a given EMU country on the borrowing costs faced by its EMU partners. Higher interest rates crowd-out private expenditure and reduce the efficacy of debt-financed fiscal expansions. Canova et al. (2013), on the contrary, document limited and even perverse effects on long-term yields. In their panel, most of the action comes through the trade channel: a fiscal expansion in one country leads to higher imports and has positive output spillovers in partner economies⁸.

On the methodological ground, the fact that fiscal policy can be anticipated to a large extent poses a non-trivial identification problem. Fiscal variables are the result of a complex decision process, entailing long lags between the moment when the decision is taken and when it is effectively implemented. In the absence of a proper account of predictability, these variables may not convey sufficient information for identifying structural shocks, a problem known as non-fundamentality. Clearly, estimated responses may be misleading and very far from the true ones whenever fiscal shocks are not properly identified. In the words of Ramey (2011a), identifying fiscal shocks is all in the timing.

In this paper, we revisit the effects of fiscal policy on both domestic and foreign activity at the light of fiscal foresight. For this purpose, we use the official forecasts of the European Commission to identify surprise and foresight shocks. The former are unpredictable changes in the policy that is actually in place and capture innovations within a given policy regime. The latter are unpredictable changes in policy forecasts and reflect revision of expectations about future policy actions, namely regime shifts. The analysis draws on two-country VAR models between major European economies that include measures of both realized and expected policy together with country-specific GDP, bilateral exports and long-

⁷ Empirical explorations into the determinants of government spending multipliers include, among others, Auerbach and Gorodnichenko (2013), Corsetti et al. (2012), Ilzetzki et al. (2013), Christiano et al. (2011), Caldara and Kamps (2012), Erceg and Linde (2012), Leeper et al. (2011), and Woodford (2009). See also Caggiano et al. (2014), Guajardo et al. (2011).

⁸ Previous studies documenting positive output spillovers from fiscal expansion in the EMU include, among others, Beetsma and Giuliodori (2004) and Beetsma et al. (2006).

term interest rate differentials. The fiscal stance is captured by the government balance (ratio to GDP) from the European Commission Forecasts. Data refer to Italy, France and Germany over the period 1971-2011. Fiscal shocks are identified as in Forni and Gambetti (2014) through a recursive ordering in which the realized policy does not react within the year to innovations in any other variable in the system. The expected policy, on the contrary, is allowed to react to innovations in the realized policy, reflecting the revision of expectations upon arrival of news.

We provide evidence in support of the hypothesis that fiscal policy is largely anticipated and its effects depend on expectations about future policy actions. We first document the forecasting accuracy of the European Commission Forecasts and show that they help address the problem of non-fundamentality in the identification of fiscal shocks. Then, we estimate the effects of surprise and foresight shocks. An unanticipated fiscal stimulus (the surprise shock) is found to generate expectations of strong deficit reversals over the subsequent two to three years and to depress domestic and foreign activity over the same horizon. This is consistent with a regime where deficit reversals are mainly based on taxation alone. A different picture emerges when the fiscal stimulus is engineered through a change in expectations. An anticipated fiscal expansion (the foresight shock) has positive effects on domestic activity.

The paper is organized as follows. Section 2 verifies the forecast accuracy of the European Commission Forecasts and assesses their implications for the identification of fiscal shocks. Section 3 presents the econometric approach and section 4 discusses the results. Section 5 concludes.

2. Fiscal foresight

It is amply recognized that fiscal policy can be anticipated to a large extent. Yet, empirical evidence documenting fiscal foresight with time series data is scarce. Most contributions focus on government spending in the United States, including Ramey (2011a), Perotti (2011) and Forni and Gambetti (2014) among others. Using the Survey of Professional Forecasters, these studies suggest that the forecasts of government spending provide useful information about the prospective developments not only of government

spending itself but also of private consumption and output growth.⁹ Ignoring this information can cause serious estimation bias.

In this section, we will assess the extent to which publicly available forecasts of the government balance in Italy, France and Germany provide information about future policy developments and their role for the identification of structural shocks. For this purpose, we use the European Commission Forecasts, ECF henceforth. The ECF report, for each year over the period 1971-2011, the forecast of the government balance (ratio to GDP), d_t , made at the beginning of the period for the current and the subsequent period, $f_t(d_t)$ and $f_t(d_{t+1})$, respectively. Forecasts are released in the spring and autumn of each year. From the original data, we derive the cumulated forecast:

$$Ft = ft(dt) + ft(dt+1) \text{ the forecast error:} \quad (1)$$

$$Fe_t = f_t(d_t) - d_t \quad (2)$$

and the forecast news:

$$Fnt = ft(dt) - ft-1(dt) \quad (3)$$

Each of the indicators above reflects a different aspect of the forecasting process. The cumulated forecast captures the expected change in the government balance between t and $t+1$. Using information over a two-year horizon, it may perform better in terms of accuracy compared to the simple forecasts $f_t(d_t)$ and $f_t(d_{t+1})$. The forecast error provides information about the accuracy of the EC forecasts. The forecast news conveys the new information that becomes available at each time t .

As a preliminary step, we evaluate the forecasting accuracy of the European Commission Forecasts as compared to standard time series models. The target is the realized government balance-to-GDP ratio (see below for a complete description of the data) over the period 1971-2011. The time series models we use are univariate autoregressive models with

⁹ In Europe, see Gonzales et al. (2012).

maximum order 2. The initial sample date is 1971 and the parameters are estimated with a rolling windows of 16 years. Forecast accuracy is measured by the mean square forecast error, MSFE, normalized by the variance of the target. The MSFE is the fraction of unpredictable variance: the lower the MSFE the higher the degree of foresight. Results are reported in Table 1.

The forecasts of the European Commission appear more accurate compared to the best performing autoregressive model. The MSFE of the ECF is lower than in any time series model and the difference is significant at the 5 percent level according to the Diebold-Mariano test (Diebold and Mariano (1995)). These findings are in line with previous studies documenting the forecast accuracy of the ECF (Gonzales et al. (2012)). They suggest that the forecasts of the European Commission convey useful information for predicting the government balance.

Table 1: Forecast Accuracy

GERMANY	Log-likelihood	MSE	MSFE
ARMA (1,1)	-42,96501	1,95490	4,09730
ARMA (1,2)	-43,42423	1,96620	1,98760
ARMA (2,1)	-42,37214	1,85030	3,24460
ARMA (2,2)	-42,36907	1,85110	3,27830
EU Commission Forecast (1996-2011)			1,021875
FRANCE	Log-likelihood	MSE	MSFE
ARMA (1,1)	-50,69220	3,77270	3,63410
ARMA (1,2)	-47,48858	3,24900	9,10010
ARMA (2,1)	-50,48945	3,70650	3,59000
ARMA (2,2)	-47,15581	3,23110	8,23130
EU Commission Forecast (1996-2011)			0,29938
ITALY	Log-likelihood	MSE	MSFE
ARMA (1,1)	-38,31310	1,31620	1,48700

ARMA (1,2)	-38,29995	1,31620	1,49400
ARMA (2,1)	-38,28995	1,31560	1,50030
ARMA (2,2)	-38,28959	1,31540	1,49940
EU Commission Forecast (1996-2011)			0,33875

The table reports the log-likelihood and the mean square error, MSE, of the regression in row together with the mean square forecast error, MSFE, of the deficit forecast from ARMA models and from the European Commission Forecasts. Data cover the period 1996-2011.

It is well-known that omitting information can cause serious estimation bias (Forni and Reichlin (1998)). In VAR models, overlooking the effect of anticipated policies may lead to a non-fundamental structural MA representation (Leeper et al. (2013)). Because fiscal variables react with a delay to innovations in any other variable in the system, they may not provide sufficient information to identify structural shocks. As a consequence, the VAR results can be misleading and the estimated responses very far from the true ones (Ramey (2011a)). A similar problem occurs in monetary models that do not consider variables in the information set of central banks. Energy prices, for instance, provide useful information about future inflation and omitting them can cause a price puzzle, i.e. a positive response of inflation to an increase in the policy rate.

We verify the existence of a fundamental MA representation using the orthogonality test proposed by Forni and Gambetti (2014). The test is based on a simple rational: fundamentalness requires that any linear combination of the estimated residuals is not correlated with the past realizations of available information. If the condition is not satisfied, a fundamental MA representation does not exist and the VAR model is misspecified, in the sense that it does not include sufficient information to identify structural shocks. The testing procedure is the following: first, estimate a VAR model and identify the shocks of interest; second, regress these shocks on the past values of variables that reflect available information and perform an F-test for the significance of the regression. Our regressors include the EC forecasts and the indicators (1), (2) and (3).

As it will be clear soon, we focus on deficit shocks (the econometric model is described below). These are identified as the first shock in a Cholesky decomposition of the

VAR(2) including, in this order, the government deficit (ratio to GDP) and GDP of each country, taken one at a time, together with GDP, net bilateral exports (ratio to GDP) and long term interest rate differentials for each partner economy considered in turn. The model is estimated separately for each country pair over the period 1971-2011.¹⁰ The estimated deficit shocks are then used to perform the orthogonality test. They are regressed on five sets of regressors, including the series reported by the ECF and the indicators (1), (2) and (3), considered one at a time. The sixth regression contains all of these series together. The first five regressions contain up to 2 lags of the regressors so as to capture information far in the past. For efficiency reasons, the sixth regression contains only contemporaneous regressors. Results are shown in Table 2. The table reports the p-values of the F-test for the six sets of regressors, in rows, and for all country pairs, in columns. Orthogonality is clearly rejected in the regressions using all available forecasts, All, and in the regressions using forecast errors, FE_t . It is not rejected in most of the remaining cases. We conclude that non-fundamentalness cannot be excluded in our VAR model.

3. The econometric approach

In this section we analyze the macroeconomic effects of fiscal stimulus, as measured by an increase in the government deficit-to-GDP ratio, in France, Germany, and Italy. Our analysis is focused on unexpected variations in government deficits, i.e. surprise shocks, as compared to unexpected variations in deficit forecasts, i.e. foresight shocks.

Table 2: Fundamentalness test

Regressors	Germany – Italy	Germany - France
Nowcast	0,004	0,007
1 Year Ahead	0,445	0,586
Cumulated (1)	0,064	0,096
Forecast Error (2)	0,019	0

¹⁰ The impulse responses together with 68% and 90% confidence intervals are available upon request.

News (3)	0,242	0,147
ALL	0	0
Regressors	Italy - Germany	Italy - France
Nowcast	0,418	0,276
1 Year Ahead	0,701	0,862
Cumulated (1)	0,458	0,513
Forecast Error (2)	0	0
News (3)	0,48	0,374
ALL	0	0
Regressors	France - Germany	France - Italy
Nowcast	0,273	0,145
1 Year Ahead	0,883	0,946
Cumulated (1)	0,848	0,684
Forecast Error (2)	0	0
News (3)	0,556	0,345
ALL	0	0

The table reports the p-values of the F-test for each set of regressors (in rows) and for different samples (in columns). The first five regressions contain up to two lags for each regressor while the sixth regression contains one lag for each regressor.

We consider surprise and foresight shocks in each of these countries in turn and estimate their effects on domestic and foreign activity as well as on interest rate differentials and bilateral exports.

Our main interest relates to the role of forecasts for the domestic and cross-border transmission of shocks: how are domestic and foreign output affected by a fiscal stimulus that may be reversed in the future? How are they affected by a change in expectations about future policy actions? How effective is a fiscal stimulus that will take place in the future?

The notion that the effects of fiscal stimulus depend on expectations about future policy actions is well-known at least since Barro (1974). He showed that for a given pattern of government expenditure, how that spending is financed has no consequences for aggregate

demand. The argument is based on the fact that agents smooth consumption over their whole lifetime. Consider, for instance, a debt-financed increase in government spending today that will be completely offset by higher (future) taxation alone. The prospect of lower disposable income in the future provides an incentive for agents to contract their current expenditures, so as to smooth consumption over time. As a consequence, the real interest rate rises and expectations of higher taxes completely crowd-out private expenditure. In a regime where both government spending and taxes automatically adjust so as to consolidate public debt over time, Corsetti et al. (2011) show that fiscal stimulus might in principle crowd-in private expenditure. In such a regime, the initial increase in the government deficit triggers a subsequent reversal of spending cuts or tax hikes that leads the deficit below trend for a while. Interest rates may even fall, boosting private spending. The extent to which expectations about future policy actions affect the impact of fiscal stimulus is ultimately an empirical matter. In what follows, we propose a methodology to shed some light on the question.

3.1 Data

We use annual data for Germany, Italy and France over the period 1971-2011, where the frequency reflects availability of foresight data. Table 3 in Appendix A reports key information on the original series and data transformations.

Macroeconomic data are from the OECD StatExtract database. They comprise GDP - measured at constant prices with base year 2010 - and the consumer price index, CPI. Bilateral imports and exports - denominated in US dollars at current prices - are from the UN Comtrade database. They are expressed in euros using the euro-dollar exchange rate from Eurostat and deflated with the CPI. Finally, the series of the government balance (ratio to GDP) - both realizations and forecasts - are from the European Commission. We have multiplied the original series by -1 so that positive values represent government deficits.

3.2 The model

Consider the VAR model given by:

$$Y_t = B(L)Y_{t-1} + \epsilon_t \quad (4)$$

where Y_t is the $(n \times 1)$ vector of endogenous variables, $B(L)$ are $(n \times n)$ matrix polynomials in the lag operator and ϵ_t is the $(n \times 1)$ vector of errors in the system. The vector of endogenous comprises the government deficit (ratio to GDP), one of the forecast indicators (1), (2) and (3) and real GDP for each country $i = 1, \dots, 3$ considered in turn together with real GDP, net bilateral exports (ratio to GDP), nx , and the interest rate differential on 10-year government bonds, $spread$, for each country $j = 1, \dots, 3$, with $j \neq i$ considered in turn:

$$Y_t = [di,t \quad Fi,t/Fei,t/Fni,t \quad GDPi,t \quad GDPj,t \quad nxj,t \quad spreadj,t]' \quad (5)$$

The model is estimated separately for each country pair. All variables except interest differentials are HP filtered with a smoothing parameter $\lambda = 6.5$ as is usual in business cycle studies.¹¹ Cyclical adjustment is amply used in fiscal studies (see van der Noord (2000) and In 't Veld et al. (2013)). Typically, the cyclical component of a fiscal variable is meant to capture discretionary policy, which is largely unpredictable, while the trend component reflects predictable movements due to the functioning of automatic stabilizers.

Given the scope of the study, which is focused on the macroeconomic impact of fiscal stimulus at home and abroad, we have included also variables that capture the main channels of international transmission. Net bilateral exports represent trade spillovers: a fiscal expansion in one country is expected to spread its effects abroad through an increase in imports from the trading partners, so that bilateral exports from country j to country i increase after a fiscal expansion in country i . Interest differentials capture spillovers through the financial channel. The effect of a fiscal expansion on the spread is a priori ambiguous. A fiscal expansion may induce an upward correction of the risk premium required on government bonds, especially in highly indebted countries. This implies an increase (decrease) in the spread of countries that are more (less) exposed to sovereign risk.

Identification of fiscal shocks is achieved by assuming a contemporaneous recursive ordering where exogenous variables are ordered as given in the definition of Y_t . Zero contemporaneous restrictions are popular in fiscal studies (see Fatas and Mihov (2001) and

¹¹ Using non-cyclically adjusted variables is inconsequential for the analysis. The impulse responses of non-cyclically adjusted variables are available upon request.

Blanchard and Perotti (2002)). They are based on the premise that fiscal policy involves a decision process characterized by long and variable lags between the time when a decision is made and when it is actually implemented. As a consequence, fiscal variables react with a lag of at least one period to innovations in any other variable in the system. Specifically, we assume that the government deficit does not react within the year to innovations in any other variable in the system. To identify foresight shocks, we assume further that innovations to deficits can have a contemporaneous impact on the foresight indicator while innovations to the foresight indicator have no impact on the deficit realized within the year. The assumption reflects the incentive to revise forecasts upon arrival of news about the realized deficit.

To gain further insight on our identification strategy, consider the Wold representation of the government deficit:

$$d_t = \alpha(L)\varepsilon_t + \beta(L)\eta_t + \delta(L)\xi_t$$

Where $\alpha(L) = \sum_{k=0}^{\infty} \alpha_k L^k$, $\beta(L) = \sum_{k=0}^{\infty} \beta_k L^k$, and $\delta(L) = \sum_{k=0}^{\infty} \delta_k L^k$ are impulse response functions in the lag operator L . ε_t is the foresight shock, η_t is the surprise shock and ξ_t is a non-policy shock reflecting endogenous variations, for instance because of the functioning of automatic stabilizers. By definition of news, the deficit reacts with some delay s to ε_t , implying $\alpha_k = 0$ for $k < s$. The non-policy shock also affects the deficit with delay (as in Blanchard and Perotti (2002)). The surprise shock is, on the contrary, characterized by $\beta_0 \neq 0$. In this setup, the surprise shock reflects unanticipated changes in the government deficit, i.e. deviations of the deficit from the expected path within a given policy regime. The foresight shock, by contrast, reflects changes in expectations about the future policy regime (see Appendix C for a plot of foresight shocks).

The model (4) is estimated with Bayesian methods with di use priors.

4. Results

The presentation is organized by type of shock. For each country pair, we first consider the effects of a surprise shock as represented by a one percent rise in the realized deficit. Then, we consider a foresight shock as given by a one percent rise in the expected deficit as measured by (1), (2) or (3). For brevity, we report the impulse responses only for the model with the forecast error indicator. We have checked that using cumulated forecasts or forecast news is inconsequential for the analysis (Appendix B contains the impulse responses with (2) or (3)). In all Figures, impulse response functions are percent deviation from trend while shaded areas in dark grey and light grey represent, respectively, 68% and 90% confidence intervals.¹²

Consider a fiscal expansion in Germany (Figure 1). Panels 1a and 1b refer to the country pair Germany-Italy, while panels 1c and 1d refer to Germany-France. A non-anticipated rise in the German deficit, namely a surprise shock, has negative effects on economic activity both within and across German borders (Figures 1a and 1c). The response of German output is negative on impact in both samples, although it is barely significant in the sample Germany-Italy. Output returns to trend in about two years. Interestingly, the surprise expansion triggers expectations of substantial deficit reversals over the next two years: the forecast indicator falls on impact by approximately 0.5 percent below trend in both samples and turns slightly positive only after 2 years. Overall, these findings suggest that the effects of a surprise expansion today are completely offset by expectations of a deficit reversal in the near future.

A different picture emerges with foresight shocks (Figures 1b and 1d). A positive shock to forecasts, i.e. an anticipated fiscal expansion, boosts output at home. The response of German output is positive on impact, reaches a peak of almost 0.8 percent after two years and then gradually returns to trend. The effect is quite persistent (about 4 years in the sample Germany-Italy and 3 years in the sample Germany-France). The multiplier - calculated as the cumulative increase in GDP - is above unity, precisely 1.4 percent in the sample Germany-Italy and 1 percent in Germany-France, in line with evidence about government spending

¹² Impulse responses are averages of the posterior distributions with 500 replications.

multipliers cited above. It is worth stressing that the shock has a positive impact on domestic activity despite the deficit may actually fall below trend for a while.

Differently from surprise shocks, which imply sizable spillovers in the partner economies, the foresight shock has only minor consequences abroad. The response of GDP in either France or Italy is barely significant as are interest differentials. Bilateral exports increase as expected.

We have estimated the model for all of the other country pairs, considering a fiscal expansion in Italy (Figure 2) and a fiscal expansion in France (Figure 3).

Qualitatively, the responses are similar to those documented for a German expansion. Unanticipated fiscal expansions have negative output effects within and across borders (Figures 2a and 2c refer to a surprise shock in Italy; Figures 3a and 3c to a surprise shock in France). A surprise expansion in Italy (France) leads to a cumulated fall in domestic output as large as 0.7 percent (1.4 percent) over a 3-year horizon. Output spillovers are negative in all country pairs. As before, the shock leads to large deficit reversals: the expected deficit falls by 1 percent (0.5 percent) on impact in Italy (France) and is expected to stay below trend for about 3 years in both countries.

Turning to foresight shocks, domestic output increases in all samples, except France - Italy (Figure 3d). Interestingly, the effect is independent of the dynamics of the realized deficit: the deficit moves in accord with expectations in the sample Italy-Germany, it moves in contrast with expectations in the sample France-Italy and barely reacts in all other cases. We stress that foresight shocks are much more effective within than across borders. As with a German fiscal expansion, output spillovers seem to occur mainly in response to surprise shocks.

Why are responses to surprise and forecast shocks so different? The reason is the effect on expectations. The surprise shock implies a deviation of the deficit from the expected path. Given the policy regime in place, the shock triggers expectations of deficit reversals. Agents form their expectations on the base of what they consider a credible fiscal regime. If they, for instance, believe that an increase in the government deficit today will lead to higher taxes in the future, then any unexpected fiscal stimulus will be completely offset by

anticipated tax hikes. If, on the other side, agents believe that also spending cuts can be engineered to consolidate public debt, then expectations of a deficit reversal might have positive effects on aggregate demand and economic activity. The question of what type of fiscal regime is embodied in expectations is ultimately empirical. The evidence above is consistent with a regime where debt consolidation is mainly based on taxation.

The foresight shock, on the other side, implies a change in expectations, i.e. a regime shift that induces agents to revise their expectations. The fact that the foresight shock has positive effects on economic activity strengthens our argument that surprise shocks reflect a regime of tax-based debt consolidation. It is worth stressing that expectations seem to behave similarly in all countries despite ample heterogeneity in national fiscal regimes.

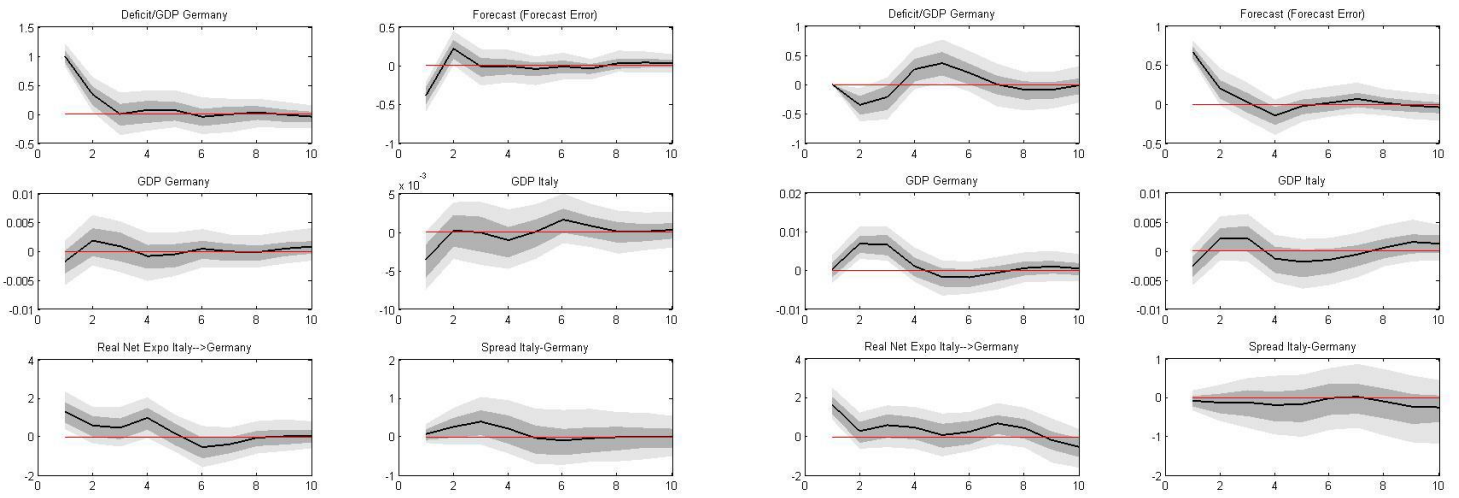
5. Conclusions

This paper has provided evidence in support of the hypothesis that fiscal policy is largely anticipated and its effects depend on expectations about future policy actions. Using the European Commission Forecasts of the government balance in France, Germany and Italy over the period 1971-2011, we have first assessed the forecast accuracy of the ECF in comparison to standard autoregressive models. Then, we have documented non-fundamentalness in the VAR model including, in this order, the government deficit (ratio to GDP) and GDP of the three countries taken one at a time, together with GDP, bilateral exports (ratio to GDP) and long-term interest rate differentials in each of the two partner economies considered in turn. The VAR model is estimated with Bayesian methods separately for each country pair. Finally, we have estimated a VAR model including, in addition to the variables above, one of three alternative forecast indicators: the cumulated forecast, the forecast error and the forecast news. Drawing on a recursive scheme, we have identified a surprise shock, i.e. an unanticipated deviation of the deficit from the expected path, and a foresight shock, i.e. a change in the expected deficit path.

We find that unanticipated fiscal stimulus generates expectations of strong deficit reversals over the next two to three years, depending on the country pair, and this depresses domestic and foreign activity over the same horizon. These dynamics are consistent with a

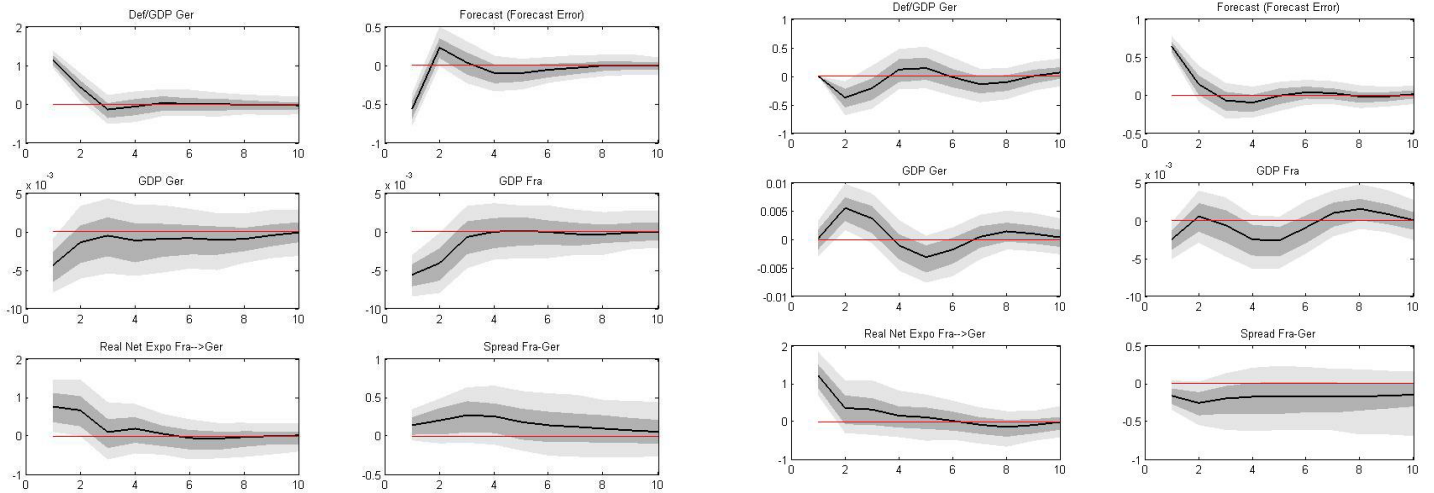
regime where deficit reversals are mainly based on taxation and crowdout private expenditure. A regime shift that leads agents to anticipate a (credible) fiscal expansion, on the contrary, has positive effects on domestic activity. Differences in the responses to surprise and foresight shocks reflect the role of expectations about the policy regime that will prevail in the future. Our results suggest that fiscal stimulus is ineffective as long as the current regime is expected to be in place also in the future.

The evidence in this paper has non-negligible policy implications. First, it supports the idea that fiscal stimulus is effective as long as it triggers expectations of deficit reversals which are not entirely tax-driven. Remarkably, this would require a credible regime shift for all countries in our sample. Second, it suggests that the incentive to reform fiscal regimes in an uncoordinated way may be small. On the one side, the incentives for opportunistic behavior may be strong. Negative output spillovers in response to surprise shocks imply, in fact, that the adverse effects of deficit reversals can be partly shifted abroad. On the other side, changes in expectations have only minor consequences for foreign activity.



(a) IRF to a 1% rise in Deficit. Germany - Italy

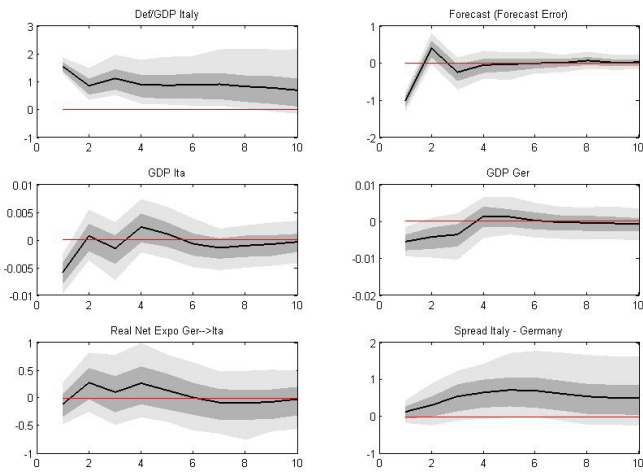
(b) IRF to a 1% rise in Foresight Deficit. Germany – Italy



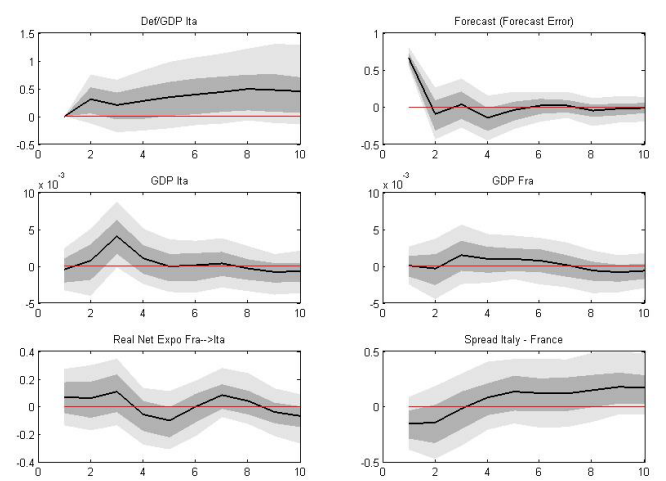
(c) IRF to a 1% rise in Deficit. Germany – France

(d) IRF to a 1% rise in Foresight Deficit. Germany – France

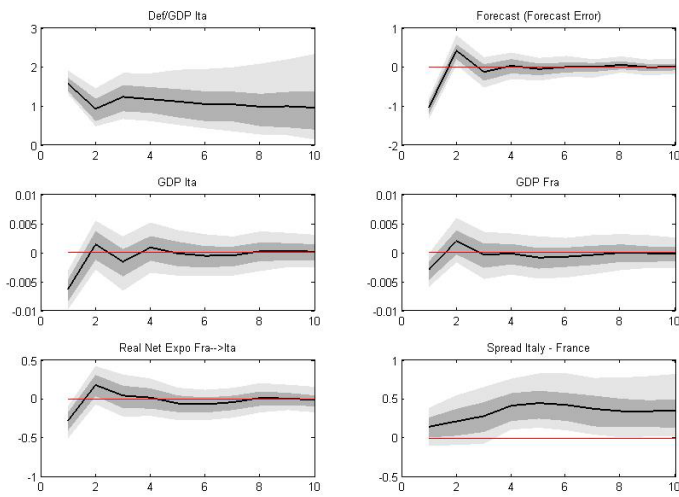
Figure 1: Domestic and cross-border effects of a fiscal expansion in Germany



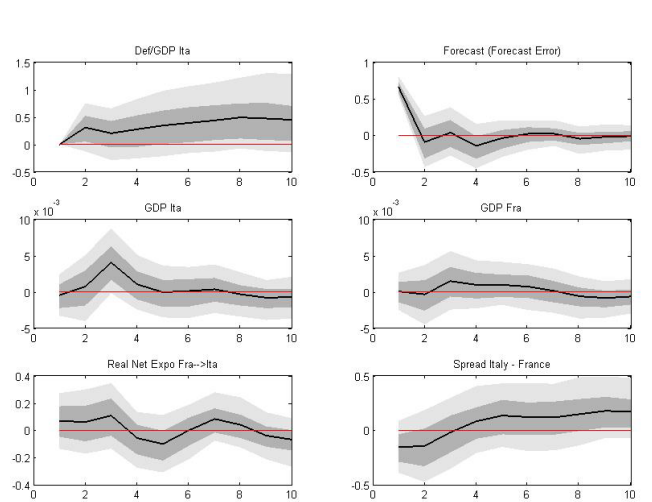
(a) IRF to a 1% rise in Deficit. Italy – Germany



(b) IRF to a 1% rise in Foresight Deficit. Italy – Germany

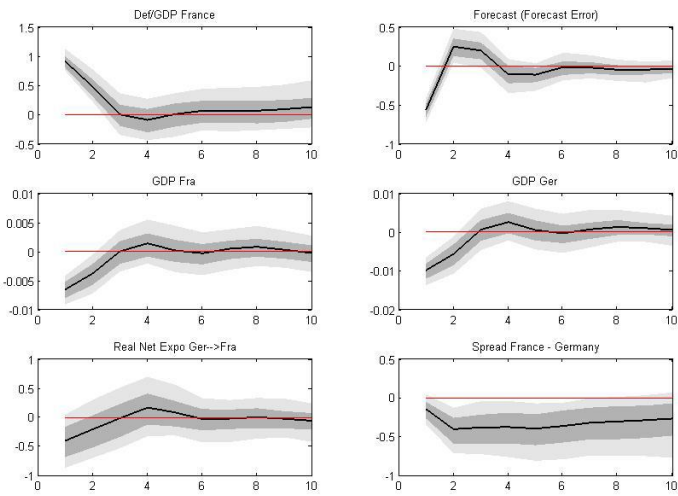


(c) IRF to a 1% rise in Deficit. Italy - France

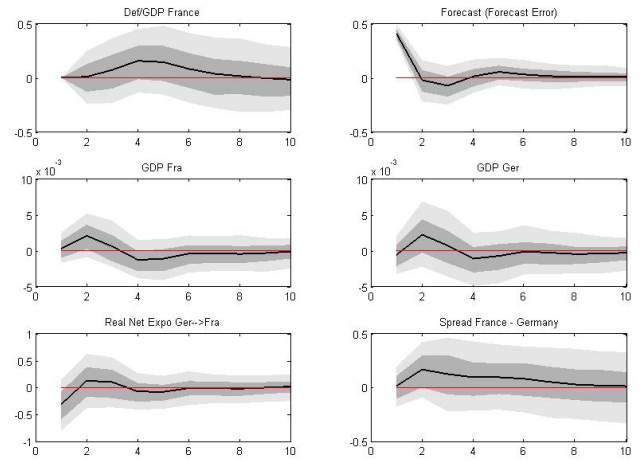


(d) IRF to a 1% rise in Foresight Deficit. Italy - France

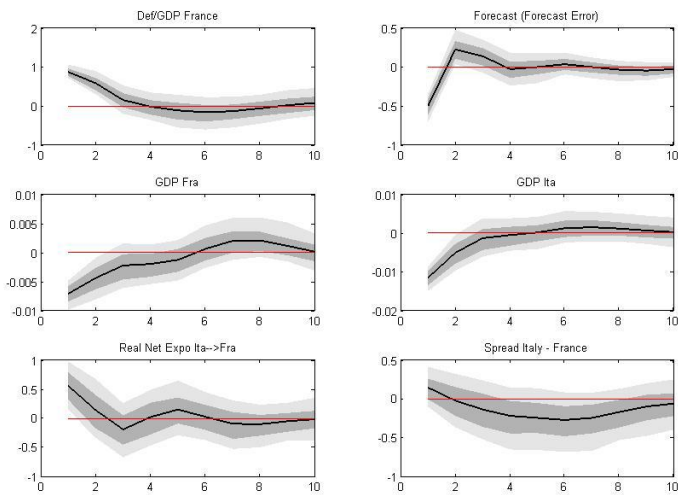
Figure 2: Domestic and cross-border effects of a fiscal expansion in Italy



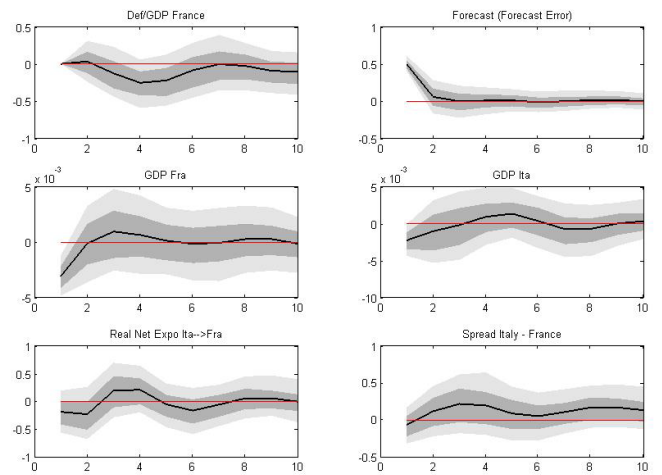
(a) IRF to a 1% rise in Deficit. France – Germany



(b) IRF to a 1% rise in Foresight Deficit. France – Germany



(c) IRF to a 1% rise in Deficit. France – Italy



(d) IRF to a 1% rise in Foresight Deficit. France - Italy

Figure 3: Domestic and cross-border effects of a fiscal expansion in France

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A Appendix

Table 3: Data

Series	Source	Unit of measure	
Gov. Balance/GDP	EU Commission*	%	**
Gov. Balance/GDP Forecast	EU Commission*	%	**
Real GDP (B1_GA)	OECD StatExtract	Millions of Euros - 2010 Base Year (VOB)	**
Bilateral Exports	WITS UN ComTrade	Dollars	**
Bilateral Imports	WITS UN ComTrade	Dollars	**
CPI - All Items	OECD StatExtract	2010 = 100	
Euro - Dollar Exchange Rate (ert_bil_eur_a)	Eurostat	1 e= \$	
Gov. Bonds Interest Rates	IMF	%	

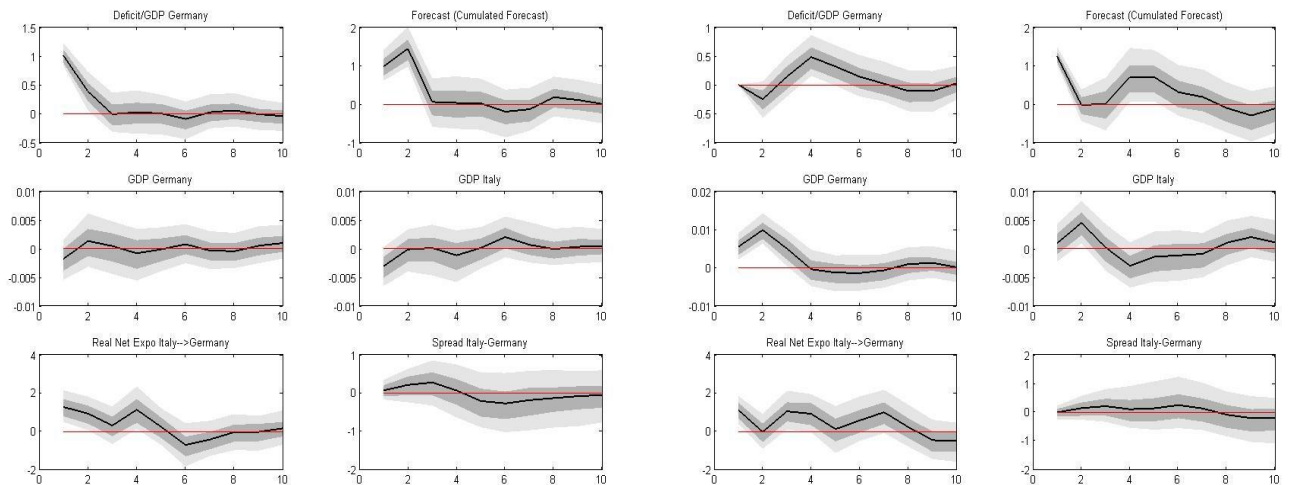
* See Gonzalez Cabanillas, L. and Terzi, A. (2012)

** HP filtered with a smoothing parameter $\lambda = 6.5$

B Appendix

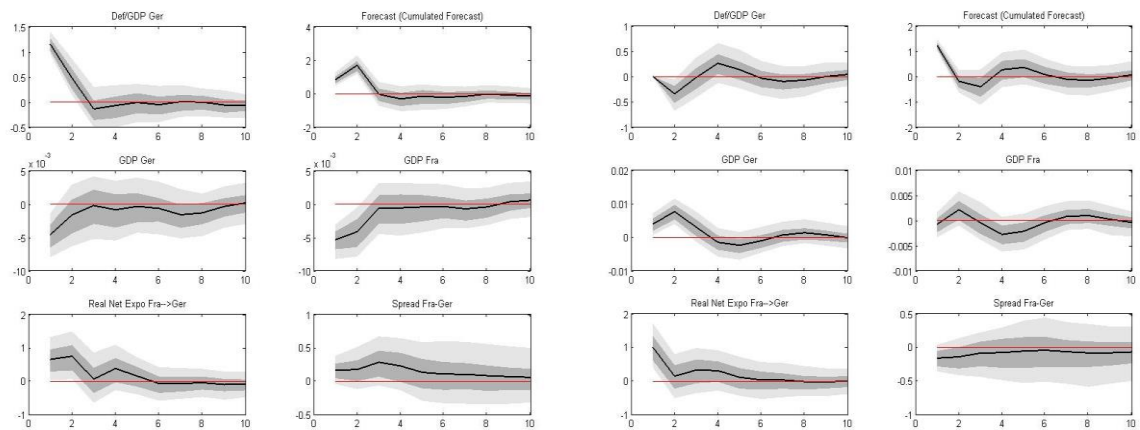
B.1

Model with cumulated forecasts



(a) IRF to a 1% rise in Deficit. Germany – Italy

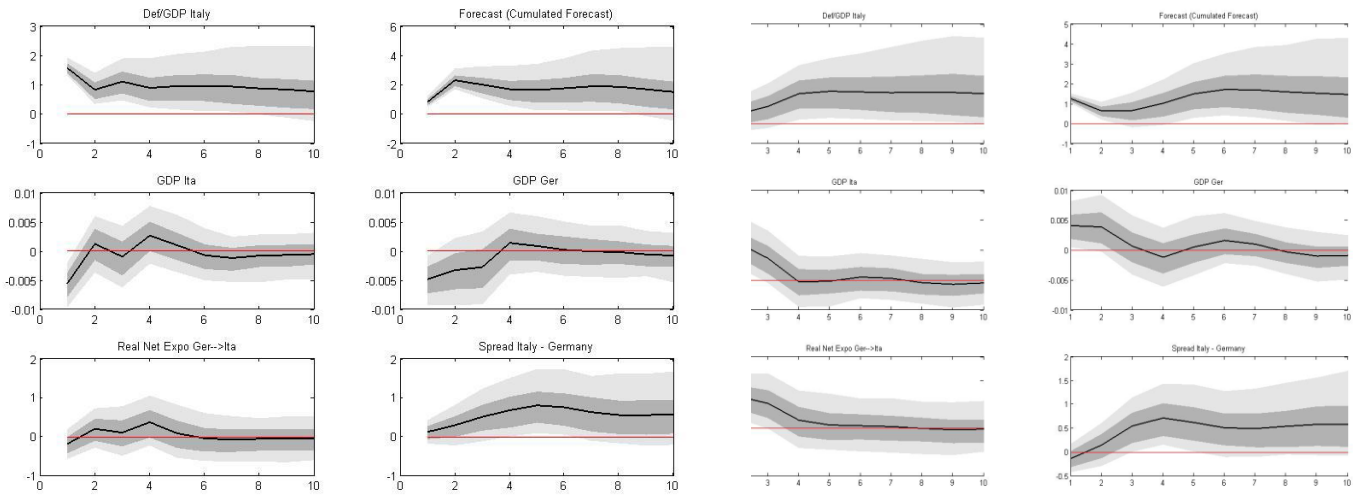
(b) IRF to a 1% rise in Foresight Deficit. Germany – Italy



(c) IRF to a 1% rise in Deficit. Germany – France

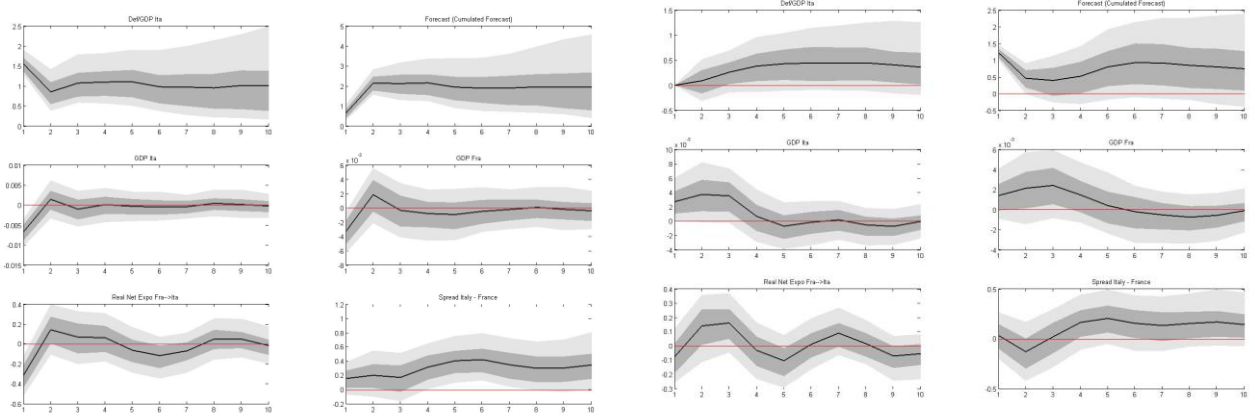
(d) IRF to a 1% rise in Foresight Deficit. Germany – France

Figure 4: Domestic and cross-border effects of a fiscal expansion in Germany



(a) IRF to a 1% rise in Deficit. Italy – Germany

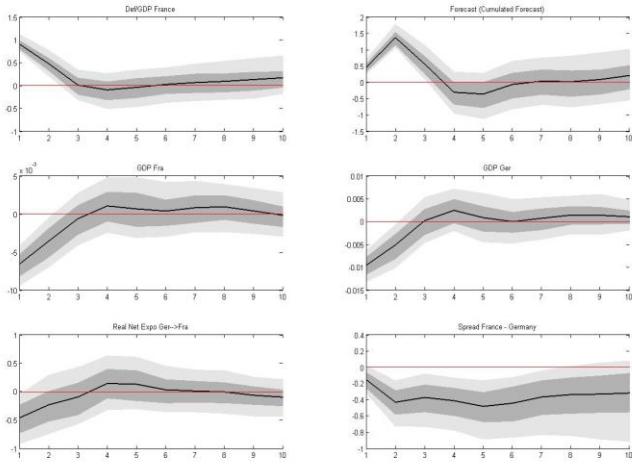
(b) IRF to a 1% rise in Foresight Deficit. Italy – Germany



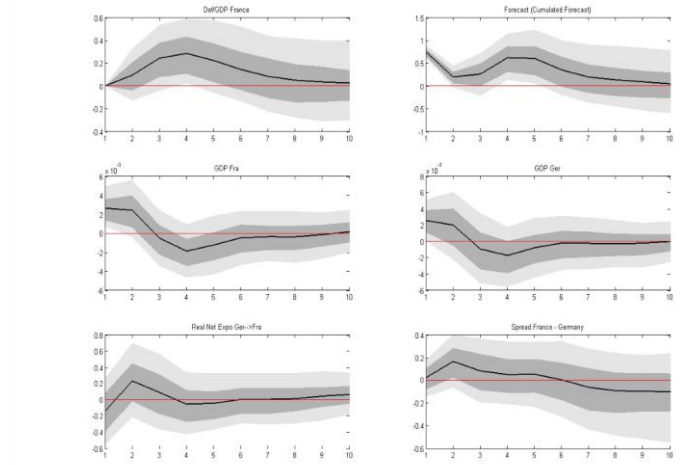
(c) IRF to a 1% rise in Deficit. Italy – France

(d) IRF to a 1% rise in Foresight Deficit. Italy – France

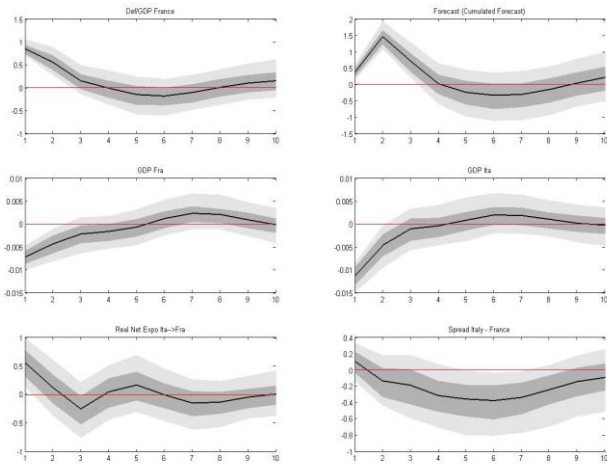
Figure 5: Domestic and cross-border effects of a fiscal expansion in Italy



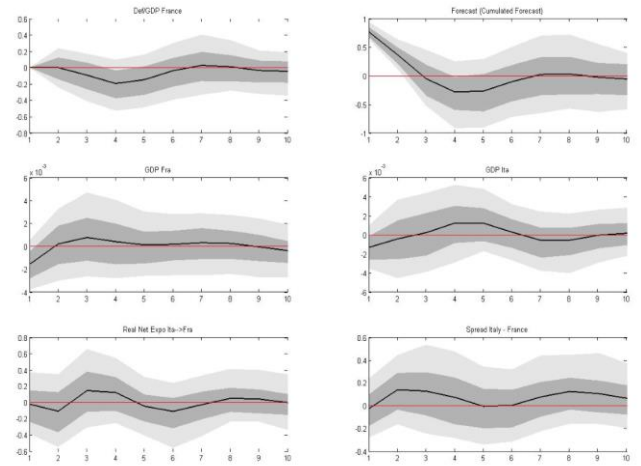
(a) IRF to a 1% rise in Deficit. France – Germany



(b) IRF to a 1% rise in Foresight Deficit. France - Germany



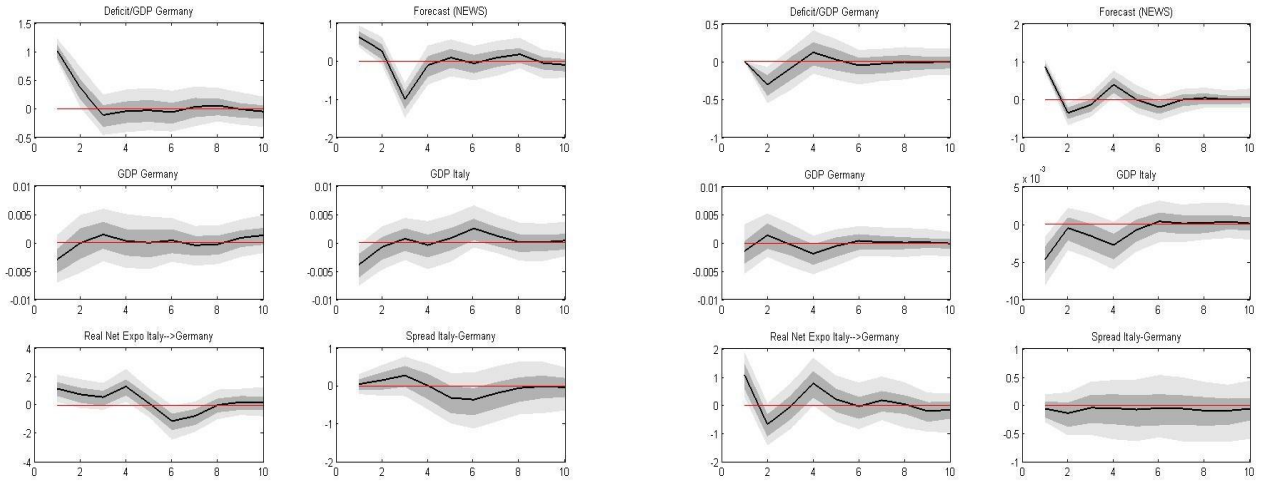
(c) IRF to a 1% rise in Deficit. France – Italy



(d) IRF to a 1% rise in Foresight Deficit. France - Italy

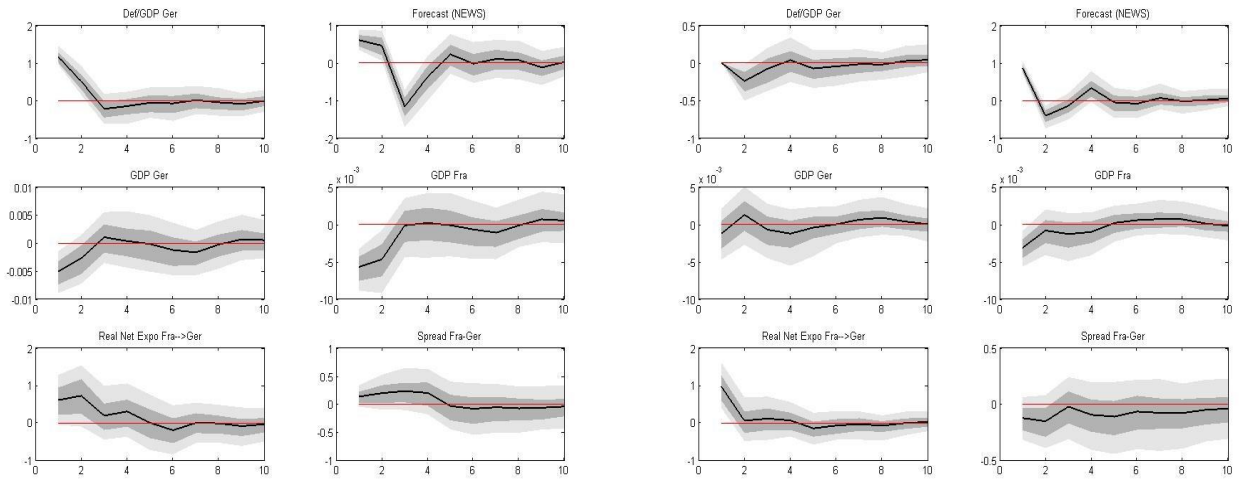
Figure 6: Domestic and cross-border effects of a fiscal expansion in France

B.2 Model with forecast news



(a) IRF to a 1% rise in Deficit. Germany – Italy

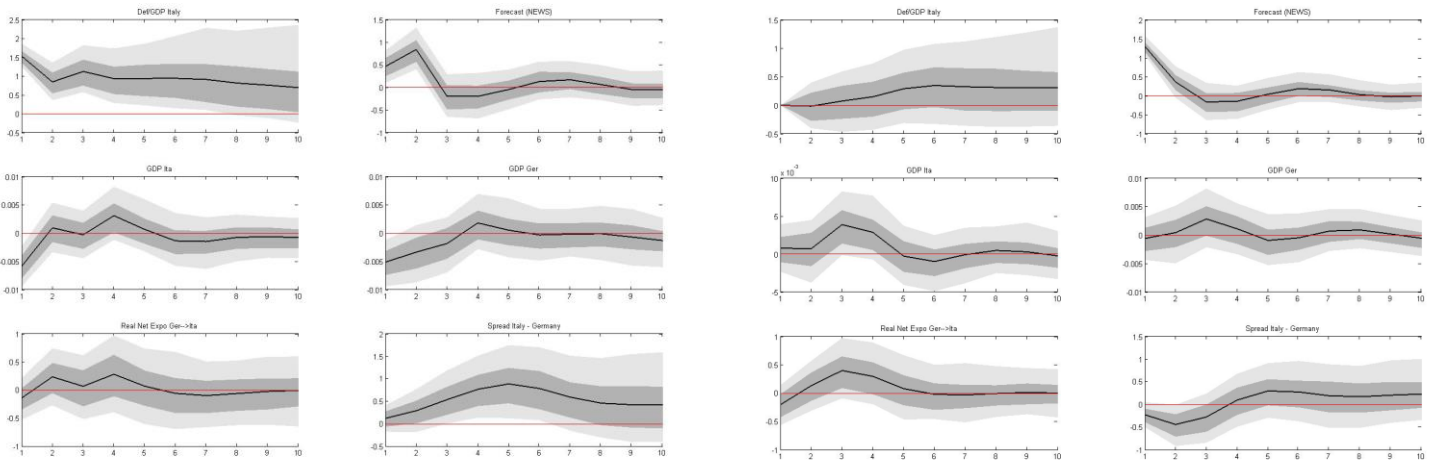
(b) IRF to a 1% rise in Foresight Deficit. Germany - Italy



(c) IRF to a 1% rise in Deficit. Germany – France

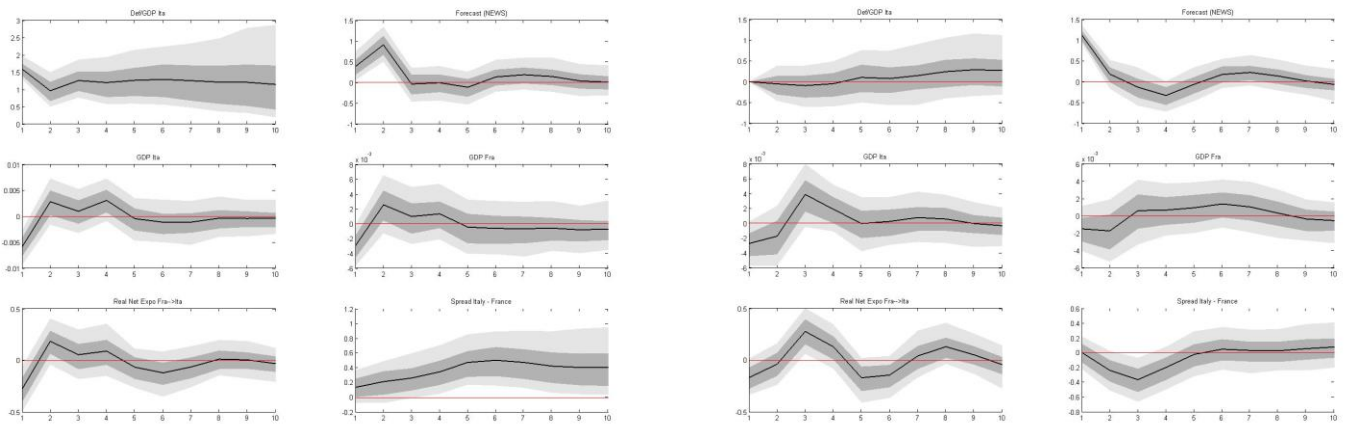
(d) IRF to a 1% rise in Foresight Deficit. Germany - France

Figure 7: Domestic and cross-border effects of a fiscal expansion in Germany



(a) IRF to a 1% rise in Deficit. Italy – Germany

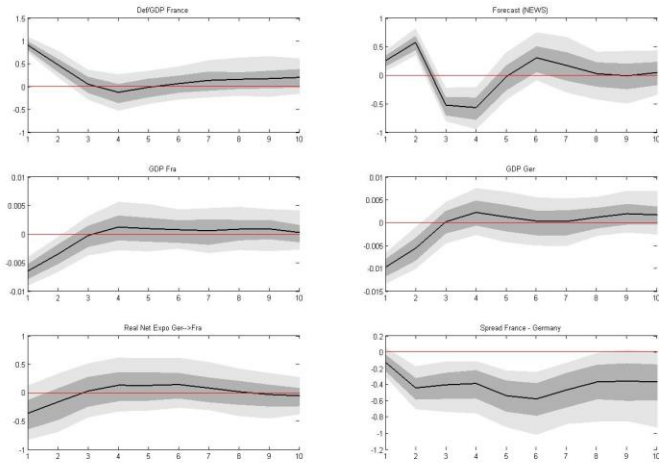
(b) IRF to a 1% rise in Foresight Deficit. Italy – Germany



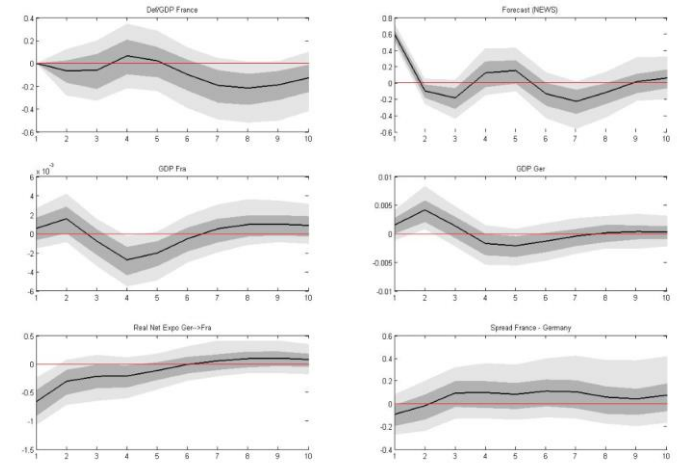
(c) IRF to a 1% rise in Deficit. Italy – France

(d) IRF to a 1% rise in Foresight Deficit. Italy – France

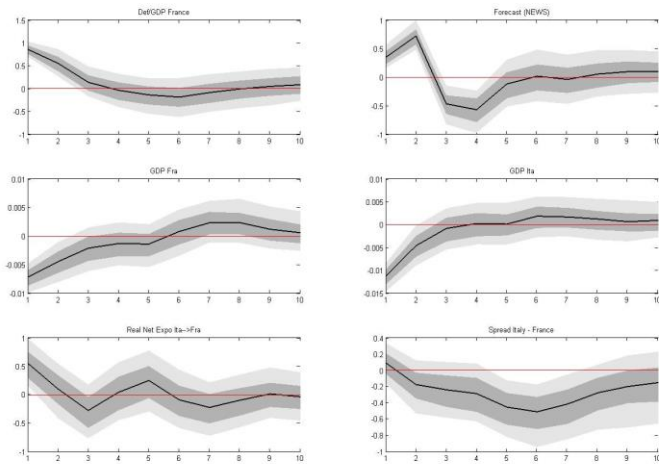
Figure 8: Domestic and cross-border effects of a fiscal expansion in Italy



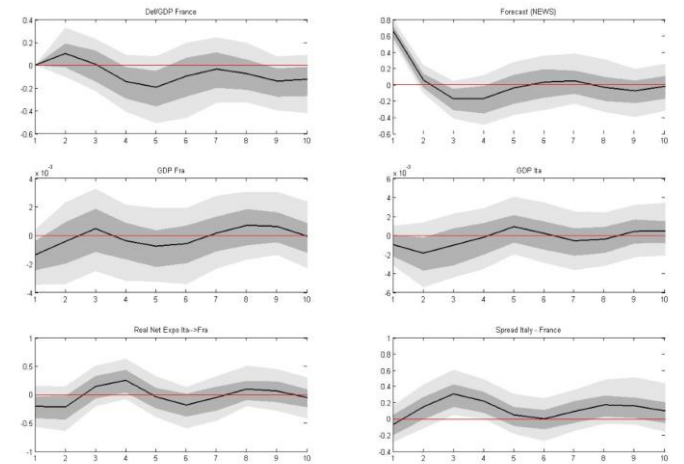
(a) IRF to a 1% rise in Deficit. France – Germany



(b) IRF to a 1% rise in Foresight Deficit. France - Germany



(c) IRF to a 1% rise in Deficit. France – Italy



(d) IRF to a 1% rise in Foresight Deficit. France – Italy

Figure 9: Domestic and cross-border effects of a fiscal expansion in France

C. Appendix

Consider foresight shocks. Figures 10 to 15 plot for each country pair the foresight shocks obtained from the model with cumulated forecasts, with forecast errors or with forecast news. The red shaded areas represent period of sizable fiscal consolidations, defined as deficit reductions above 0.5 of GDP as in Devries et al. (2011). Positive (negative) values reflect a revision upward (downward) of the deficit forecast.

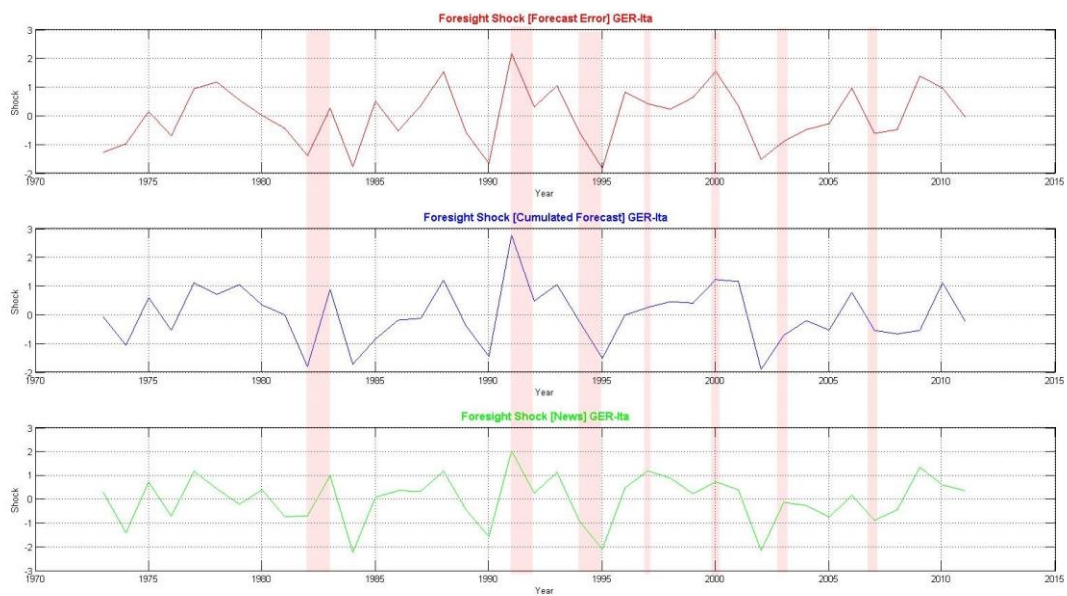


Figure 10: Foresight Shocks. Germany - Italy

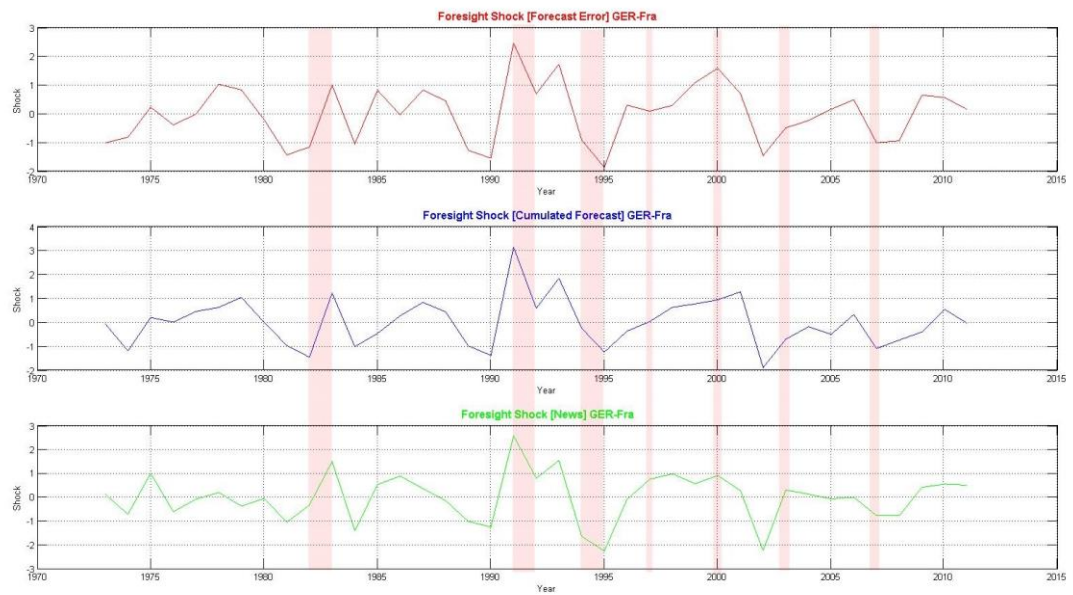


Figure 11: Foresight Shocks. Germany – France

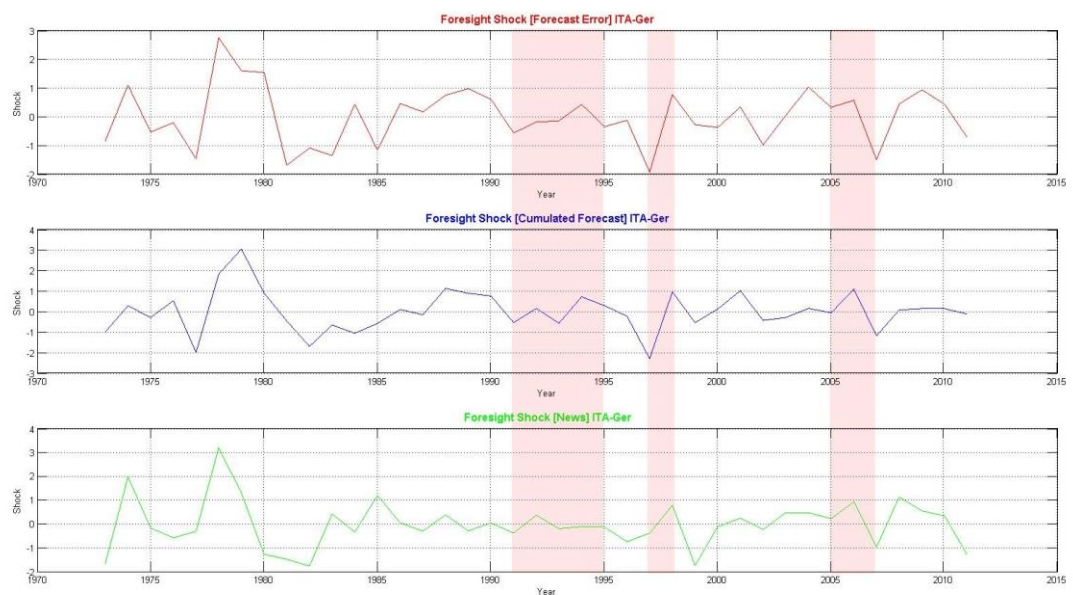


Figure 12: Foresight Shocks. Italy - Germany

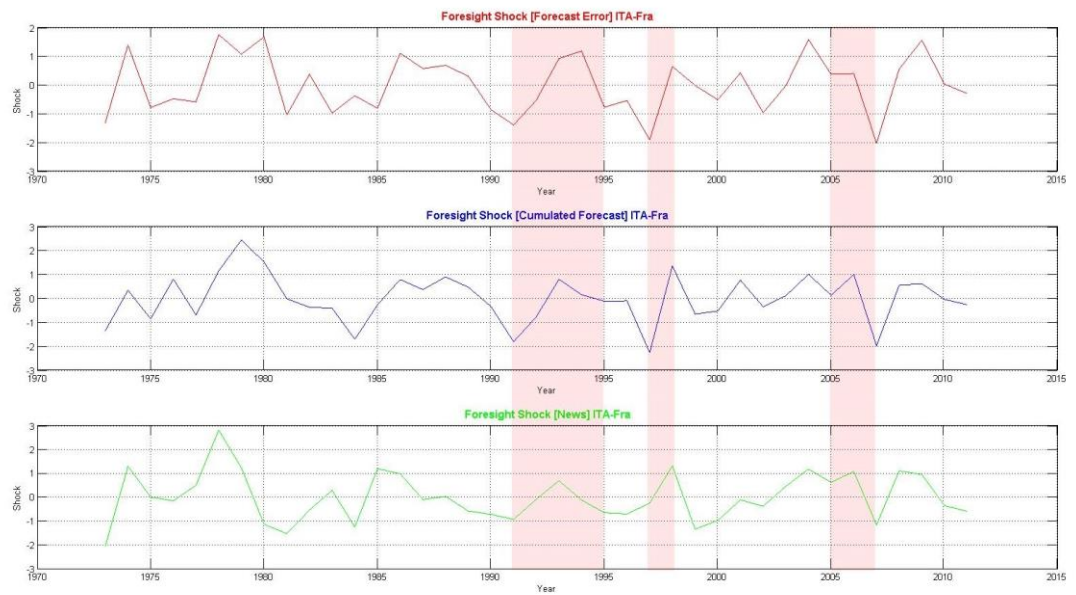


Figure 13: Foresight Shocks. Italy – France

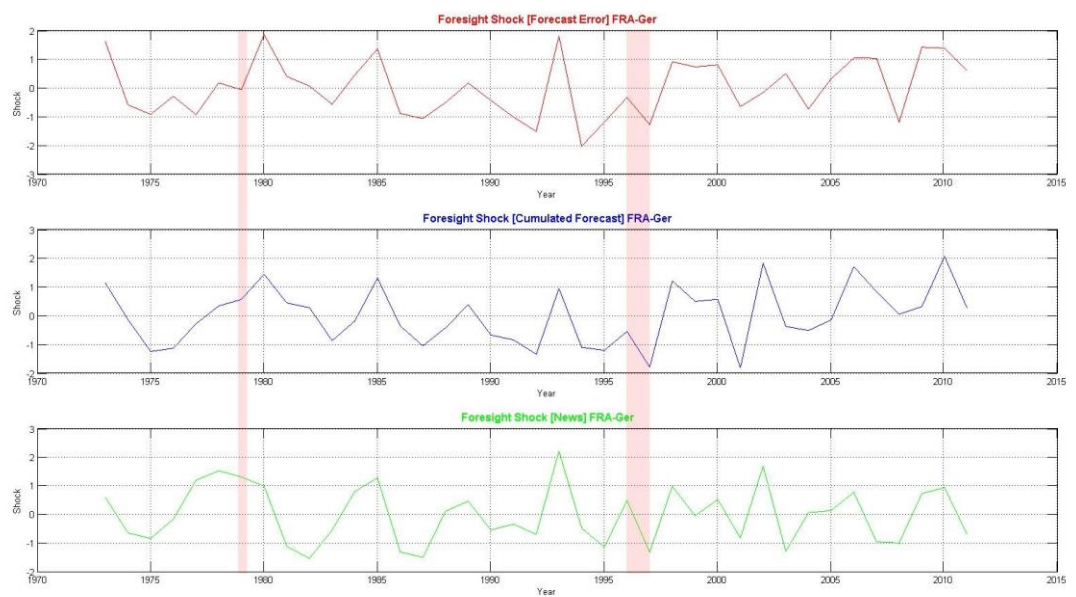


Figure 14: Foresight Shocks. France - Germany

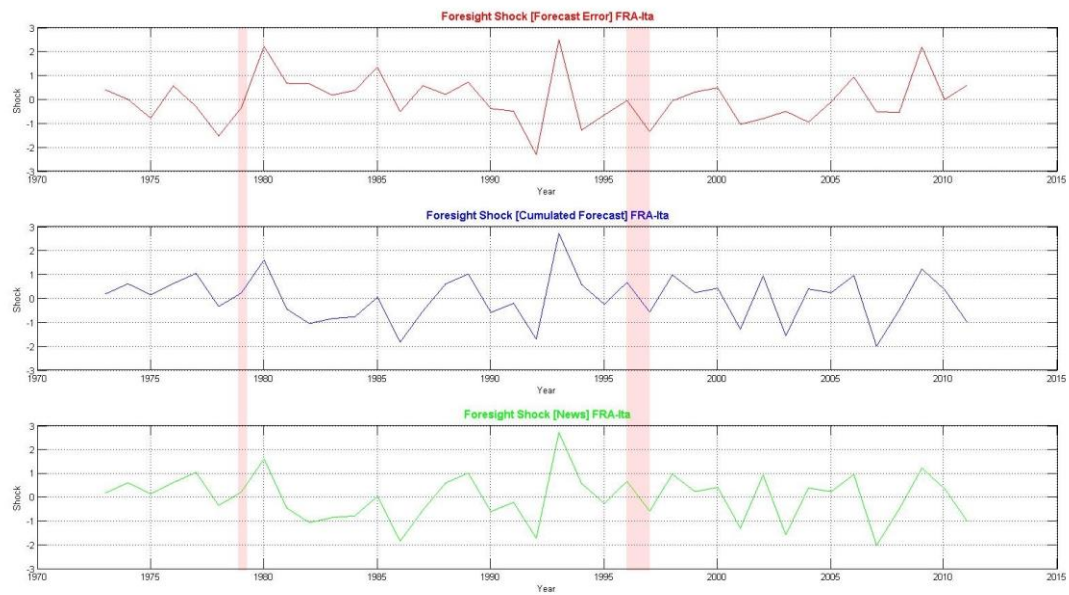


Figure 15: Foresight Shocks. France – Italy

All of the shocks are very similar. Despite capturing different aspects of the forecasting process, they all convey information related to changes in the government balance. They display negative spikes in correspondence to major episodes of fiscal retrenchment, as expected. In most of the cases, troughs are well before the start of consolidations, reflecting the extent of fiscal anticipation. Positive spikes occur immediately before or after consolidation episodes, capturing expectation rallies. A notable exception is the fiscal retrenchment of 1992-95 in Italy, where expectations are almost at. Overall, the evidence reinforces the results in Section 2 showing that the European Commission forecasts do provide useful information for fiscal foresight.

“IT CAN’T HAPPEN, IT’S A BAD IDEA, IT WON’T LAST”. US ECONOMISTS AND THE EURO; A REAPPRAISAL

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Abstract

Soon before the euro started to circulate among European citizens, Rudiger Dornbusch (2001) wrote, about the new currency: “It can’t happen, it’s a bad idea, it won’t last”. Although not unanimously shared, this strongly pessimistic vision was behind most of the contributions that economists from the US gave to the debate on the euro since it was first publicly announced, with the publication of the Delors report in 1989. Krugman, Feldstein, Dornbusch, Bayoumi, Kenen, Eichengreen, McKinnon, Tobin and many others provided a vast literature on the (many) risks and (scarce) opportunities of the European single currency. The untimely defence of the euro by Jonung and Drea (2009) and Issing (2012) provided new material for critique to a structure of economic governance in the Eurozone manifestly unsuccessful.

The aim of the paper is to illustrate the (critical) contributions that US economists gave to the debate on the EMU and the euro, attempting a new assessment of their role. Some of them may be seen as merely instrumental to hinder a project that might jeopardize the dollar hegemony in the international monetary system, and many of them rely too much on a static concept of Optimum Currency Area’s criteria (as Jonung and Drea suggested). But most, further critiques should have been (and should now be) considered more seriously, in an attempt to build a framework for the long-term sustainability and success of the euro.

Keywords: Euro, Political integration, US economists, EU economic governance

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Introduction

From the very beginning, the worldwide debate on European monetary union was characterized by a sharp contrast between euro-skeptics and euro-supporters. This debate also underwent significant changes in relation to both the technicalities of monetary integration and to the evolving overall view of the European integration project.

US economists contributed significantly to this debate, mainly with a strongly pessimistic attitude. Soon before the euro started to circulate, Rudiger Dornbusch (2001) wrote, about the new currency: “It can’t happen, it’s a bad idea, it won’t last”. Although not unanimously shared (Bersgten 1997a, b, 1999 and Mundell 1997, 1998, 1999 represent a few authoritative exceptions), this approach was the leading feature of US economists’ approach to the euro since it was first publicly announced, with the publication of the *Delors Report* in 1989. Sala-i-Martin and Sachs (1991), Bayoumi and Eichengreen (1992), Kenen (1992, 2010), Krugman (1993), Feldstein (1997; 2009), Dornbusch (2001), McKinnon (2002) are only some of the many authors that argued on the (many) risks and (scarce) opportunities of the European single currency.

Despite a harsh criticism from Jonung and Drea (2009), who claimed that the sceptical attitude of US economists was instrumental to weaken the euro on the international markets, and depended on an excessive (and distorted) use of the theory of optimum currency areas (OCA), US theories against the sustainability of the euro governance can hardly be attributed only to the OCA issues. In 2012 Otmar Issing (2012), in response to Dornbusch's essay, wrote *The euro: It has happened, it is a challenging idea, it will last*. Nevertheless, as the recent turmoil in the Eurozone shows, some critiques should have been taken more seriously, in an attempt to build a more effective institutional framework for the long-term success of the euro.

The paper by Jonung and Drea, and the explosion of the sovereign debt crises in the Eurozone since late 2009, further revitalized the debate on the euro among US economists, who provided new insights on the question of European political, economic and monetary integration. In the recent years, many authoritative and intellectually diverse US economists such as Greenspan (2015), Krugman (2015), and Stiglitz (2016) – just to provide some

examples – claimed against the sustainability of the euro in the context of its current system of economic governance.

We know now that also the *Architects of the Euro* (Dyson and Maes 2016), those who actually built it, were (at least partially) aware of the flaws of the general framework of economic and political governance around the euro; this poses serious questions as concerns the role and extent of political issues in the making of the single currency. In any case, a reconsideration of the role US economists (from academics and policymaking, especially the Fed) had in the debate on European monetary union is necessary, in order to highlight theoretical and policy contributions that might nowadays be seen with a more empathic feeling in Europe. The aim of the paper is to attempt such reassessment, especially in view of the recent events that struck the euro area. Given the evolving nature of relevant sources involved in this debate, especially in the most recent years, we largely had to rely also on (authoritative) blogs, not only on journal papers, which have a higher reactivity to everyday facts and policymaking.

We shall first show how the discussions on European monetary integration emerged in the US since the early 90s, mainly motivated by the desire to predict what might be the implications - for the dollar and the US economy - of the single European currency. In the second section, starting from the mid-nineties, the judgment turns severe, and the euro is dismissed as *a bad idea*; we shall dwell on the reasons for this judgment and try to stress the relevance of neglected important aspects of that debate. When the euro start circulating among European citizens, the (negative) judgment turns towards its long-term sustainability (third section), which is currently still a key argument and challenge for European integration (fourth section).

1. The euro can't happen

Tracing back the history of the euro, the first phase of the US debate can be identified in the period of time that ranges between the early Nineties and the Madrid Summit in December 1995. During this initial stage the leading view of US economists can be summarized by the expression: *the euro can't happen*.

Most assessments were carried out on the basis of the core criteria of the standard OCA theory (Mundell 1961, McKinnon 1963, Kenen 1969), especially in comparison with the American experience of economic and monetary integration (Eichengreen 1991a; Sala-i-Martin and Sachs, 1991; Frankel, 1992; Krugman, 1993). In those contributions, the main problems of a single currency in Europe were identified as: the low mobility of labor; a lower (than in the US) correlation to economic shocks; slow adjustment mechanisms after economic shocks; the lack of a fiscal redistribution system; and the lack of political institutions that would help tackle problems of credibility in facing economic downturns.

Recognizing the OCA theory as “a central intellectual question”, Krugman (1993: 4) observed that a single currency and a single market tend to increase the degree of specialization in production and this, in turn, is likely to increase the vulnerability of the whole system to asymmetric shocks: if the process of specialization takes place in national terms, due to positive externalities of agglomeration (what Krugman calls “geographical concentration”, 1991: 484), a shock affecting an industry becomes country specific and, without an adjustment mechanism such as the exchange rate or redistributive mechanisms (fiscal transfers), the currency union becomes unstable. Meade (1953: 38-43) – and even Kenen (1969) – had already stressed the importance of a fiscal central authority to make a common currency sustainable; Krugman (1993: 20) only stressed the relevance also of this trade-off: “we know that fixed rates cost least when trade is large, when labor mobility is high, when shocks are symmetric, and when there are compensating fiscal transfers”. This suggests that a redistributive mechanism should be designed at the supranational level. Of course, this would dramatically impact on the division and allocation of competences (ultimately, of sovereignty) at different layers of government (from local, to national and supranational). Nevertheless, most US economists underlined a major shortcoming in the structure of European institutions, neither accountable to citizens nor fully to member States (only through the exercise of the veto power), thus lacking a coherent multilayer democracy and an effective way to tackle problems of collective action.

The lack of a credible political commitment to change the institutional structure of governance in the EU made it weak. A stronger and more integrated core of euro countries within the EU could and should be imagined: Dornbusch (1990), for example, argued in favor

of a multi-speed approach (different areas with different degrees of integration); an idea shared by many others (Kenen 1992; Pollard 1995; Bayoumi and Eichengreen 1992). Jeffrey Frieden (1994) took an even more radical stance, envisaging the creation of a “mini EMU”, only including Germany, France and some smaller northern European countries, in order to ease convergence and common political strategies.

Indeed, comparing the performances of the EU States from 1990 to 1994, the Federal Reserve economist Patricia Pollard (1995) showed a worsening (rather than an improvement) in economic convergence; indeed, according to the data of 1994, only two countries - Germany and Luxembourg - met all the five Maastricht criteria. The slow (and tricky) ratification of the Maastricht Treaty and the turmoil on exchange rates markets in 1992-93, were recognized as further elements of weakness. It must be stressed that, although the study was conducted too early to test the ability of expectations concerning the single currency to work (1995), we still nowadays have negative results, underlining that there was an overall macroeconomic convergence until 1999 and divergence after the euro (auf dem Brinke et al. 2015: 12); and only convergence of inflation rates until 2007 (Gough 2012). We will later come back on the issue of macroeconomic convergence.

Some uncertainties obviously reflected the very early stage at which monetary integration was in those years. Eichengreen (1991b) pointed at the need to reduce the time span considered in stage 2 of monetary union (during which convergence was required within the European Monetary System framework). The risks of a long transition to irrevocably fixed exchange rates might cause problems of asymmetric shock absorption in cases of (country-specific) financial collapses (or stress), therefore suggesting the need of budgetary and liquidity mechanisms of redistribution (Eichengreen 1991b: 24-26), in particular through fiscal federalism. From this point of view, it should be noted that the speculative attacks that asymmetrically hit European currencies in 1992 were a testimony that his prediction was very plausible.

Another point concerning the transition to later phases of monetary integration came from Kenen, who was concerned on how stage three (single monetary policy and transfer of reserves to the ESCB) would be managed (Kenen 1992: 473-4): how to decide the external value of the single currency; if and how to involve non-euro EU countries (not qualifying for,

or unwilling to join the single currency) in choices of (monetary) policy that would presumably impact on them too.

A further point of uncertainty behind the success of the EMU was the meaning and effectiveness of the Maastricht criteria, given their nature of mere constraints. Most US economists underlined their negative contribution as to the impact on macroeconomic performances, and the likely worsening of the European economy: again, lacking any redistributive mechanisms, tightening policy stances to strict rules would have prevented from absorbing exogenous shocks, thus making the costs-benefit balance of EMU unstable. The most controversial out of the five criteria were the fiscal ones (budget deficit under 3% and government debt under 60% of GDP). What troubled US economists about these parameters were their economic rationale, their effectiveness, and their desirability (Eichengreen 1992; Frankel 1992; Pollard 1995).

Lacking other supranational viable adjustment mechanism, the major question was: how could a major crisis be coped by European monetary authorities? The cost resulting from the loss of national monetary independence is much larger when the currency area is hit by a negative asymmetric shock and the exchange rate cannot act as a stabilizer, but also when there is a shortage of fiscal policy instruments to compensate for the lack of monetary intervention capacity. US economists noticed the lack of all these conditions, therefore concluding that the costs outweighed the benefits, unless Europeans would decide to use transfer mechanisms to absorb shocks, such as fiscal federalism.

As Dornbusch suggested in 1996: “EMU has gone from being an improbable and bad idea to a bad idea that is about to come true” (Dornbusch 1996: 113). Notwithstanding these negative predictions, the euro was created; and it was expected to acquire an important status, thanks to the fact that it was backed by a strong political commitment by the most important national countries that US economists underestimated, neglecting its role in forcing macroeconomic convergence and stabilizing market expectations.

2. The euro is a bad idea

Approaching the critical date of December 31, 1998 – when exchange rates would be

irrevocably fixed (they actually were already since July 1998) and the euro *de facto* be born – the assessment of the single currency from the US turned definitely harsh.

During this starting period, US pessimism was reinforced by the disappointing (from the dollar perspective) initial performance of the euro: since it started being traded on financial markets, it began depreciating steadily against the dollar, inducing US economists to argue that such negative performance was a symptom of the European problems, facing a strong U.S. economic growth and a sharp rise in European unemployment.

We have seen that most ex-ante negative expectations on the viability of the euro project were based on the lack of compliance of Europe to any of the standard criteria for OCA optimality. In the second half of the Nineties, a new, challenging theory had been provided, arguing about the endogeneity of the optimum currency area criteria (Frankel and Rose 1996; 1998). According to them, making an ex-ante assessment of optimality criteria does not make sense, because things evolve and change quite rapidly when a currency area is created, making most conditions of optimality of the new currency area satisfied in the short-medium term.

Notwithstanding this theoretical suggestion, the largest majority of US economists rejected it, confirming that the euro would not be able to create ex-post the conditions of optimality that were lacking ex-ante. Friedman (1997), for example, expressed skepticism (other than his usual argument that adjustments are easier when implemented via the exchange rate) in terms of culture and identity: “Europe’s common market exemplifies a situation that is unfavorable to a common currency. It is composed of separate nations, whose residents speak different languages, have different customs and have far greater loyalty and attachment to their own country than to the common market or to the idea of ‘Europe’”. And Feldstein (1997: 60-61), in an article published in *Foreign Affairs*, claimed:

“Monnet was mistaken... If EMU does come into existence, as now seems increasingly likely, it will change the political character of Europe in ways that could lead to conflicts in Europe...What are the reasons for such conflicts? In the beginning there would be important disagreements among the EMU member countries about the goals and methods of monetary policy. These would be exacerbated whenever the business cycle raised

unemployment in a particular country or group of countries. These economic disagreements could contribute to a more general distrust among the European nations.”

The main general point of the discussion was that Europe does not possess the institutional framework that allowed the US dollar to work effectively. For two fundamental reasons: a) the structure and functioning of the ECB; and b) the fiscal issue.

As concerns the central banking issue, US distrust arose again from the comparison between the US Fed and the ECB, mainly due to the Fed acting as a lender of last resort, with a full range of available policy instruments, while the ECB is constrained to inflation targeting only, without the constitutional (statutory) mandate by the European Council to intervene against other macroeconomic flaws.

In that period, nevertheless, the accusation was mainly expressed in terms of the ECB shadowing the inflation targeting of the Bundesbank (Eichengreen 1991b; Friedman 2000; Orizio 1996; Wynne 1999). This resemblance of the ECB to the German Central Bank, especially regarding its targeting inflation, led many US economists to cast doubts about its ability to fulfill even its functions of prices stabilization, especially in times of crisis, making a response to major shocks difficult, and eventually increasing tensions among participating countries (as we have seen, this was the major point of Feldstein 1997). As Jordan (1997) argued: “divergent debt-servicing costs would worsen the relative fiscal positions of the high-debt nations”; a prediction that would nowadays probably be seen with much less skepticism from the euro side.

A missing issue concerning the banking question is worth dwelling upon here. Leaving aside the problematic aspect of the lender of last resort (one of the elements of divergence between the Fed and the ECB), it seems strange that the banking question was neglected (or underestimated) by economists, including the American ones (with the exception of the Federal Reserve economist Jerry Jordan), because in the case of the Eurozone the general principles of regulation and supervision of the banking system were set out in the framework of an EU directive (the Second Banking Directive of 1989) prior to the signing of the Maastricht Treaty; and even then it was possible to detect the strong peculiarity of the system.

In particular, it should have been clear by the two general principles of banking regulation and supervision - the *Home Country Control* and the *Principle of the responsibility of the host country* - that if the monetary policy was entrusted to the ECB, and the responsibility for banking supervision remained a prerogative of nation-States, major problems might arise; as they actually recently did, when the banking union started being implemented. Until the national banking systems were segmented, this lack of supranational supervision didn't create problems. During the late Nineties and early 2000, when the European banking systems greatly internationalized, the organization of such a surveillance not only became inadequate but was no longer able to work, making the whole banking system more fragile. As Tommaso Padoa Schioppa recalled since the early 90s, the European supervision system is a fundamental prerequisite for the smooth operation of the Eurozone banking system, in turn crucial to the survival of the euro. Despite their experience in this, US economists completely neglected this aspect: no comparison was made with the US experience, showing how the US are equipped with an independent federal agency (SEC, Securities and Exchange Commission) that performs general functions of supervision and regulation of the financial stock markets.

The other issue was the fiscal one, already underlined in the previous period, which is now seen as a twofold problem: on the one side, European States are constrained by the provisions of the Maastricht criteria (the *Stability and Growth Pact*), which is very different from the Philadelphia Constitution of 1787 (Tobin 2001); on the other, there is no redistributive and stabilizing mechanism as fiscal federalism in Europe (again, see Tobin 2001). This device, absent in Europe, plays in the United States a vital role in the absorption of negative economic shocks. Not only such a system would be necessary in Europe, but inter-State transfers might even be significantly higher than in the U.S., because of the greater gaps and imperfections in the European economic and monetary union (Sala-i-Martin and Sachs 1991). Generally speaking, US economists warned Europeans that they were neglecting some of US most important criticism, and that this would lead to nothing good (Danilo 1998, Friedman 2000).

In conclusion, in that period US skepticism stemmed from the fact that the lack of a solidarity and redistributive mechanisms, whether due to structural/political flaws or to a lack

of desirability to most European countries, would dramatically impact member-States economies in the event of a major asymmetric crisis (Eichengreen 1991a; Jordan 1997).

And even irrespective of dramatic shocks, as Krugman (1993) suggested, the increasing specialization of production would tend to expose European economies to unpredictable behaviors (Midelfart-Knarvik et al. 2003), hardly leading to any macroeconomic convergence, and requiring a deep institutional change (Tobin 2001). As Jordan (1997) suggested:

“The debate does not revolve around whether monetary union is achievable, or even sustainable; it centers on whether people understand the potential economic consequences of monetary union and whether they are prepared to meet its challenges. The cost–benefit calculation becomes particularly difficult because, ultimately, European political integration is a necessary condition for a successful monetary union”.

A suggestion that would have required major changes of the Treaties; and that the European Governments were not ready to accept.

On the other hand, it was also underlined that also the disruption of the euro (mostly considered unlikely at that time) might lead to serious problem. As suggested by Eichengreen (2007: 3): “A widespread presumption is that departure from the euro area would be associated with a significant rise in spreads and debt-servicing costs”. Which is exactly what happened when the mere hypothesis of exit, in the recent crisis, started making its way in the market.

3. The euro won't last

Despite the US criticism and skepticism, the euro gathered momentum in the global economy during its first years. As expected by Mundell (“The euro should stand up very well”, 1998: 80), it seemed to work plainly and successfully. It appreciated against the dollar by almost 100% until 2008 (from 0,81 to 1,57), following the oil shock striking the global economy (the price increased by 800% in a few years, from 18\$ in 2001 to 144\$ in 2008), thus sheltering European economies from part of its negative impact.

US economists seemed to acknowledge such temporary success, avoiding any debate on the euro until the crisis struck the Eurozone since late 2009. They also had to accept the

strong critique by Jonung and Drea in early 2009, who defended the euro against US skeptical claims towards Emu and the euro. A critique that proved definitely untimely! Presented at the American Economic Association session dedicated to the tenth anniversary of the euro, their paper tried to identify explanation for US criticism, detecting three main reasons: a) an overwhelming influence of the theory of optimum currency areas; b) the use of a static and ahistorical approach to the study the European Monetary Union; c) the belief that the EMU was first and foremost a political project.

Apart from the last claim, which is manifestly erroneous (the euro *is* a political project), the first two observations were fundamentally correct. US economists have systematically assessed the euro in terms of lack of the in Europe of the optimality (exogenous) criteria. Doing so, they underestimated the relevance of the staring political commitment to the euro by its founding members, and its capacity to stabilize markets expectations and ignite a virtuous circle in the logic of Frankel and Rose (1998). According to Jonung and Drea, US economists made the mistake of comparing the process of monetary integration in Europe, characterized by shocks, crises, political and economic tensions, with the mature and stable status of US monetary and financial integration (a result, however, of a much longer process of political, economic and financial unification). Inevitably, the evaluation of the fulfillment of the OCA criteria before the full implementation of European monetary union produced the general idea that the attempt to implement the European Monetary Union was inadequate and inconclusive. Basically, Jonung and Drea (2009) accused US economists to show the limits of what they called a "backward-looking approach", which should be replaced by a "forward-looking approach".

This brings us also to judge the second point of their criticism to US economists as basically correct. The European monetary union should be understood in dynamical terms, as the last step of the original project of sharing sovereignty among European States. If one looks at the euro in these terms, it is not difficult to understand that it of course creates increasing contradictions in the system, but also that – provided the political commitment is strong and constantly reaffirmed – it is only one step further towards a supranational democracy, a federal system of multilayered governments, very similar to what the USA look like.

On the third point, therefore, Jonung and Drea were wrong. US claims that the euro is basically a political project is correct or, put in a different way, the political and institutional commitment is crucial to the sustainability of a monetary integration project. Indeed, the political commitment needed to make the European monetary union work properly during and after the crisis proved insufficient, highlighting its shortcomings and faults, therefore weakening the credibility of the euro itself. Of course, we cannot blame Jonung and Drea for this: their paper was published soon after the sovereign debt crisis exploded in Europe, letting all the critical aspects of European economic governance emerge with all its force. Nevertheless, the point remains that Jonung and Drea (2009: 30-31) fundamentally neglected the critical role of political commitment to build a sound monetary framework, which was the issue on which US economists would strike hard in the following years.

Unfortunately, as we anticipated, Jonung and Drea (2009) contribution came untimely, making all good points in their criticism disappear in the violent counter attack from the US in the following years. As suggested by Krugman, not without some satisfaction:

“as [David Beckworth](#) [2015] rightly points out, many American economists warned about exactly the flaws in the euro that are now the source of so much suffering. Beckworth reminds us of a January 2010 [Krugman is quoting from the journal version] article by [Jonung and Drea](#) that has become an accidental classic. Their intent was to mock U.S. economists who were negative on the euro and were made to look foolish by its success; to that end they provided an impressive bibliography and literature review of academic euroskepticism — and in so doing provided us with a sort of honor roll, because all the dire warnings from those ugly Americans came to pass within months of their article’s publication. So why were the ugly Americans right? Because the theory of [optimum currency areas](#) turns out to be basically right.” (Krugman 2015a)

Instead of providing a conclusive defense of the arguments in favor of the single market, their paper actually became the occasion for a parade of US economists who had anticipated its faults.

We all know what happened. In 2008, the global financial crisis, ignited by the subprime loans bubble in the US, quickly spread throughout the globe, requiring concerted action by governments and central bankers. The resulting flood of liquidity into the global

economy did not reduce uncertainties on the capacity of the European economy to recover as the others, its economic governance structure raising questions and doubts regarding its effectiveness. With a supranational budget constrained to less than 1% of European GDP, and national budgets constrained by the subsequent sovereign debt crisis (since the end of 2009), it was objectively critical to implement anti-cyclical policies in Europe. When the Greek crisis burst out, the widespread feeling in the US (shared by market expectations) was that the euro would not last, thus starting the third phase of Dornbusch's (2001) predictions.

As Krugman (2011) claims:

“Europe lacked the institutions needed to make a common currency workable. Instead, they engaged in magical thinking, acting as if the nobility of their mission transcended such concerns. [...] The result is a tragedy not only for Europe but also for the world, for which Europe is a crucial role model. The Europeans have shown us that peace and unity can be brought to a region with a history of violence, and in the process they have created perhaps the most decent societies in human history, combining democracy and human rights with a level of individual economic security that America comes nowhere close to matching. These achievements are now in the process of being tarnished, as the European dream turns into a nightmare for all too many people. How did that happen?”

The path followed by European integration stopped somehow before turning into a full-fledged federation as the US: “In the 1980s and '90s this ‘widening’ was accompanied by ‘deepening’, as Europe set about removing many of the remaining obstacles to full economic integration. [...] The creation of the euro was proclaimed the logical next step in this process. Once again, economic growth would be fostered with actions that also reinforced European unity” (Krugman 2011).

A comparison between the federal structure of the US and the confederative structure of the EU may help understand better the divergence; let's take the example of Nevada (US) and Ireland (EU), as he does:

“Nevada's situation is much less desperate than Ireland's. First of all, the fiscal side of the crisis is less serious in Nevada. It's true that budgets in both Ireland and Nevada have been hit extremely hard by the slump. But much of the spending Nevada residents depend on comes from federal, not state, programs. That the state's reduced tax take will endanger their

social security checks or their Medicare coverage. In Ireland, by contrast, both pensions and health spending are on the cutting block” (Krugman 2011).

Why is this reasoning crucial to understand the euro case?

“Well, when the single European currency was first proposed, an obvious question was whether it would work as well as the dollar does here in America. And the answer, clearly, was no — for exactly the reasons the Ireland-Nevada comparison illustrates. Europe isn’t fiscally integrated: German taxpayers don’t automatically pick up part of the tab for Greek pensions or Irish bank bailouts. And while Europeans have the legal right to move freely in search of jobs, in practice imperfect cultural integration — above all, the lack of a common language — makes workers less geographically mobile than their American counterparts” (Krugman 2011).

Again, it is the distance between a federal (US) and a confederative (EU) system that makes the difference. The crucial point for Krugman is to make the EU a transfer union, where redistributive powers are centralized at the level of the supranational power:

“The Germans are adamant that Europe must not become a ‘transfer union’, in which stronger governments and nations routinely provide aid to weaker. Yet as the earlier Ireland-Nevada comparison shows, the United States works as a currency union in large part precisely because it is also a transfer union, in which states that haven’t gone bust support those that have. And it’s hard to see how the euro can work unless Europe finds a way to accomplish something similar. Nobody is yet proposing that Europe move to anything resembling U.S. fiscal integration” (Krugman 2011)

Some US economists showed to believe in political union (Zumbrun 2011 and Ellyhat 2013); others as Krugman 2013 (Weisenthal 2012) could not see a positive outcome of the crisis simply because political union is not realistic. The blame is on the very European politicians, according to Krugman (2015b), who have “spent a quarter-century trying to run Europe on the basis of fantasy economics”: i.e. to impose “a single currency on a very heterogeneous group of countries” (Feldstein 2011: 1).

The reason why US economists stressed so much the institutional difference between the US and the EU is that most of them considered the EU a potential threat to economic recovery worldwide and/or a source of further destabilization for the global economy. US

economists insisted on the European Union to reflate its economy; recognizing that this could only be done with a higher degree of integration in the fiscal and economic field. Only at a supranational, federal level Europe could accomplish this task. As reported by Zugman (2011): “Greenspan said Aug. 7 on NBC’s ‘Meet the Press’ that the chance of a return to recession ‘depends on Europe, not the United States’”. This concern was reflected in the strong claim in favor of demand-support policies from Europe, which nevertheless could not be implemented within the current governance of the euro-area, thus suggesting pessimistic predictions about the survival of the euro. For this reason there was a rather broad consensus in the US on the conclusion expressed by Martin Feldstein in a debate organized on June 2, 2010 by *The Economist*: “Although the European Monetary Union has now survived for 11 years, the current strains within the euro zone show why it may not last for another decade without at least some of its members leaving”¹⁴.

4. Recent debates

This critique towards the institutional structure and constitutional nature of the EU was a leading feature before July 2012, when the ECB started intervening in the market and changing the nature of the euro problem. The situation of the euro-area imbalances, reflected in high and increasing spreads with the German *Bund* and within the Target 2 system of payments, became hardly tenable in June 2012, leading to a major political decision of the European Council to (implicitly) support the Central Bank to use unconventional monetary policy instrument to avoid the collapse of the euro. Consequently, on July 26, 2012 the President of the European Central Bank Mario Draghi, at the *Global Investment Conference* in London, firmly announced that the ECB was ready “to do whatever it takes to save the euro”; adding “and believe me, it will me enough”. The spread on national treasury bonds immediately sunk at a few basis points, thus loosening the threat on Grexit, Italexit, etc.

Reforms are nevertheless necessary, and monetary policy can only assist this process. Stiglitz, on March 6, 2014 at the World Economic Forum called for an explicit change of the ECB mandate¹⁵, suggesting it to abandon mere inflation targeting. But this requires a vote in

¹⁴ http://www.nber.org/feldstein/economist_debate60210.html, last access 10/October/2017

¹⁵ <https://euobserver.com/news/123388>, last access 10/October/2017

the European Council, deciding upon unanimity. What the ECB did in the last few years was to buy time for the governments to make the necessary change in the European economic governance, required to sustain the euro. As Stiglitz (2013) had already claimed in 2013, underlining the preeminent role of Germany in taking the necessary and urgent political steps:

“The euro was supposed to bring growth, prosperity, and a sense of unity to Europe. Instead, it has brought stagnation, instability, and divisiveness. It does not have to be this way. The euro can be saved, but it will take more than fine speeches asserting a commitment to Europe. If Germany and others are not willing to do what it takes – if there is not enough solidarity to make the politics work – then the euro may have to be abandoned for the sake of salvaging the European project”.

The most important document of economic policy and constitutional design nevertheless did not come from single European governments, nor from inter-governmental initiatives, but from the leaders of the European institutions.

The US economists anticipated in their critical arguments most of the steps of the 4/5 *Presidents Reports* of December 2012 and June 2015, where they suggested the European Union, in particular the Eurozone, should build: a) a banking union, b) a fiscal union, c) an economic union, and d) a political union. Fred Bergsten, emeritus founding Director of the influential *Peterson Institute for International Economics* of Washington, in an interview of December 2011 claimed (a bit too optimistically):

“they [Europeans] have to create an economic union, and I’m convinced that all the steps that they’re taking now — the EFSF, the successor mechanism, the economic governing systems they’re setting up, Merkel’s calls for a political union — I think all that’s leading toward a full economic union. And five years from now — I think it will take years and it’ll take key Constitutional amendments — they’ll have it.” (Bergsten 2011)

Five years later, none of these steps is in sight. Apart from a minority of them (Bergsten is of course one of them), most non-European economists showed a manifest pessimism concerning the destiny of the euro after the sovereign-debt crisis. As was perfectly synthesized:

“Observers outside the eurozone have long had a dark view of the euro’s prospects. Five years ago, in January 2012, the American economist Martin Feldstein—who [argued in 1997](#) that the single currency would bring conflict to Europe—wrote [in *Foreign Affairs*](#) that “the euro should now be recognized as an experiment that failed.” A few months later, [Paul Krugman](#) wrote that the euro could fall apart “in a matter of months.” The list of prominent scholars who have either predicted or called for the breakup of the eurozone has lengthened since then. In 2016, Mervyn King, the former governor of the Bank of England, argued that “leaving the euro area may be the only way to plot a route back to economic growth,” and [Joseph Stiglitz](#) claimed that “Europe may have to abandon the euro to save ... the European project.” (Otero-Iglesias 2017).

In an interview to the *BBC News* of February 2015, titled *Alan Greenspan predicts exit from euro inevitable*, Greenspan claimed: “The problem is that there is no way that I can conceive of the euro of continuing, unless and until all of the members of Eurozone become politically integrated - actually even just fiscally integrated won’t do it”¹⁶.

Again, it was all left to the monetary policy. When the ECB started its OMT (Outright Monetary Transactions) and later the QE (Quantitative Easing) program, it was welcomed with cool enthusiasm: as a long awaited but too late a tool, and as a dangerous instrument that might simply lead Europe into a money trap: “Something had to be done, and [last week the E.C.B. cut interest rates](#). As policy decisions go, this had the distinction of being both obviously appropriate and obviously inadequate: Europe’s economy clearly needs a boost, but the E.C.B.’s action will surely make, at best, a marginal difference. Still, it was a move in the right direction” (Krugman 2013).

Krugman’s (2015c) main critique is, as a few years earlier, actually focused on the austerity stance of economic policy in the EU, complaining that neither nation States are left to intervene in the support to demand, nor can the European institutions do it, lacking any credible institutional setting.

A stance that had force recession on weaker countries. In terms of policy prescriptions, in the most dramatic moments of the Greek crisis, stellar US academic

¹⁶ <http://www.bbc.com/news/business-31249907>, last access 10/October/2017

economists such as Krugman (2015), Stiglitz (2013; 2016), Galbraith (2015), Sachs (2015) suggested (and even made detailed studies on) Grexit, receiving harsh criticism (Palaiologos 2015). It is therefore not a misunderstanding (as they sometimes pretend) that some of them were also taken as a reference guide from many *euro-exiters*.

The recent book by Stiglitz (2016) strongly claims against the euro, accusing it to be a neoliberal construction, not serving “the wellbeing of ordinary citizens” which would require major transformations that might imply even a different monetary arrangement. Comparing the euro to a wedding, he wonders: “The costs of dissolution – both financial and emotional – may be very high. But the costs of staying together may be even higher” (*ibid.*: 26).

The main point here is that decentralized monetary adjustments is necessary in the absence of any other adjustment mechanism and that it would be therefore much better to come back to national currencies and some sort of exchange system such as the European Monetary System. In other words, it would be desirable, and sufficient, to bring back the clock to thirty years ago: a very fashionable and widespread viewpoint, in very recent times.

Also Feldstein (2017) makes a similar case concerning Italy, on the basis that an economy used to adjusting to external shocks of decreasing competitiveness with devaluations cannot change pattern (we may argue that Italy had some decades to change pattern, though). But he recognizes that once in the euro, the costs of quitting may prove huge.

A major concern derives from the fact that all these harsh critiques to the euro risk being self-fulfilling. Here, the endogeneity criterion works perfectly: once you create expectations that a currency is untenable, this will activate all the mechanisms that will lead it to become untenable, or more and more costly. It is hard to believe that US economists *were* and *are* unaware of this.

Concluding remarks

As Dornbusch (1996: 118) wrote: “Whatever persuaded European leaders in 1991 to single out as the key vehicle of political integration, it is a poor choice”, concluding: “If there was ever a bad idea, EMU is it” (Dornbusch 1996: 124). The euro maybe should not happen, at least not before other steps were implemented in terms of banking, fiscal, economic and

political union; but it did. It was probably a bad idea, but it created contradictions that have made further pushes towards greater sovereignty sharing in Europe unavoidable, which was the aim of the founding fathers of European integration. It was expected not to last, with very good reasons. But, until now at least, it is struggling to last. It seems therefore, after all, that US economists made wrong claims about the euro destiny. Should we be content with what sounds like a simplistic (and wrong) conclusion?

Notwithstanding Jonung and Drea (2009) and Issing (2012), defending the euro from US criticism, the flaws of the euro-area they have been constantly underlining during the last three decades are (mostly) theoretically robust, and dramatically pressing nowadays. Considering the crisis that Europe is still facing compared to other areas of the world, both the predictions of the past and the main concerns expressed by US economists about the Eurozone governance proved to be correct.

In particular, the lack of adjustment mechanisms in the event of asymmetric negative shocks is recognized by European institutions themselves as a major problem to be addressed in the coming future, as the Reports of the 4/5 Presidents of December 2012 and June 2015 and the latest documents issued by the European Commission in late Spring 2017 demonstrate.

The endogenous theory of optimum currency areas criteria proved wrong. Or at least it worked only until a major crisis hit the Eurozone. We can debate whether the crisis hit too soon, i.e. before the virtuous mechanisms envisaged by that theory could effectively take place. But we cannot deny that the euro area is much more asymmetric now than it was twenty years ago. And this is not a good result.

We should avoid making the mistake not to consider US critiques seriously, just because the euro is still existing. After all, its existence is still under scrutiny and attack. So, what should we do with all that criticism? Should we just brush it out as Jonung and Drea pretended to do? And, if not, how should we handle it? Is there any useful message we Europeans should draw from the critiques US economists cast in the debate concerning the euro? And, more difficult to single out, is there any suggestion that can be considered genuine, irrespective of possible instrumental goals?

Of course it can be argued that, for instance, the insistence on the need of a fiscal stimulus in Europe, crucial for recovery after the financial crisis, can be considered a way to support the export-led recovery of the United States. It can be argued that all the criticism against the external value of the euro in the first years of existence were instrumental to preserve the competitiveness of the dollar and of US goods.

But it is difficult to imagine any *instrumental criticism* concerning the architecture of the economic and political governance in the EU: financial redistributive mechanisms, political union, a different role for the ECB, a different concept of economic convergence and its indicators.

The most radical critique is also the most difficult to address: a change in the constitutional nature of the EU (or the Eurozone): from a loose intergovernmental association to a fully-fledged federal supranational union. As suggested by EU Commission President Romano Prodi in an interview at CNN on January 1st, 2002 commenting on the newly born euro: “It (the introduction of the euro) is not economic at all. It is a completely political step. The historical significance of the euro is to construct a bipolar economy in the world. The two poles are the dollar and the euro. This is the political meaning of the single European currency. It is a step, beyond which there will be others. The euro is just an antipasto”¹⁷. The problem is that after the antipasto there was no main course.

The European constitution, convened to provide a solid supranational structure to the Old Continent, failed both in mandate and communication, and it was rejected by the referenda in the Netherlands and France, thus putting a halt on the integration project. A halt that, given the upcoming financial and economic crisis, was never mended.

The euro remained the only supranational symbol of a far more reaching project of legitimated economic and political governance that was left unfinished. Our feeling, in brief, is that Cochrane claim is absolutely true: “Objections to ‘the euro’ are not objections to a common currency per se, but objections to the rest of the legal, regulatory, banking, fiscal, and policy framework that accompanies the euro.” (Cochrane 2017)

¹⁷ <https://nationalplatform.wordpress.com/2005/09/25/25092005-what-leading-eu-politicians-actually-say/>, last access 10/October/2017

In brief, there is one major claim we should not neglect coming from US side: the role of politics in designing a currency union. The main problem *has been* and *is* that there was a weakening of the political commitment backing the euro. If in the very beginning (late Nineties) it proved to be strong, and bound to reinforce (fostering greater degrees of economic and political integration), presumably leading to some budgetary sharing and/or redistributive measures, in the recent years the crisis has shown that such political commitment faded away.

Both the enlargement (without strengthening and democratizing the decision making process of European institutions) of the European Union, and the lack of a specific political direction after the failure of the European constitution, have impacted negatively upon the credibility of the political will to go further on European integration, both in economic and political terms.

As correctly recognized by Mankiw (2015), a currency is mainly a political issue, not a merely technical, economic one. If the political commitment behind a currency is weak, as is the European commitment to further integration among sovereign States, then the currency is weak, and speculative attacks may accelerate its collapse or rise the cost of its survival (the quantitative easing of the ECB). Unless these limits are acknowledged and corrected, there will be no euro in the future to discuss about.

The election of Donald Trump to US Presidency might be changing the nature of US governmental support to the European integration project (turning into the negative), paradoxically making economists weaken their criticism and underlining the constructive questions to be solved to make it sustainable, as the recent open letter of 25 Nobel Prize winner in economics against the euro-skeptic Marine Le Pen might demonstrate. Maybe a new phase of judgment on the euro is on its way from the US, which may be labeled “the euro needs to last”. In any case, the euro challenge lies in the hands of European governments, in bad (as has been the case for the last decades) or good.

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ASSESSMENTS AND PROSPECTS FOR THE INTEGRATION OF THE WEST BALKANS. THE CASE OF MONTENEGRO

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Abstract

The article analyses the most significant steps taken by the young Republic of Montenegro towards Euro-Atlantic integration, as an interesting case study indicative of the broader region, despite various particularities that have been properly exhibited. From a historiographic standpoint, it draws the country's timeline to independence amid the intricate Yugoslav file, notably by following the role of Milo Đukanović and his changing attitude towards Slobodan Milošević. NATO membership was achieved amid a considerable amount of political turmoil and international pressure, with the Kremlin's rhetoric proving particularly hostile in this regard, but also with support on the part of key NATO actors. On the other hand, the EU integration bid is undoubtedly more sinuous, with most negotiation chapters opened by this time, albeit in the context of notable political, juridical and economic concerns. One of the most complicated points appears to be the unilateral decision of the Montenegrin government to adopt the single European currency, which indeed sets a precedent in the negotiation process. Particular emphasis in our assessments also lies on the state of administrative reform, with notable strategic endeavours underlined and shortcomings brought forward, including the ever-challenging files pertaining to the size of the administrative apparatus, corruption and the need to build a meritocracy-driven public administration system.

Keywords: Montenegro, NATO, EU integration, negotiations, administrative reform

1. Context and independence

The debate on the future enlargement of the European Union, in the light of the Juncker doctrine and the current more stringent dilemmas stemming from Brexit, the advent of Eurosceptic administrations in both Old and, perhaps more surprisingly and vocally, New Europe, is often regarded as taboo in political circles. That said, it is undeniable that the

Enlargement Policy of the Union remains to date its most spectacular endeavour, engendering and stirring the thorniest debates and triggering some of the most disfiguring frowns in chancelleries formerly setting the tone for East-Central Europe's course of action, prior to 1989. To say that this major undertaking is put on hold is in itself a risky and destabilising deed, all the more so because the efforts made by some governments in the West Balkans, such as the one our study chiefly focuses on, despite strong external constraints is an increasingly hostile context, prompt a need for a more hope and diplomatic acumen-driven rhetoric from the Berlaymont.

Indeed, the case of Montenegro is sufficiently articulate to be worthy of an independent analysis (Corpădean, 2018) through the lens of its EU integration bid and with the support of the documents emitted by both its government and the European Commission, not because we wish to portray it as entirely indicative of the situation of the entire region, but due to the fact that common sense enables us to state that perhaps it is the closest case we have at present to eventual enlargement. The size of the country barely leaves room for an intricate assessment of compliance with the Copenhagen criteria and does create a feeling of simplicity around the subject, but such an observation would be shallow, as numerous factors render Montenegro's EU file interesting. The very fact that it pertains to the former Yugoslav file carries a lot of weight – a country that recently filed for independence, arduously seeking the attributes of self-reliance, with an unusually strong desire to achieve both NATO and EU integration, reminiscent of other countries in East-Central Europe in the mid-1990s, and with economic peculiarities that have no precedent in the EU negotiation process (Alger, 2016; Morrison, 2008).

In actuality, the country does match a certain regional profile from the viewpoint of its recent history, prior to the notable South-Slavic forms of organisation of the 20th century – an interesting monarchic period and a declaration of independence emerging from a similar effort to that of Romania (see the events that unfolded in 1877-1878). Such events have already met with ample historiographic analyses, as has the communist experience of the province, as part of the Socialist Federal Republic of Yugoslavia (Herța, 2012, pp. 66-71, 89, 137, 158-159). That is why our study will somewhat gloss over the historical and cultural factors that comprise the Montenegrin identity, as it is our purpose to examine the relations

between the latter and the EU, from the administrative, political and diplomatic angles, so as to paint a realistic picture of the progress (or lack thereof) attained by the country in its bid to join the Union in the foreseeable future, with elements of technical compliance, observations on the adoption of the *acquis* and some forecasting attempts.

At the risk of overlooking some of the most meaningful twists and turns that have shaped what the country of Montenegro is today, we will briefly follow the events that led to the independence the republic, in order to exhibit what we are convinced is the legitimacy of its EU integration application. It goes without saying that some observations need to be directed towards the country's simultaneous and recently completed NATO bid, which, beyond the chronological parallels we could draw with other countries in the broader region (to which Romania is no stranger), is an indicator of change and sets Montenegro apart from the geopolitical stance of its neighbour and formal hegemon, the Republic of Serbia. This successfully completed endeavour is also indicative of the country's ability to fulfil ample political negotiations, carry out institutional reform and manifest sufficient self-awareness in the international arena.

It is not the same drive and ambition that fuelled Montenegro's stance amid the dismantlement of the Socialist Federal Republic of Yugoslavia (Herța, 2015, pp. 164-185), albeit we do acknowledge that it occurred at a time when no Euro-Atlantic integration prospects were genuinely looming on the horizon for any country in the area. Hence, the referendum of 1 March 1992 revealed the support of the Montenegrin people for a continuation of political ties with Serbia, though in the form of a federation. Granted, the public consultation itself was marred by boycotts and social turmoil, but it did enable then-Prime-Minister Milo Đukanović to drape himself in the success of a plebiscite yielding an overwhelming 95% of the votes in support for a form of administrative union with the Serbs, with a turnout of two-thirds of all eligible voters. EC monitoring was not present then, while the referendum question was, in our view, "loaded", which makes it rather difficult to connect the vote to our topic of interest at this time, or to make any pertinent claims on the legitimacy thereof (Bideleux and Jeffries, 2007, pp. 477-478). At the same time, Montenegro began ridding itself of its communist symbolism, including the renaming of its capital to

Podgorica and the adoption of a separate (albeit similar) flag from those of Serbia (Morrison, 2008, p. 68).

The road to Montenegrin independence was chiefly paved amid the popular discontent emerging from the wars in Bosnia and Croatia, where the involvement of Montenegro in the operations led by the Serbs prompted the need to reassess the initial closeness between Milo Đukanović and Slobodan Milošević. Nonetheless, the geopolitical importance of the sea-adjacent province and the unity message sent after the aforementioned referendum remained of some significance to Milošević. The Montenegrin leader started to part from the controversial Milošević as of 1996, by means of a range of economic and political reforms, of which one would have a long-term impact on the subsequent EU integration file, namely the adoption of the Deutsche Mark as Montenegro's currency in 1999, in fact already largely in use across the province experiencing at the time a fiscal deficit of 20% (Liebscher et al., 2005, p. 165).

After becoming president of Montenegro in 1998 and taking the place of Momir Bulatović, a faithful ally of Milošević, Đukanović proceeded to a much more decided separation from Serbia, notably in the aftermath of the 1999 Kosovo campaign. In his reforming strategy, entitled "Platforma za redefiniciju odnosa Crne Gore i Srbije", he pushed for a redefinition of the duet, whilst not yet abandoning the bicephalic relationship. This, however, occurred soon after, as Milošević's grasp on power in Serbia started dwindling in late 2000, and the process met with several intermediary steps towards full independence. The most significant of these, from a constitutional standpoint, was the Belgrade Agreement of 2002, witnessed by the High Representative of the EU, Javier Solana, transforming the Federal Republic of Yugoslavia (a name which had become largely tainted at international level) into a loose union of Serbia and Montenegro, two republics placed on equal footing and governed by a confederate system. The deal had been brokered by the EU, which acknowledged the differences between the two entities, but pondered their chances to seek integration independently, as opposed to a common endeavour, eventually favouring the latter approach. Nevertheless, given the reluctance of Serbia to cooperate with the International Criminal Tribunal for the former Yugoslavia at the time, any prospects of a

Stabilization and Association Agreement concluded between the EU and Serbia and Montenegro were postponed in 2004 (Kim, 2005).

In spite of the signing of the Belgrade Agreement, the Constitutional Charter of Serbia and Montenegro adopted on 4 February 2003 did little more than to prolong the already loose union between the two entities and its text actually presented itself as a rather provisional federal entente, since it enabled either of them to opt for independence under the stipulated conditions (Braniff, 2011, pp. 141-142). The institutional setup provided for a President as head of state, elected by a common parliamentary body composed of 126 members, for a five-year term. As for the common policies, apart from a fairly unitary approach to defence and foreign affairs, managed by an undersized five-member Council of Ministers, led by the President, most economic and administrative guidelines became separated, paving the way for effective self-management (Bideleux and Jeffries, 2007, pp. 500-501).

In addition to the ghosts of the Milošević era, the internal tensions within the union were augmented with the assassination of Serbian PM Zoran Đinđić, in March 2003. This, combined with the economic and administrative autonomy of the two entities and the pro-independence feelings reflected by a significant share of the political spectrum, prompted the decision by Montenegro to trigger its recently-acquired constitutional prerogative to hold an independence referendum (Republic of Montenegro Referendum on State-Status, 2006) in 2006. The public consultation of 21 May 2006 yielded a narrow result, as the 55% threshold agreed by Montenegrin PM Milo Đukanović with the EU needed for its validation was barely attained (55.5%), amid impressive turnout (86.5%). This, in itself, was somewhat controversial, since Đukanović had previously declared that any pro-independence majority result would prompt him to declare separation from Serbia.

The legitimacy of the process was acknowledged by the European Union, under whose monitoring it had unfolded, through the voice of HR Javier Solana, as well as by the OSCE, leading to swift international recognition, including from Serbia. In this context, the formal declaration of independence was uttered on 2 June 2006, completing the protracted process (Fruhstorfer and Hein, 2016, p. 295).

2. Montenegro's Euro-Atlantic integration process

The subsequent part of our study focuses on Montenegro's road to NATO, serving as a premise for the Euro-Atlantic commitment of the country and as a clear indication of its stance in international affairs. It is also apparent that, similarly to the case of other countries in the region, NATO integration was often regarded as a prerequisite for the notably more complex EU bid, indicating a major shift from the past and, in the current case, from the thorny file of Yugoslavia. In effect, soon after the proclamation of independence, the Montenegrin government opened a NATO mission in Brussels and granted the Alliance's troops permission to cross its sovereign territory. Further commitments in this respect included the modernisation of its arsenal and military technology, along with the deployment of troops to hotspots like Afghanistan and Somalia. Montenegro quickly moved to adopt the IPAP in 2008 and the Adriatic Charter, which would become the principal US-driven vehicle for the integration of countries in the West Balkans into the Alliance (Albania and Croatia, in 2009, then Montenegro itself, in 2017) (Banović, 2016, pp. 78-80). The negotiations with NATO were intensified by PM Milo Đukanović at the Bucharest and, later, at the Newport/Cardiff summits, of 2008 and 2014, respectively, culminating with the formal invitation issued on 2 December 2015 (NATO, 2015). While benefitting from an observer status, Montenegro saw the ratification of its file completed by 5 June 2017, which became the official accession date.

In actuality, the candidacy had benefitted from ample support not only on the part of the United States, but also from other more or less prominent members of the Alliance, such as Germany, Romania and Turkey, as well as two ex-Yugoslav nations, Croatia and Slovenia. On the other hand, Russia's involvement in Montenegrin politics with the aim of thwarting the process became apparent judging by the stark opposition expressed in this regard by sympathetic local parties. Nevertheless, the most severe incident occurred on 16 October 2016, on election day, when an alleged coup attempt led to the arrest of 20 Serbian and Montenegrin citizens, who were subsequently connected to Russian nationals (The Guardian, 2016). Following the investigation of the Montenegrin authorities, the Supreme Court charged 14 on the count of planning a terrorist coup, apparently meant to assassinate PM Đukanović (who later tendered his resignation) and, thus, hinder the country's Euro-Atlantic

integration process, swaying it towards Russia. The credibility of the allegations, doubted by local opposition parties, was somewhat bolstered by several arrests made in Belgrade on 26 October, with the Serbian government announcing that the suspects had conducted illegal surveillance of Đukanović and transmitted risky information pertaining to his schedule to third parties, for criminal reasons (BBC News 2, 2016). It is to be noted that Russia denied any involvement in the plot and qualified the allegations to the contrary made by Montenegrin prosecutor Milivoje Katnić as absurd and unsubstantiated (BBC News 2, 2017).

While this file remains somewhat unclear, it is beyond doubt that Russia's rhetoric regarding Montenegro's NATO accession bid can only be qualified as hostile, albeit in keeping with a "second cold war" discourse that has marred NATO-Russia relations for the past years. The threat of severe repercussions upon the pursuit of the process would attain its zenith in 2014, as Montenegro chose to enforce the sanctions adopted by the EU against Russia. According to a bullyish statement by the Russian Ministry of Foreign Affairs, "In the light of the hostile course chosen by the Montenegrin authorities, the Russian side reserves the right to take retaliatory measures on a reciprocal basis. In politics, just as in physics, for every action there is an opposite reaction" (Reuters 2, 2017). Additional forms of harassment on the part of the Kremlin included an embargo on Montenegrin wine (one fifth of the country's wine exports having been directed towards Russia), for alleged "sanitary" reasons (BBC News 1, 2017), which PM Duško Marković qualified as politically driven. Verbal harassment also ensued, as on 5 June 2017, i.e. the day of Montenegro's official accession to NATO, the Russian government qualified the endeavour as a "hostile course" and "anti-Russian hysteria" (Reuters 2, 2017). Meanwhile, the significance of the event was underlined by NATO Secretary-General Jens Stoltenberg, who referred to it as "historic", while US Under Secretary of State Thomas Shannon praised Montenegro "for asserting its sovereign right to choose its own alliances even in the face of concerted foreign pressure" (NATO, 2017).

The accession of the country to NATO was, therefore, not exempt from controversy, some of which had been dissipated by Milo Đukanović during an interview with Radio Free Europe, on 15 December 2015, in which he clarified his country's position towards the Russian Federation. In an interview with the Bosnian newspaper Dnevni Avaz (Daily Voice),

Russian Foreign Minister Sergei Lavrov had stated that: “With regards to the expansion of NATO, I see it as a mistake, even a provocation in a way. This is, in a way, an irresponsible policy that undermines the determination to build a system of equal and shared security in Europe, equal for everyone regardless of whether a country is a member of this or that bloc.” Speaking to Radio Free Europe, Đukanović voiced criticism with regard to the strong-worded reaction the Kremlin traditionally resorted to on matters of NATO enlargement and gave assurances that Montenegro would not be a friend of Russia within the Alliance, whilst hinting at other member states which may not share the same opinion. In the PM’s view, the rhetoric emanating from Moscow was a consequence of a general deterioration of bilateral relations between NATO and Russia, in the complicated international context at the time, revolving around Crimea (Radio Free Europe/Radio Liberty, 2015). It is not to be forgotten that economic ties between Montenegro and Russia remain quite significant, albeit not necessarily from the viewpoint of trade, but Russian money, investments and land ownership in the touristic country are far from negligible (Bugajski, 2009, p. 169).

As far as Montenegrin society is concerned, NATO integration has been a fairly divisive topic, with considerable occurrence in the public debate and in political speeches, in part as a consequence of the not too distant NATO bombings of Montenegrin territory during the 1999 Kosovo campaign (Banović, 2016, p. 157). In fact, it is only very recently (on 21 March 2018) that the Montenegrin Parliament finally ratified the border demarcation agreement with Kosovo, amid controversy and political scandals. Đukanović’s Democratic Party of Socialists of Montenegro and the Social Democratic Party remain the most vivid supporters of NATO integration on the surprisingly intricate and ramified political stage of the country. As for the principal opposition forces, one encounters the Serb political groups, which, along with voices from the Russian diplomatic corps, incessantly asked for a referendum to be held on this topic of national interest, as it had been the case with some countries in the region, such as Hungary or Slovenia. Nonetheless, in the Montenegrin case, the general elections of 16 October 2016, in the absence of a referendum, became to some degree the indicator of the people’s options in this respect, with the Democratic Party of Socialists emerging victorious with 41% of the votes, still short of an outright majority (OSCE, 2017). With Duško Marković assuming the position of Prime-Minister, the pursuit of

the pro-NATO and pro-EU agenda was no longer questioned, all the more so because veteran Đukanović had made a point of associating, in the collective conscience, the outcome of the vote with the decisive path the country was going to take in matters of foreign policy. The pathos Đukanović put into the campaign, reminding of the black-or-white fallacy but with some grain of truth to it, engendered two possible, certainly antagonistic options, one heading towards the modernisation of the country, portrayed by Euro-Atlantic integration, while the other convened images of Russia's hegemonic attitude towards its former sphere of influence (BBC News 1, 2016).

3. Modernising endeavours on the way to EU integration

Similar to other countries in the broader East-Central region, Montenegro's NATO rapprochement was furthered and even intertwined with its EU accession bid, the latter proving, as always, far more demanding in terms of convergence and reform. While the former effort proved to be swifter, on account of the threats stemming from the new geopolitical ambitions of the Russian Federation, undoubtedly drawing a different set of guidelines than the ones driving its Serbian neighbour, Montenegro's EU accession would prove to be a tortuous endeavour, marked by extraordinary change. The precedent in this case lies with two former Yugoslav countries, whose EU integration project was not only completed in a fair amount of time, but, at least in the case of Slovenia, turned into a successful pathway to modernisation and prosperity, with a record-setting adoption of the common European currency – not unilaterally, that is. The fact that Slovenia, Croatia and, even more so, Montenegro have small, somewhat manageable economies, should render the negotiations on at least some of the accession chapters less time-consuming than in the convoluted cases of Poland, Romania or just about any other country in the region. However, this rather empirical observation does not exempt the Montenegrin file from economic hurdles, some without precedent, as we shall exhibit soon, let alone from political ones.

There is a range of consecutive political events at EU level which have favoured the progress of Montenegro's integration bid, starting with the well-known decision of the Feira European Council of 19-20 June 2000, which stamped West Balkans countries as potential candidates. This initial impetus was furthered not long after by the conclusions of the

Thessaloniki Council of 19-20 June 2003, which concocted an agenda for the integration of the countries in the region (Cini, Pérez-Solórzano Borragán, 2016, p. 233). Furthermore, on 22 January 2007, the Council of the EU concluded the European partnership with Montenegro, thus setting the conditions for the reforms and priority areas to be tackled in common by the two parties, with the assistance of pre-accession funds (2007/49/EC). A so-called “Stabilisation and Association Agreement between the European Communities and their Member States of the one part, and the Republic of Montenegro, of the other part” was signed on 15 October 2007 and came into force on 1 May 2010 (2007/0123(AVC)), enabling the country to enhance its trade relations with the EU and gathering considerable support on the part of national parliamentary parties. Moreover, during the Sarajevo EU-Western Balkans ministerial meeting on 2 June 2010, the Union reaffirmed its commitment to the integration of countries in the area (COM(2011)). Montenegro’s application for full membership was submitted on 15 December 2008 and subsequently accepted at the Brussels European Council of 18-19 June 2009 (European Council, 11018/1/08). As a consequence, Enlargement Commissioner Olli Rehn presented Podgorica with the questionnaire aimed at assessing the readiness of the country for integration, in December the same year. The timeline also marks the visa exemption agreement between Montenegro and the EU, entered into force on 19 December 2009, along with the similar provisions pertaining to neighbours Serbia and FYROM, as a reward for the overall progress attained by the three countries in matters ranging from border protection to justice and security reforms (European Commission Press Release Database, IP/09/1852, 2009).

By virtue of the green light given by the European Commission based on the analysis of the answers presented by the Montenegrin government, in December 2010, it awarded it the official candidate status, soon followed by the opening of negotiations, on 29 June 2012. The advent of the Juncker doctrine and the relatively slow progress of the negotiations attained during the mandates of Štefan Füle and Johannes Hahn as Commissioners for Enlargement have not prevented Montenegro from opening 30 out of the 35 chapters, including the most complex ones, prompting President Juncker to set an approximate accession date for 2025 (Euractiv, 2017). A brief analysis of the chapters reveals various optimistic prospects, ranging from the opening of particularly sensitive ones, covering

agriculture, justice and human rights, while no veto appears to be looming on the part of any of the Union's member states, unlike in the case of other candidates from the former Yugoslav area. Judging by the course of negotiations so far, it appears that the most challenging topics encompass financial and budgetary matters, as well as fisheries, whilst the economic and monetary policy chapter poses an unprecedented problem in the history of EU enlargement (notwithstanding Kosovo) (Ilirjani, 2006, p. 103), with the unilateral adoption of the euro by Montenegro.

That said, it becomes important to underline the course of administrative reform undertaken by the country, as a mostly positive example in the negotiation progress of countries in the West Balkans, and as an indicator of the achievements and setbacks marking Montenegro's road to membership to date. With the 2017 report of the Commission still pending, we have directed our analysis to the latest annual progress report of the country drafted by the EU executive, issued on 9 November 2016, deeming it an objective assessment of the progress attained and the current degree of readiness (COM(2016)). As it has become customary with such analyses, the report paints both a positive and a negative picture of compliance with Community requirements. The former includes the commendable reception of the 2016 general elections, defined by transparency and endowing the newly-elected bodies of the state with the necessary degree of legitimacy that enable them to further the negotiation process, along with the reduction of bureaucracy and the uniform approach to salaries in the public sector (the law of March 2016 rendered public careers more appealing, in a country with a very low minimum wage – 288,1 euros, which has remained unchanged for several years) (Country Economy, 2017). The latter emphasises the need to step up the pace of administrative reform and ensure more political independence of the somewhat inflated public service corps.

Some of the thorniest negotiation chapters find their echo in the report of the Commission, marking the need for additional reforms within the justice system, still marred by accusations of corruption and by the rather slow pace of judicial procedures. Albeit public sector corruption and organised crime remain grave concerns, the country was only able to endow itself with an anti-corruption agency in 2016. Other worrying points in the report pertain to the marginalised Roma communities across the country, making up 0,8% of the

population according to the census of 2011, gender equality and the freedom of mass media (Statistical Office of Montenegro, 2011). As for economic convergence, apart from the controversial adoption of the single European currency, Montenegro's indicators exhibit imbalances in areas such as unemployment and public debt.

An interesting case study in the negotiation maze is undoubtedly represented by the state of the country's regional policy, which is indicative of its capacity to implement structural funds (according to chapter 22, the country is only "moderately prepared" in this respect), combined with its administrative reform programme. To set a coherent course of action for the latter, Montenegro adopted a multiannual agenda for public administration reform, spanning across the period 2016-2020, whose analysis reveals some interesting prospects (Government of Montenegro, 2016).

Since declaring its independence, Montenegro has been engaged in a steady process aiming to shrink the breadth of its administrative apparatus, thus rendering it proportional to the size of its population. A notable step was met in 2012, when the number of public authorities was reduced to 55, of which 16 ministries, with some feeble attempts at decentralisation and a mostly centralised system of checks, partly explained by the reduced size of the country's territory. With an estimated population of 642,550, according to the CIA World Factbook (2018), the country has made it a top priority to create a sense of involvement of citizens in decision-making, by means of NGOs, democratic bodies such as the Ombudsman, as well as an enhanced e-governance service, which is superior to that of neighbouring countries (United Nations, 2016). In a rather prosaic tone, the Public Administration Reform Strategy in Montenegro 2016-2020, available in English, pleads for more meritocracy in public administration and for a clearer separation between political and technocratic positions, whilst encouraging public servants to engage in professional training.

It goes without saying that one of the top priorities of the Montenegrin government in relation to the European Union pertains to the absorption of pre-accession funds, as it is clearly reflected by the aforementioned strategy, which engenders a strong focus on administrative capacity. The financial allocations from the Community budget have been quite generous to date, with 408,5 million euros granted in the period 1998-2010 alone (SEC(2010)). As for the current multiannual framework, Montenegro is eligible for 270,5

million euros under the IPA II, for the 2014-2020 period, not including the cross-border cooperation initiatives, but encompassing such priority sectors as: democracy and governance, rule of law and fundamental rights, environment and climate action, transport, competitiveness and innovation, education, employment and social policies, agriculture and rural development, as well as regional and territorial cooperation (European Neighbourhood Policy and Enlargement Negotiations, EC, 2018). The managerial burden of this funding has so far fallen to the Ministry of Foreign Affairs and European Integration, albeit the country does need to prepare itself for the eventual implementation of structural funds, upon accession. It becomes apparent that one of the potential flaws of the Public Administration Reform Strategy lies in the fact that it does not provide a single, coherent and well-defined authority meant to ensure the transition from the Instrument for Pre-Accession to the far more complex (and necessary) structural funds, in the guise of a Ministry of European Funds, if we are to take into account the cases of Romania and Croatia. In exchange, the strategy envisaged gives rise to four levels of management of structural instruments, namely: a management authority, a certification authority, an auditor and a set of intermediary bodies.

Nevertheless, such prospects should be placed on hold until Montenegro succeeds in coping with its macroeconomic challenges, such as the ever-problematic budget deficit, which, for 2018, has been prognosed at 2.6% of GDP, i.e. down from 4.2% in the previous year, and in keeping with EU norms of fiscal discipline (Reuters 1, 2017). Montenegro's 23 municipalities, including the capital, Podgorica, and the royal capital, Cetinje, are mostly affected by high levels of public debt and oversized administration. It is not to be forgotten that the country pledged to comply with Donald Trump's request to spend 2% on defence, as a NATO member, which the Montenegrin government expects to achieve by 2024 (Reuters 2, 2017). Also in the realm of its economic landscape, the country still faces the hurdles of a grey economy, leading to tax evasion, which is why the 2016-2020 strategy dedicates considerable room to control mechanisms and more effective public procurement laws, whose concrete implementation remains to be seen.

4. Some conclusions

Montenegro's case, although far from simple, exhibits both commonalities and dissimilarities to its former Yugoslav neighbours and fellow EU candidates. While Serbia's path to NATO is blurred and EU rapprochement advances steadily, Montenegro's firm commitment to the former has enabled it to be somewhat one step ahead in its thorough reform process, however still with no clear EU accession date in sight. The size of the country partly accounts for the – if not simplicity – then the less tangled course of negotiations on its Euro-Atlantic path, as the country's 81-strong Parliament and recent constitution (2007) theoretically function within the democratic and market-economy-based parameters required by its (mostly) western international partners (Bieber, 2013, p. 120). The one significant element left in Montenegro's refurbished political landscape was prestige, which it dwelled upon when its legislative decided to pass a Law on the Status of the Descendants of the Petrović Njegoš Dynasty, namely on 12 July 2011, thus acknowledging the support and importance of its former royal house in recent endeavours aimed at obtaining the country's independence and at consolidating its identity and stance at international level (Kolstø, 2016, p. 124).

The mostly centre-left-dominated political class of Montenegro has indeed come a long way from the troublesome context of the mid-1990's, but the path to EU integration remains sinuous, not only because of the reluctance of the current European Commission to step up the pace of the accession process, but also given the nature of some of the problems identified in the negotiation chapters. Podgorica has been engaged in a thorough reform endeavour and has attempted to render it visible and transparent, including through the translation of major policy documents in English, the involvement of its young NGO sector in the modernisation process and the adoption of modern, EU-fashioned e-governance and decentralisation administrative models, relying on simplification and, hopefully, meritocracy.

The fairly stable political climate has provided EU negotiations with some degree of stability and predictability, which enables us to forecast that we may have analysed the case of the next country to break through the Juncker barrier and replenish the numerical gap (little can it compensate for the UK's presumed future departure, from other viewpoints) that would once again make the EU a 28-strong entity. Whether the unprecedented euro currency

file can be resolved, with a potential merger of the Maastricht criteria into the classic convergence criteria, and whether the justice and fundamental rights chapters will be considered satisfactory in the next Commission reports, it remains to be seen. However, one should not cast aside the message that the integration of a new state into the EU (especially from the West Balkans) would send a powerful signal amid the crisis the Union is going through – that it remains a desirable, frequentable and dynamic construct, ready to once again shed itself of the regrettable fortress-Europe label and to present countries in the region with a solid pro-western option, at a time when other temptations lurk in the diametrically opposite shadows.

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WHAT SHOULD POLITICIANS KNOW ABOUT BRIDGING THE GAP BETWEEN DECIDERS AND RECEIVERS?

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Abstract

This article reviews the gap between declared policy and its implementation in the field of social services and examine the nature of the gap. The article will suggest an original and unique approach to bridge the gap, an approach that is based on the findings and conclusions of the doctoral dissertation entitled "An Evaluation of Social Services Policy in Israel: from Deciders to Receivers", under the supervision of Professor Dr. Vasile Puscas at Babes-Bolyai – University Cluj-Napoca, Faculty of European Studies

The findings stress the concept of "new politics" (Pierson, 2001) and the need to acknowledge that decision making is a process that involves participants both inside and outside the political arena.

Keywords: deciders, receivers, new politics, collaboration, partnerships

Introduction

In the public services, we are witnessing a demand for efficient management, pressures to decentralize and delegate, demands to include civil society in formulating policy, demographic changes, increase in life expectancy, etc. Due to these changes, many countries, Israel amongst them, have had to adjust and reexamine their social services policy. In other words, the intensity of these changes has constituted the basis for the social services reform in Israel on the one hand, and raised a question regarding policy implementation and the gap between deciders and receivers on the other. Yin (1992) pointed out the need to evaluate public sector programs and projects in which great resources and thoughts are invested, using research measurements and explaining the results of actions, programs and more. This

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argument was the foundation of the considerations determining the aims of research described in this article.

As a longstanding employee in public services, and a partner in a number of national forums to formulate policy, new programs, field instructions and more, I have noticed that there is not enough reference to the issue of evaluating and measuring the performance standards of diverse decisions, whether referring to policies or programs.

This article will review the gap between declared policy (i.e. the deciders) and its implementation (i.e. the receivers), examine the nature of this gap and suggest a unique approach to bridge the gap in order to accomplish more adaptive policy with better practicability for implementation. The article is based on the findings and conclusions of the doctoral dissertation entitled "An Evaluation of Social Services Policy in Israel: from Deciders to Receivers", under the supervision of Professor Dr. Vasile Puscas.

The research found that the gap between deciders and receivers is structured and comes into being as early as the policy formulation process, continuing into the implementation stage. By processing the findings and conclusions, a new model is proposed as a means for narrowing the gap, when considering new policy.

Politicians should be aware of changes that have taken place in both the political and public space and embrace new tools, language and perceptions using three key processes suggested in the model: 1. Recognizing 2. Mapping 3. Steering.

Theoretical Framework

Weiss-Gal and Gal (2011) and Starke (2006) consolidated the various existing theories in social services policy making and implementation into four groups of core theories: functional/neo-functional approaches, political approaches/conflict theories, idea based approaches and institutional approaches. The research employed two different key theories: "Stakeholders Analysis" and the complex adaptive approach (CAS). The stakeholders approach is an approach that has gradually gained a significant place in policy research, analysis and implementation. It broadens perspectives with regard to a political system in the process of making and implementing policy by examining sub-systems that affect these processes in the public space: players in the decision-making arena, beliefs

motivating them, structures created in creating agreement based coalitions, mobilizing resources – all to influence decision makers (Weibel, 2007).

To supplement the stakeholders' approach the research used the CAS approach as well. According to this approach, change is characterized by blurring boundaries between policy makers, stakeholders and consumers, and the influence of each, complex interactions among all stakeholders, a rapid pace of change and more (Schneider & Somers, 2006). The CAS approach offers innovative tools that are adjusted to understanding and analyzing implementation and assimilation of change and policy in the dynamic environment in which we live. Dooley (1997) defined the main elements of this approach and claimed it uses systematic investigation to present a multi-layered, multi-disciplinary and vague reality. CAS behavior develops according to two key principles: order is not accomplished through hierarchy and authority, and is not pre-planned but rather comes into being. The second principle refers to the fact that the state of the system is irreversible and unpredictable.

Conceptual Framework

The conceptual framework for the research, as presented in the figure below, expresses the main aspects of the Stakeholders' Approach (Weibel, 2007), the CAS approach (Dooley, 1997) and the Kraft and Furlong's (2010) cyclical model of policy making. This framework presents the connections between players and processes with regard to policy making, implementation and gaps on the way to implementation.

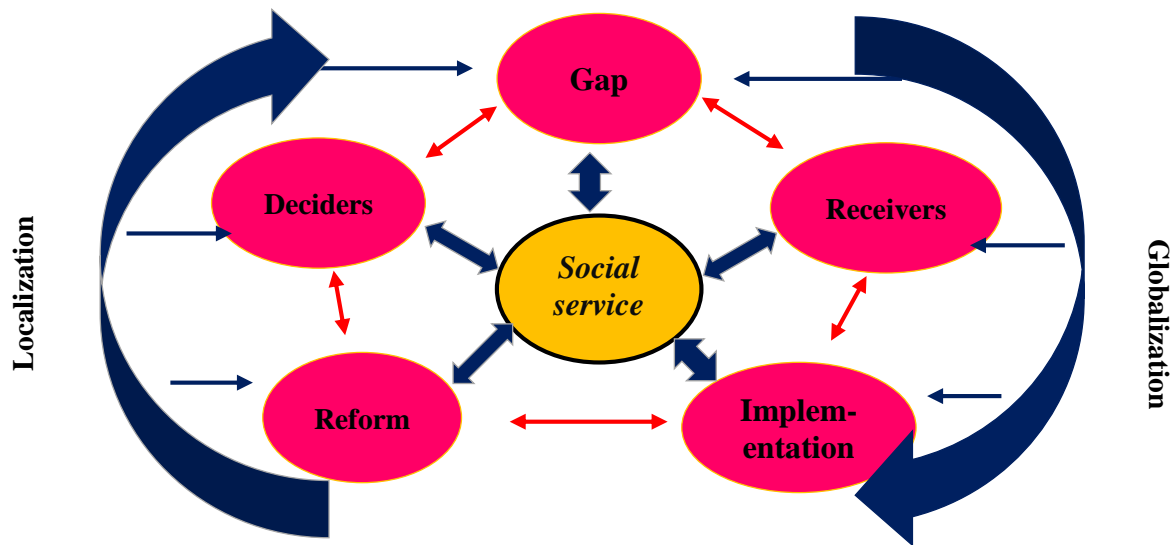


Figure 1: Dynamic Bidirectional & Multidirectional Process

The concept of Social Service Policy (SSP) is in the center of the figure, because it was the heart of the research. The research sought to examine the components of social services policy on the one hand, and its implementation on the other. The research examined the gap between policy and implementation as expressed by **deciders** and **receivers**. The gap is actually developed in the course of **implementation**. The two theories of localization and globalization hover over the entire framework of concepts, which both influence and are influenced by one another, theories with direct affiliation to each concept and naturally, mutual influences.

In the conceptual framework, one can see the system of ties and interactions. This system is multi-dimensional, multi-directional and multi-levelled, when multiple power streams mutually influence all components, which influence one another: each component influences and is influenced, and creates a new reality as presented in the CAS approach, in an ongoing dynamic and active process. When these components are joined and act in the way described here, a synergy is created, which allows for the formation of social services policy in the global world.

Methodology

The research was carried out using the qualitative paradigm and the case study approach to the issue of Social Services Reform and its implementation. The overall aim of the research was to examine whether there is a gap between declared policy i.e. deciders and its implementation i.e. receivers, to understand and identify the gap's components and reasons. The secondary aim of the research was to develop an approach and operating means that capable of bridging the gap between stated policies and their practical implementation in the field of social services, in order to reach maximal and optimal implementation of decisions and policies.

The data was collected in the field, from policy makers, mid-level professionals, bureaucrats and receivers, as well as from official documents published on the matter. Patton (2002) stated that all samples in qualitative research fall under the broad umbrella of the concept "purposeful sampling", since the actual nature of qualitative observation is in-depth focus on relatively small number and sometimes single cases that are deliberately chosen.

Based on these considerations the research population was chosen and included deciders and receivers as detailed below:

- Senior post holders, both currently and in the past, in the Ministry of Social Affairs and Social Services in Israel.
- Chair of the National Union of Social Workers in Israel.
- Mayors who, by law are responsible for the implementation of social services policies in local authorities.

The receivers consist of two groups of two types of clients: policy clients are the professional in the field, who are required to apply policy, and the direct clients who are social services' consumers, the result of policy.

- Heads of Social Service Departments in local authorities who represent street level workers/
- Receivers, clients of social services, the services users themselves.

Three groups of clients were chosen: seniors, people with special needs and people living in poverty and exclusion. The reason for choosing these three population groups was because they are mentioned in official policy documents as target populations with high priority, as well as being mentioned in the literature - as dominant groups in the population because of the dramatic increase in worldwide life expectancy and because of the global increase in demands for equal rights and services for people with special needs, economic crises and changes in labor markets. Choosing participants for the focus groups adhered to "convenience sampling" techniques (Miles & Huberman, 1994) so as to reach participants who were easiest to reach and known to be comfortable in open and frank discussions as well as verbal and willing to cooperate.

Three key questions were formulated as the research questions:

- a. What are the components that constitute social services policy in Israel?
- b. What gap can be found between official declared policy and its implementation?
- c. What constitutes the gap and how can it be bridged?

Creswell (2009) argued that the most widespread and appropriate tools for qualitative research are: interviews, documents, pictures, text analysis and analysis according to patterns and categories. The research employed 3 different tools: document analysis, semi-structured in-depth interviews, and focus groups as they were found to best suit the research aims and questions. Use of three different tools was meant both to strengthen (triangulation) and enrich the findings arising from the data collection stage and examining findings. Data collection in this research was from diverse sources, using different tools to reflect a variety of opinions and perceptions with regard to policy, reform and implementation on the one hand, and acquire a broad and rich picture of data on the other. The data analysis process is the heart of qualitative research and allows researchers the transition between reporting and knowledge, by creating order and links between actions and phenomena in structuring information and providing interpretations and meaning to texts (Creswell, 2014; Shkedi, 2003; Tzabar Ben-Yehoshua, 2016).

In this study, content analysis was carried out on the data collected from interviews, focus groups and official documents. The work process included extricating themes allocated to categories (Shkedi, 2014) aligned and congruent with the research questions: The analysis

process was systematic and carried out according to the stages proposed by Kacen and Krumer-Nevo (2010): holistic reading of the data, initial mapping: organizing the data and reducing it, 'breaking' the data down into small units of analysis, coding and naming: restructuring the data into categories and theoretical conceptualization, holistic rereading, verifying findings and the last stage – writing.

Findings

The findings presented below are part of the comprehensive research findings. They focus on the implications with regard to policy making and what politicians should learn and know about it.

Findings Emerging from Research Question No 1: What are the components that constitute social services policy in Israel?

Ideology - this component refers to existing economics in England from which the model of mixed welfare is derived, in which service funding is mixed and includes the private and business sectors, the existence of selective and universal services simultaneously, an ongoing process of decentralization and delegating authority to local government, public and private bodies, and of course anchoring the principles of welfare in broad legislation, international regulations and treaties

Emphasis on needs - this component defines clients as consumers, a definition that places the client in a position of having the right to be a partner in choosing services, their acquisition and thus, the government has to provide accessibility to services and make information available, together with creating quality services that strive for excellence and setting standards whilst providing ongoing inspection with regard to the nature and quality of services presented to clients.

Multiculturalism and Globalization influences

Content analysis of the 2014-18 SSP in Israel document revealed that **multiculturalism**, meaning culturally sensitive work recognizing unique groups is a key component underlying SSP in the state of Israel. *"Develop culturally competent services, adjust professional interventions of social services to the cultural background of clients and*

instruct workers on cultural sensitivity and use of language they understand" (translated from Hebrew p.14)."

Findings Emerging from Research Question No.2: What gap can be found between official declared policy and its implementation?

A summary of the findings gathered from interviews in response to research question no. 2, revealed a gap between declared policy and implementation. There is a detailed, declared policy of reform, and in examining the implementation process, as revealed in the in-depth interviews, a gap between decisions, deciders, declarations and actual execution i.e. receivers were identified. The following types of notable characteristics describing and defining this gap were found:

- characteristics linked to governmental components, including difficulties with governability owing to frequent changes in government, politics of internal struggles, problematic organizational structure and absence of legislation.
- characteristics referring to organizational components including a time dimension, prolonged reforms, public management culture of 'programs with a beginning and no end', absence of broad agreement among interested parties, lack of budgets for reform and absence of visibility, presence and marketing of the reform.

Findings Emerging from Research Question No 3: What constitutes the gap and how can it be bridged?

The picture emerging from the integrated findings to the third research question illustrate components of the gap between policy and its execution as well as indicating directions to bridge this gap:

- Components in the implementation process: employing mediating tools and political power to promote determined policy.
- Personal components: leadership, commitment, personal opinions and outlook, and reducing the gap between declaration and implementation in practice.

That is to say, bridging the gap between policy - deciders and implementation - receivers demands resources, meaning implementation resources including legislation, budgets, organizational mechanisms, procedures and regulations that will allow

implementation in the field as well as political forces pushing for implementation and enabling it to happen.

Conclusion and recommendations

The conclusions that emerged from this research enabled the development of a conceptual strategy for deciders, meaning politicians who deal with policy formulation processes, to determine policy that is more adjusted and has greater chances of being implemented in the field and being accepted by receivers with a minimum of gaps between declarations and actions in the field.

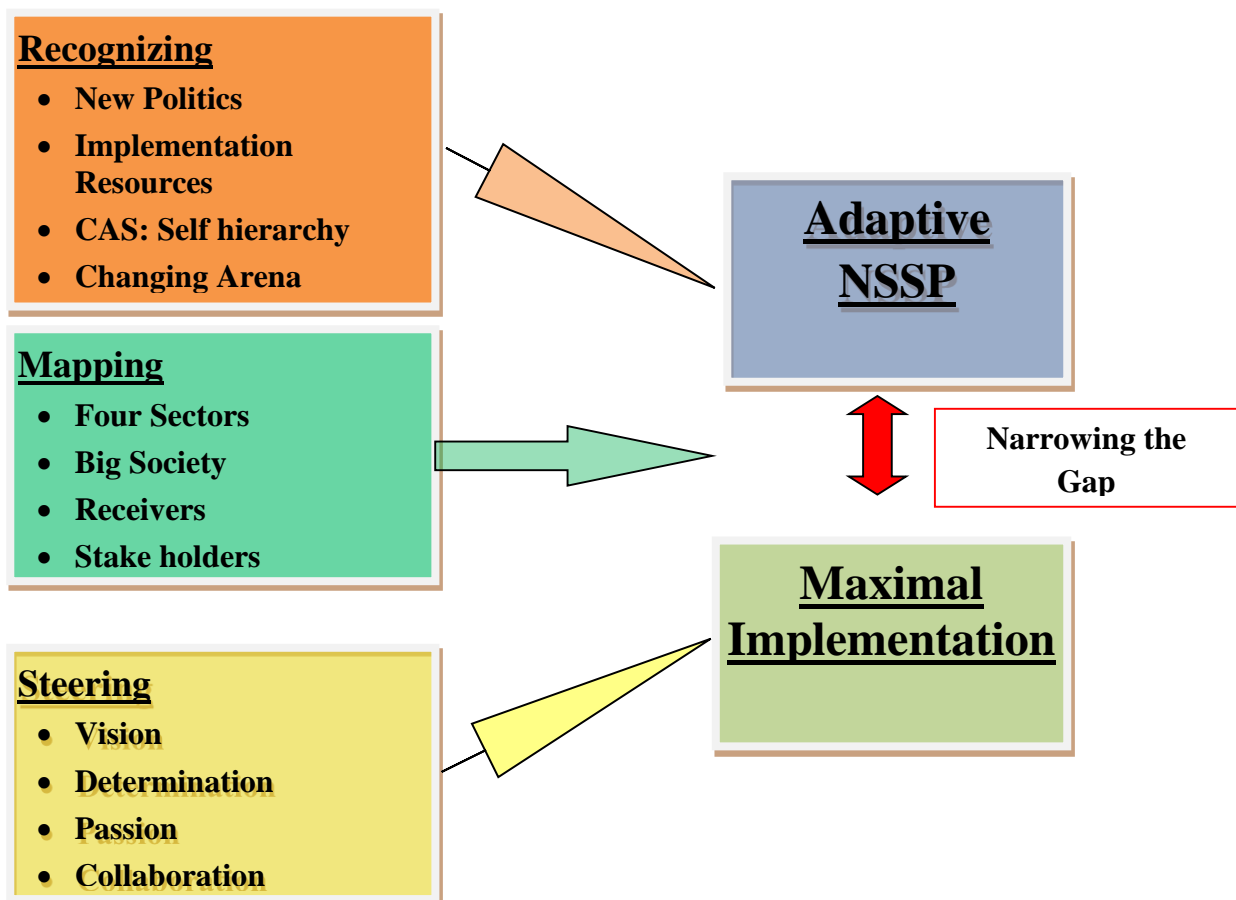


Figure 2: Strategy for narrowing the gap between deciders and receivers

The strategy that emerged from the conclusions, aimed at narrowing the gap between deciders and receivers, proposes observing three processes:

1. Recognizing

- **"New politics"** - deciders must recognize the facts and reality of changes in the political arena, routine dispersal of power to decide, and the existence of "new politics", which is no longer structured on left or right ideologies, politics of power divided among different parties, groups and organizations, politics in which it is possible to find simultaneously a variety of world-views and values in the same party or group. For example: attitudes rejecting governmental involvement in the economic market on the one hand, and ensuring citizens' rights on the other, a view that sees the state as responsible for living allowances for certain populations on the one hand, and strong pressures for people to work and earn their livelihood on the other. Just as today there is a concept of a mixed economy, so too is there a concept of 'mixed welfare'.

- **Implementation resources** - Recognizing the fact that allocating governmental resources for implementation is critical for the execution of policy in general and social services policy in particular. Implementation resources have been mentioned in studies and literature discussing policy implementation and in fact, this refers to a broad range of implementation resources: judicial resources (legislation, regulations, international treaties, international standards and control), human resources (allocating professionals both to lead implementation and to carry it out in the field - street level bureaucrats); budgetary resources to realize proposed policy and reform.

- **CAS (Complex Adaptive System): Self Hierarchy** - CAS argues that in circumstances of multiple actions, multiple participants, a sense of chaos and disorganization, hierarchies have neither the power nor the ability to restructure order. In this situation, the new order evolves by itself through environmental adjustments, an outcome of the interaction, power and actions of the involved. The new order creates a routine and new operational procedures adjusted to a multi participatory and operational arena.

- **Changing arena** – This is another outcome of globalization and neo-liberal economic approaches that have led to changes in the arena where political procedures and policy determination take place. There is enormous pressure to decentralize and delegate roles that were once the responsibility of the state, pressures for efficiency and reduction of governmental involvement, pressures to privatize and more. Deciders must acknowledge

changing arenas, governmental and deciders' roles: the public sector is not necessarily meant to be the initiator, decider, determiner and executor. In the modern arena, consulting with all stakeholders, and mainly in the service provision area, is required to examine who the appropriate and correct authorities are, and which sector best executes policy to the satisfaction of receivers.

2. Mapping

The second process requires mapping, observation, review and recruitment of all those concerned with policy.

- **Four Sectors** - Mapping must include all four sectors existing in western societies: the public-governmental sector, the business-private sector, the third sector - all types of voluntary organizations, and the fourth sector - the sector of 'private' social entrepreneurs who offer non-profit services and responses.

- **Civil society, the big society**: in the spirit of individualism, encouragement for self-expression and diverse ideas, civil society must have a more significant, active and broader place in deciders' policy formulation processes.

- **Receivers**: this research emphasizes and places receivers at the center of public discussion about social services policy formulation and implementation. As customers for whom the policy is intended, it is important that their voices be heard more in policy formulation and implementation processes. Receivers can contribute authentic information from the reality of their lives, information that will help structure an appropriate, friendly, accessible policy that provides a real answer to the needs of customers as they experience them. Including customers can also help reduce their sense of alienation and threat, which were revealed during the research.

- **Stakeholders**: this concept refers to all interested parties, in the broadest sense of the concept. It is necessary to map all stakeholders concerned both with policy and its implementation, and make them partners from the first stages of planning and consideration. Stakeholders can be bodies, organizations and people directly concerned with policy or those concerned with certain interfaces of policy. The issue of social services, as detailed in the

literature review also includes components of education, health, housing etc., and therefore it is important to include those interested parties in policy formulation processes. The integration and collaboration of many factors outside politics can also guarantee continuity in case of governmental turnover.

3. Steering

This stage deals with navigating and outlining the way to implementation, a process that expresses the movement of operational forces in the direction of execution and realization both in determining policy and its implementation.

- **Vision:** defining a clear focused vision that constitutes the 'northern star', supreme aim that is important for all those involved, and because of this importance, they unite and join forces to realize it. It is important that this stage includes public meetings, providing information, reducing senses of fear and/or withholding information, declaration of intent and aims. Providing information is also a type of public relations to advance policy and the vision leading implementation.

- **Determination:** Determination alongside vision transmit to both deciders and receivers a message of seriousness, responsibility and true commitment to realize policy implementation. Determination also constitutes modeling for all stakeholders, how they are expected to enter the policy formulation and implementation process. Determination must be expressed by all levels of deciders and implementers as one, to give it public and practical expression in the field.

- **Passion:** A dimension of passion and deep belief in policy and implementation expresses important commitment to the long term and complicated implementation processes. Passion is an important emotional form that drives receivers and mid-level personnel to be recruited to act, implement and believe in a policy's ideas. This is a stage when it is important to consolidate leadership that will lead procedures cooperatively and transparently.

- **Collaboration:** collaboration is one of the most significant core components in all three aforementioned dimensions: recognition, mapping and steering. In the complex and challenging world in which we live, in a reality of multiple opinions, ideas, initiatives,

services, suppliers and more - collaboration between all these components is a significant and critical touchstone in the process of formulating and implementing policy. Collaboration also refers to inter-ministerial, inter-departmental and regional coordination and cooperation.

This being the case, the three dimensions appearing in the conceptual model, influence and lead deciders to sets more adaptive policy that meets real needs on the one hand, and to **maximal implementation** procedures on the other. These processes help to match and make actions accurate both at policy formulation and implementation stages, as well as recruiting many partners who support these actions, are committed to them, and as such become stakeholders in the policy being executed.

At this stage too, one must continue to carry on dialogue and ongoing dynamic clarifications between policy and implementation, while modifying policy based on the reality of implementation and changing environment. As long as it exists and works, dynamic clarification helps narrow the gap between deciders and receivers. This model allows deciders to evaluate both policy and how and to what extent it is implemented.

Understanding the components of the gap as emerging from the conclusions drawn from this research can assist in understanding and directing decision-makers, i.e. deciders, with regard to desirable actions that ought to be taken to narrow the gap. The gap, in fact, has a role in the implementation process. It is a kind of marker indicating where implementers are in the process of implementation, what their destination is and what actions will help them reach it.

Another insight emerging from the factual conclusions of this research is the existence of a parallel narrative between the macro and micro levels in the three foci studied here: policy determination processes, implementation processes and the existence of a gap. The parallel narrative appears between globalization/localization processes, central/local government, and deciders/receivers. The proposed model actually suggests the development of mechanisms that create links, interactions and communication between the parallels. These links may narrow the developing gap between policy and implementation. Identifying components and their characteristics within the parallel processes may point to directions of actions and intervention foci, where it will be possible to exert influence to narrow the gap and moderate its intensity. For example, one of the issues identified as being responsible for

the gap is the governing top-down organizational structure in Israel, a centralized approach that creates a separation between deciders and receivers, and described by one interviewee as "*detached from the field*", and experienced by receives as "*imperviousness and alienation*", "*They offer me what they have, not what I need.*"

Developing regular mutual ways of communicating, exchanging information, mutual learning and joint committees, involving civic society – is one mechanism that can create links between parallels, links that will create an interface around common goals and ideas, and build a joint task force that promotes social service policy and acts towards its implementation.

This can be illustrated through the metaphor of "Waze" or "GPS", which is the world's largest community based traffic and navigation application.

The idea underlying Waze is that in fact, the power is in the hands of all drivers and participants on different roads, and the regular reports each user shares through the social network with software that immediately translates this information into recommendations for roads to take. This information is immediately distributed to drivers. The application suggests several alternatives for reaching a destination, seeking to avoid blocks (traffic accidents or flooded roads, for example), so that everyone contributes to what transpires on the roads, and gets information that helps them reach their destination in the shortest and safest way. In fact, this is a whole social network, whose users do not necessarily know one another, but they all have the same goal: to get information about the shortest, fastest and safest routes to reach their chosen destinations. Cooperation in the social network provides each participant with a feeling of belonging and contribution to the task on the one hand, and the tangible product of available information that is meaningful in helping them reach their destinations on the other hand. The information they provide is valuable, and after being considered allows them to receive the valuable information that they need. The link between all stakeholders is another aspect based on a common idea: everyone reports / everyone receives / everyone benefits, and thus each participant gets to his or her destination. Participants realize there are several ways to reach a destination, even if routes require side roads, but the goal and destination do not change.

The Waze model illustrates the advantages of cooperation, sharing, transparency, use of advanced technologies stemming from globalization, and proper use of decentralizing authority. Reducing centralization of central government, increasing delegation, sharing and reciprocity in decision-making processes and implementation on the part of all stakeholders in all sectors, may contribute to moderating and narrowing the gaps that develop between policy determination and implementation, and create a joint task force enlisted to the endeavor of promoting joint ideas in the field of social services. This may be a process that prolongs the road, but on the other hand, increases the chances of reaching the destination.

The reality of current politics is characterized by 'a new order' of governance without one clear model that represents the new politics and thus can be regarded as an 'era of post regular order'. These changes demand more flexible attitudes about policy making and the complex, dynamic environment that we live in. Politicians should recalibrate their knowledge, tools, language and recognize that politics extend beyond parliament and require collaborations and partnerships with parties, groups, stakeholders, organizations receivers and civil society. It is a challenge demanding more discussion, research and learning.

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FAILURE OF THE SUPERPOWERS (U.S.A., RUSSIA, JAPAN) TO HANDLE LARGE NUCLEAR EVENTS

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Abstract

*The current article describes research about large nuclear events that occurred around the world, key failures that led to defective handling, presents the need for better preparedness than currently exists and how this can be provided using the ONDM model. The **Operational Nuclear Defense Model - ONDM** is a model that can be applied to cope with nuclear disasters around the world at a policy making level in the area of CBRNE Defense (Chemical, Biological, Radiological, Nuclear, and Explosive materials). In this case, a nuclear event refers to a large scale nuclear incident rated at the highest level (6-7 in the International Nuclear and Radiological Event Scale - INES) caused by bombing, malfunction, terrorist act or natural disaster that demands treatment and a public response on a governmental level. A study of previous incidents teaches us that there were recurring failures in dealing with nuclear events, and even reveals that lessons have not yet been learned from past events and current preparedness for future events is lacking. This in contrast to a greater need for preparedness in these tense times. This research revealed critical failures, which are responded to in the developed model.*

Keywords: CBRNE, ABC, Homeland Security, Governmental, ONDM, Mega event, Nuclear, Risk analysis assessment, Civil defense.

Introduction

The article presents the argument that models existing today in many countries around the world to cope with future large scale nuclear events (INES 6-7) are lacking and do not provide an appropriate response to preparedness, management and rehabilitation.

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Research of past incidents reveals that in coping with large scale nuclear events decision makers have not learned lessons and have repeated the same mistakes made before.

The key failures which the ONDM model addresses were identified through analysis of past incidents, studying the data of countries' existing models to cope with such disasters and the personal experience of the researcher. This was done in light of theoretical approaches, which where the realistic approach to international relations (Dobson, 2002; Donnelly, 2000; Morgenthau, 1978) and theoretical approaches to leaders' decision making in general and in times of crisis in particular (Omer, 2008; Redd & Mintz, 2013).

Arguments

Models existing today in many countries around the world to deal with future major nuclear events (INES 6-7) are lacking and fail to provide an appropriate response to preparation, management and rehabilitation.

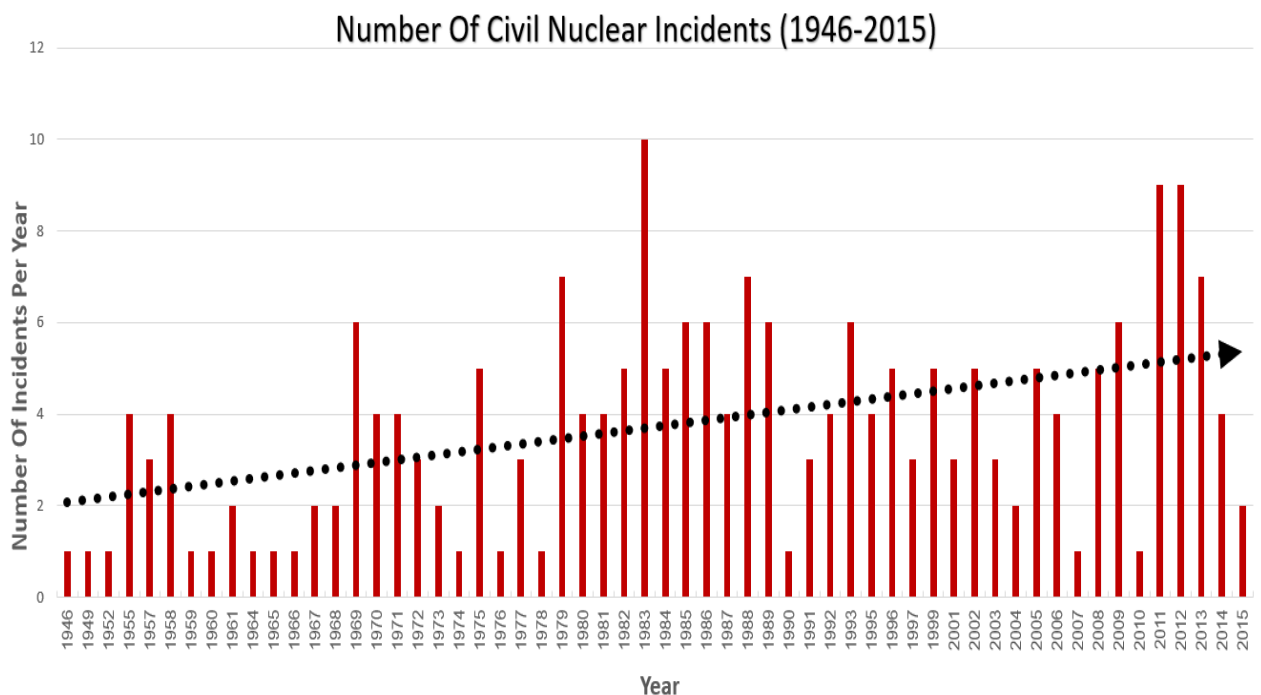


Figure1: Number of **civilian** (only) nuclear incidents in the world per annum 1945-2015²⁰

²⁰ The graph is based on data collected by Wheatley, Sovacool & Sornette (2016), full data sheet is available at: https://innovwiki.ethz.ch/v1/index.php/Nuclear_events_database.

Figure 1 shows the increasing trend in the number of civilian nuclear incidents (from 0-7 on INES) around the world in every calendar year. Whilst the safety regulations are indeed improving with time and the number of incidents per facility is diminishing, the fact that industrial development and growing use of nuclear energy means that the total number of mishaps worldwide is increasing on an annual basis. It must be noted that the number of military mishaps is confidential, but it is possible the number is significant, and type of incident is on the serious side of potential damage, since this refers to use of weapons whose purpose is to destroy.

The Need for Nuclear Defense – Researching the Past and Present and Implications for the Future

Researching the Past

The nuclear arms race began in 1949 and to this day nuclear weapons are spread around the world. The key and most well-known incidents were the accident at **Three Mile Island** (U.S.A.) on 28 March 1979, the reactor disaster at **Chernobyl** (Ukraine, U.S.S.R.) on the night between 25-26 April 1986, and the disaster at **Fukushima** (Japan) on 11 March 2011 after a strong earthquake and tsunami hit Japan, which constitutes the most up to date example of the constant need for readiness. These accidents led to pollution of enormous areas and evacuation of millions, and led to death, injury and property damage.

Field research included tours at accident sites and interviews with senior operators who experienced the incidents in real time.

Since World War II, incidents have occurred in which tens or more nuclear bombs have been lost around the world (Solomon, 1988).

Researching the Present

Today, the intensive nuclear arms race between countries, headed by North Korea, strengthens geopolitical tensions and illustrates just how much danger still exists.

Despite attempts to calm and explain that North Korea's desire for nuclear weapons derives from its desire to remain protected after the Cold War, the researcher Pollack (2017) stated that North Korea's conduct is not necessarily rational, and it is possible that it derives

from a messianic sense, therefore it is impossible to know whether it will make use of a nuclear attack once it has achieved nuclear weaponry capability.

Need for Nuclear Defense – Implications for Our Future

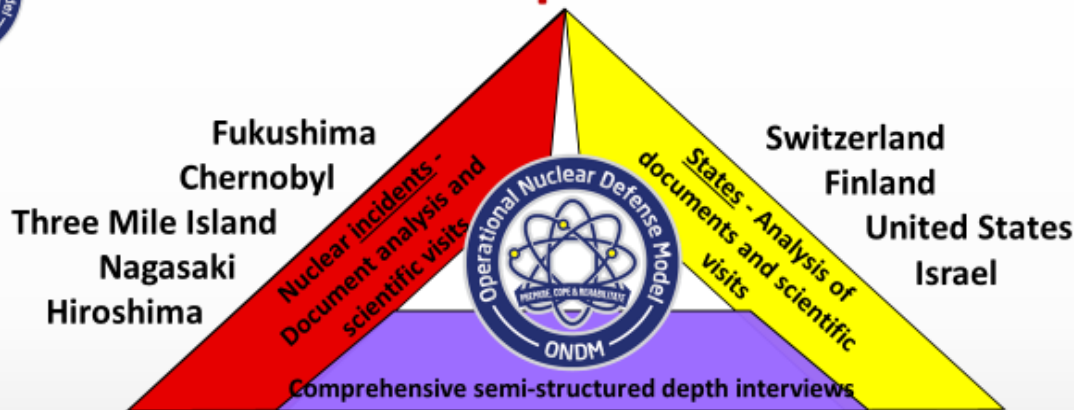
The research revealed that the nuclear arms race will not end in the near future and nuclear power will remain a part of humanity for the foreseeable future and the need for a nuclear defense model is critical.

As long as nuclear power is part of humanity, the next nuclear catastrophe is not a question of ‘if’, but a question of ‘when’. Despite this, countries around the world do research the matter in-depth, do not learn lessons or arrive at conclusions from nuclear events so as to improve future coping. **An analysis and in-depth examination of events, as carried out in the research and constructing the ONDM model, leads to the conclusion that lessons from past events were not learned, and that over the years decision makers have made the same mistakes over and over again, which puts world citizens in real danger** (Baverstock & Williams, 2007; Dallos, 2013; Froggatt et al., 2013; Greenhalgh, 1980; IAEA, 2013; WISE, 2011; WNA, 2017; WNN, 2016; Wood & Shultz, 1988)²¹.

²¹ These are the documents making up the comprehensive reports on the conduct of events and countries during the aforementioned nuclear events. Studying the data in these reports shows recurring essential failures, lack of operational preparedness before, after and during event handling, failures to reveal information and deal with the population, lack of cooperation, and more. These failures recur in all events, with which the current model will deal.



Research development of the ONDM



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Public Opinion	Experienced	Scientists	Security	Politicians
1. Judge (Israel) 2. PhD in the Academy (Romania) 3. Programming Manager (USA)	1. Fukushima (Japan) 2. Chernobyl (Ukraine) 3. Three Mile Island (USA) 4. The chief engineer of the construction the emergency cover during the actual Chernobyl accident 5. 2 Liquidators	1. PhD Head of nuclear engineering at the Technion 2. PhD Chairman of the Nuclear Awareness Forum 3. PhD Engineer 28 years in nuclear reactor	1. PhD with 25 years experience in incidents, a government official 2. Major General 3. Major General 4. Major General	1. Minister 2. Minister 3. Member of Parliament

The model is the result of applied research using multiple methods based upon:

1. Researcher's experience
2. 18 in-depth interviews – 3 senior nuclear scientists, 3 senior politicians, 3 military personnel with rank of Major General or above, 3 people who were actual participants in nuclear incidents around the world, 1 The chief engineer of the construction the emergency cover during the actual Chernobyl accident case, 2 Liquidators and 3 senior public representatives.
3. 3 field studies – including guided scientific visits to polluted areas, measurement with use of protective equipment, areas where incidents occurred and also swallowing in practice Lugol's iodine.
4. 9 case studies – analysis of 5 major nuclear incidents: Fukushima, Chernobyl, Three Mile Island, Nagasaki and Hiroshima and an analysis of arrangements preparations in 4 countries: Switzerland, Finland, the U.S.A. and Israel.

Failures in Existing Models and Future Preparedness for a Nuclear Disaster

What causes failure?

1. Preparedness for scenarios with low attribution

A review of existing models reveals that the core problem of defective future planning is that world countries operate scenarios with low attribution such as a dirty bomb or small leak. In other words, various countries have high readiness and ability to cope appropriately with events on a 0-3 level on the INES scale²², but there is neither sufficient nor high enough preparedness for events on a 6-7 level on the INES scale, such as those which occurred in the past.

One can argue that the widespread assumption of a low probability of a large scale nuclear disaster has led to complacency and deficient future planning.

1.1 Reasons

As of January 2017, 754 nuclear reactors have been built for civilian purposes. Over the years, some have closed and for some the construction was never completed, and today there are approximately 60 reactors under construction and 450 active nuclear reactors (BAS, 2017). Although all attempts are made during construction to minimize any possible mishap, history has shown us that they are not immune from mishaps.

A historic examination of nuclear safety between 1946 and 2014 found that there were 216 civil nuclear events at different levels. It is important to note that **military** nuclear events are highly confidential and tracing data is problematic.

The nuclear event frequency has been in constant decline since the 1970s, and as of 2015 all nuclear plants have a 0.002-0.003 safety events per annum per plant. However, with reference to **event severity**, it was found that event numbers have only declined in light and medium nuclear events, and there has been no decline in catastrophic disasters. **In other words, there is a lower probability of light and medium accidents per plant, but an**

²² The INES scale is a scale to measure nuclear events. 0-3 are the lowest levels defined as incidents in contrast to the highest levels of 4-7 defined as accidents and it is these that result in real damage. The events at Chernobyl and Fukushima were ranked at the highest level on this scale, level 7.

accident that does occur will most likely be at a high level with serious environmental consequences. The declining trend derives from the fact that over the year, many safety regulations have been designed and have led to a decline in moderate nuclear events, but nonetheless one still cannot prevent serious and unexpected accidents, defined as runaway disasters, such as natural disasters or human errors, accidents of the sort that no model expected (Wheatley, Sovacool & Sornette, 2016).

A key example of this was the event in Fukushima, Japan, where the country had very effective models to cope with tsunami, but none whatsoever to deal with a nuclear mishap (Froggatt et al., 2013). Despite these findings, many countries are not at all prepared for a large scale nuclear disaster because such a disaster is catalogues as having a very low probability and therefore countries do not invest resources in planning how to deal with it.

An example of a problem of future coping can be seen in the risk management model of the Dutch government. The model is based on a widespread risk assessment model called National Risk Assessment (NRA). How events are handled is based on the severity of damage from an event versus the probability of an event occurring, where the model presents detailed means of coping for events whose probability of occurring is higher, but very devastating events with a low probability of occurring are outside the range of its treatment. Thus, the country is prepared to cope with disasters such as the outbreak of a disease, but is completely unprepared for a large nuclear disaster (Mennen, 2013). Because the dominant component in existing risk management models is the probability of an event occurring, they are neither practicable nor do they provide an answer for coping during an emergency. The most catastrophic events are the rarest or most malicious – and these conditions make using probability irrelevant (Eijffinger, 2012).

One conspicuous threat that is almost never referred to in existing models (Exists as an option but not in a treatment model) is nuclear terror. Nuclear terror can take various forms, starting with an improbable but existing scenario in which a radical group acquires a nuclear weapon to scenarios such as any form of terror attack on a nuclear power station or detonating a dirty bomb, which is a regular bomb attached to radioactive material that is spread. According to AEA existing data, tons of fissionable material disappeared, was lost or stolen between 1993 and 2014, and even reports of stolen material are on the increase (Evas,

2015). **Just between 2013-2016**, 683 incidents of lost or stolen fissionable material were reported, and of those at least 329 were serious incidents suitable and sufficient for the creation of a dirty bomb. In the U.S.A. alone, there were 46 cases of theft and 57 cases of lost material, and half of these included material usable for the creation of a dirty bomb. Moreover, other remarkable events have occurred in places such as the Middle East and Eastern Europe – over recent years Turkish authorities arrested two people on the Syrian border with 1.24 kilograms of cesium, nuclear material suitable for a dirty bomb; in November 2016, Iran reported the loss of nuclear material also fit for the creation of a dirty bomb; between 2013-2016 a number of people were arrested in Georgia and Ukraine trying to sell nuclear material such as uranium and cesium (NTI, 2017).

1.2 Refuting the Mistaken Assumption

In contrast to the widespread low probability argument, Wheatley, Sovacool and Sornette (2016) maintained that there was a 50% probability of one of the following catastrophic events occurring – serious blow to a nuclear facility as a result of a natural disaster will occur in the next 50 years; mishap at a nuclear facility as a result of an accident or faulty planning will occur in the next 27 years; an accident as a result of human error will occur in the next 10 years.

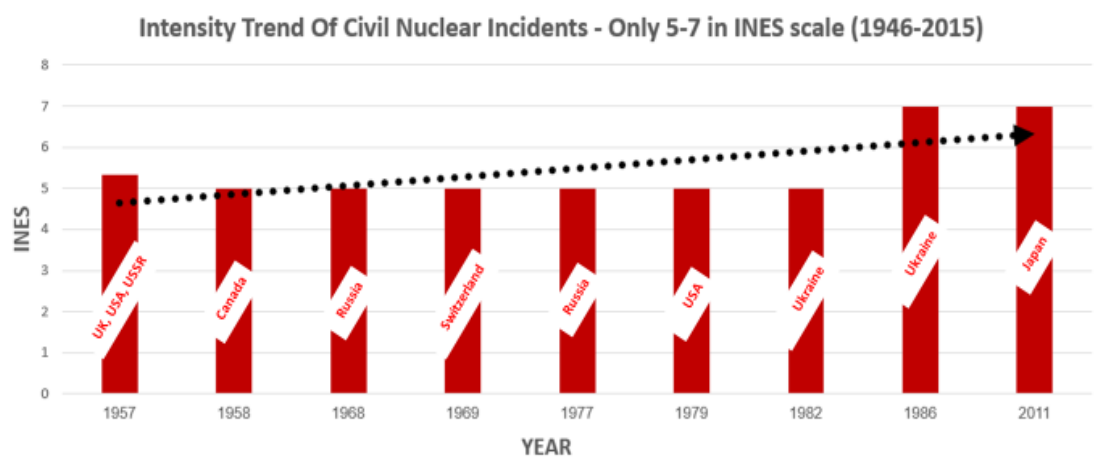


Figure 2: Intensity trends of large civic nuclear incidents – solely 5-7 on INES between 1946 and 2015²³.

Figure 2 shows that the intensity of large nuclear events (5-7 on INES) has increased over the years.

Note that in 1957, there is a deviation above intensity 5 because there were three large nuclear incidents, one at level 6 and two at level 5.

2. Plans to Deal with an Attack Scenario and not an Incident/Accident

As a result of the mistaken assumption that the probability of a large-scale incident is low, models were build that do not respond correctly. Nuclear accidents of the past have taught as that countries did not have suitable plans to handle disasters.

Looking at past handling, very little is known about Soviet government plans during the period in which the Chernobyl incident took place, and it appears that plans to cope with a nuclear bomb were used to deal with the reactor (not plans for a mishap at a reactor, which are different from the start). From an analysis of actions taken by the Soviet government it is clear that it was improvised without any real plan (WISE, 2011). At Fukushima too, it is clear there were no suitable plans, there were safety omissions and lack of real preparedness, and these contributed to defective management of the event (Froggatt et al., 2013; IAEA, 2013).

Looking at current coping, examining various documents and existing model to cope with civil nuclear events in various countries around the world such as the U.S.A. (USNRC, 2012), Canada (CNSC, 2015), Finland (STUK, 2017), Switzerland (CNS, 2013) and France (SGDSN, 2014), show various detailed models to cope with a nuclear attack disaster or preventing a disaster. These are technical models showing a range of scenarios to cope as a result of a failure at a nuclear reactor and ways of coping with nuclear fallout, civil damage, evacuation plans and the like. The Finnish model, for example, emphasized the fact that many lessons were learned from the event at Fukushima and failures there, but from its review, one can understand how lacking preparedness is – only in 2014 was the first drill

²³ The graph is based on data collected by Wheatley, Sovacool & Sornette (2016), full data sheet is available at: https://innovwiki.ethz.ch/v1/index.php/Nuclear_events_database

carried out at one of the four nuclear power stations in the country simulating a failure in two reactors simultaneously, and even as part of the report's conclusions, the action plan requires only minor changes in overall preparedness for a disaster on the part of the civilian action forces.

On the fact of things, this is an appropriate response, but Wheatley, Sovacool and Sornette (2016) argued that even these detailed models **do not provide answers for a large - scale incident**. The aforementioned nuclear risk management model failed in the past to predict serious nuclear accidents and failed to deal with them properly. This model does not correctly evaluate the level of danger and damage caused by various events, the predications and probabilities of an accident were based on optimistic, unreal, estimations such as those characterized by small scale incidents. The model minimized the probability of a serious nuclear accident taking place and provided responses to **other scenarios**, but not the most serious of all.

Although many countries assume that they can provide a response to a future nuclear disaster, and the review of countries' means of coping today, it appears that most countries updated their safety regulations regarding future nuclear events – but the models available to them do not provide a response to the most important and sever nuclear incident of all. **Many countries demonstrated various improvements and technical models to deal with nuclear events, but these are tactical actions that are not accompanied by long-term strategic thought**. Diverse tactical teams at departmental, divisional and even brigade level have been established in many countries, carrying out readiness drills for nuclear events and similar disasters (CBRNE defense). Many countries have such teams as part of their armed forces – including Argentina, Brazil, U.S.A, Russia, India, EU member states and others. These include equipment to monitor and clean radioactive fallout, emergency vehicles for immediate treatment such as fire engines, abilities to deal with those injured by nuclear and chemical weapons, and more.

However, the argument is that technical equipment and tactical thought do not provide a sufficient response, and equipment is ineffective in dealing with a large-scale event without overall policy at decision making and international level. **A very dangerous conclusion is that professionals in the field report to their superiors, for example**

politicians and heads of state that they have a certain solution for a large scale nuclear mishap, which in fact, in the best case, is not accurate. This partial information is passed on as part of mistaken and similar reference to different levels of nuclear events. That is to say, there is no critically aware distinction between dealing with a nuclear event at level 0-3 according to INES and large- scale events at level 4-7 on the INES. In other words, some deception derives from the belief that a particular country does have a solution available.

It appears that despite the fact that many countries assume they have a response for a future nuclear disaster, models available to them do not provide a response to the worst and most important nuclear incident. This complacency among powers regarding a large- scale incident because of the low probability of it occurring is not rational and has the potential for devastating damage as history has proven.

Conclusions from Failures and Their Assimilation in the Model

There are many elements in managing a large emergency events, which the researcher knows personally because of his role, that, when adhered to, can save lives and failing to refer to them can lead to significant damage that could have been prevented. Even the most detailed preparedness plans are limited and do not refer to the many dimensions that make up handling a nuclear disaster at the level of decision makers. Some of these aspects are significant points and will be presented in the next section, constituting the basis for the ONDM model to deal with nuclear disasters.

Conclusions and Lessons Learned Included in the ONDM Model

1. (Lack of) international cooperation: as a result of in-depth investigation one can make a basic assumption that international cooperation is essential for a model for nuclear defense and successful handling of a large scale nuclear event. This is because an event of this scale has a wide territorial range of damage and environmental effect, especially in European countries, which are a number of sovereign countries over a relatively small area in which any event affects many countries (Saurugger, 2014). The Finnish model also

emphasizes and describes the importance of cooperation between the Nordic countries in dealing with a nuclear event (STUK, 2017).

The importance of the principle of cooperation also arose in the formal discussions of WENRA and HERCA in 2014, which also emphasized the supreme importance of cooperation between countries in managing disaster, including a nuclear crisis, based mainly of cooperation and speedy revelation of information before during and after a disaster (HERCA, 2014).

Despite its importance, international cooperation virtually does not exist in the models reviewed as well as previous incidents apparently because of countries diverse interests. In addition, the current European model from 2014 emphasizes the importance of cooperation between sides (ibid.) but neither it nor various countries' plans overlap or are coordinated, which make successful international handling difficult (ibid).

Furthermore, we are witness to countries around the world, as well as in Europe, in which each one plans for a nuclear crisis according to its own interests. Not only this, even today we see information being hidden and a lack of cooperation in an up to date event – atmospheric measurements in November 2017 showed that a light radioactive cloud over Europe, whose source is likely to be in the Ural Mountains in Russia. Nevertheless, the Russian government denies that there was any problem and refuses to cooperate with European governments to investigate the issue thoroughly (Sample & Willsher, 2017).

2. Defective nuclear evacuation ratio: The lack of readiness among countries' civilian population leads to defective evacuation ratios and destructive results of the evacuation and not the event itself. My conclusion is that the evacuation ratio is 1:10, that is if an original authorities' plan showed evacuating X people, in reality 10X people were evacuated. For example, in Fukushima, the original plan was to evacuate an area of 3km around the reactor, and in the end the evacuation was a radius of 30 km (IAEA, 2013; WNA, 2017). In Chernobyl the situation was even worse, when at the start the Soviet Deputy Minister of Energy maintained there was no necessity to evacuate civilians, three days afterwards 43,000 civilians were evacuated from Pripyat, a few kilometers from the facility, and in the end, the evacuation radius was 30 square kilometers, 10 times greater than the original evacuation of Pripyat, at a 2-3 kilometers radius from the site (WISE, 2011).

This circumstance emphasizes the ineffectiveness of existing plans to deal with the psychological effect on the public.

3. Casualties from faulty handling and not nuclear radiation: From data examined it emerged that most were neither killed nor injured in the nuclear event itself. In Fukushima, reports described that no one was killed as a direct result of the leakage. Nonetheless, 6 firefighters who dealt with the leakage in the first hours of the disaster were killed, but not from radiation and about 1600 people were killed in various disasters and accidents during the enormous evacuation that occurred and its defective management (WNA, 2017). This is a known and recognized problem in all risk and disaster management, and the need to limited wide range injuries and essential and can be dealt with as a logistical problem.

4. Lack of public awareness of damage extent: The nuclear subject, by its nature, is surrounded in secrecy and is highly classified. Keeping this issue as a taboo leads to confusion in the security system and among citizens, increases panic, and all this is unnecessary. It is important to understand that a large scale nuclear disaster does not constitute a complete annihilation of the population, whether it is an accident or military attack²⁴. Therefore, it is important to prepare and understand that there is things to do after a nuclear event, and as such it is important to be ready and also important to prevent panic and understand that it is possible to deal with a large scale nuclear event.

5. Public at the center – guidelines for and communication with the public: Existing models make emergency services, governments and other bodies aware, but the most important player, the public itself, is completely unaware. Faulty handling of a nuclear disaster is expressed by how the public copes as well, something which has been highlighted in previous nuclear events. In Fukushima, the government lied to the public, hid information for a long time and even cooperated with the company that operated the reactors and presented the disaster and its extent as smaller than it actually was (Froggatt et al., 2013). The event at Chernobyl was also really hidden and it took 18 days from the event happening to

²⁴ Comprehensive nuclear war defined as mutually assured destruction (MAD) is a situation in which one power will destroy another completely, a possible situation when considering the number of nuclear weapons worldwide. Despite this, realistically observing the threats facing us it is more likely that nuclear weapons will not be used as part of overall destruction by North Korea or Iran, and therefore a countries infrastructure will not be completely annihilated, and the way in which a country deals with pointed events can greatly affect the extent of damage, injury to the population, coping efforts and rehabilitation

the government admitting it officially (WISE, 2011). Past events teach us that information was late, minimal, confusing at best, unreliable and disorganized.

6. Psychology and fear: Lack of information, catastrophic myth, leaders who are not prepared to face the cameras and turn to citizens – all these led to panic, loss of control and lack of trust, which do not just contribute to the management of a nuclear disaster, but also to needless casualties. Lack of information and not understanding decision makers' circumstances also lead the public to coping deficiently with the situation based on mistaken truth.

7. Multiple bodies, committees and authorities – complicates handling the problem: A significant aim in handling a large scale nuclear disaster is to reduce bureaucracy by reducing the number of bodies and circles needed to deal with the problem. In Fukushima there were a number of handling circles responsible, which made dealing with the problem more difficult, and prominent in this was the government and company operating the reactors who could not agree who was responsible for treating, cleaning, funding and rehabilitating the area (IAEA, 2013). This was also the case in Pennsylvania U.S.A. during the Three Mile Island accident, where lack of willingness led to awful coordination between various state authorities and between the state and federal bodies (Wood & Shultz, 1988). Today too, for example in an examination of preparedness in the U.S.A., there is a comprehensive report for dealing with nuclear accidents (USNRC, 2012) and there is also a comprehensive report of military bodies and defense units CBRN to deal with a similar event (DTIC, 2016). There is overlap between these authorities and bodies, which can create confusion and difficulties in dealing with an event in real time.

The ONDM model provides a fast, bureaucratic response allowing for continuous and speedy treatment during an incident.

8. Under insurance: The amount of money needed to care for casualties of nuclear accidents was not covered in previous nuclear accidents. At both Chernobyl and Fukushima, the damage cost much more than the amount allocated by the Treaty of Brussels for compensation at 1.5 billion Euro. Treatment of the accident at Chernobyl was put at between 75-360 billion Euro and the accident at Fukushima required a sum of between 48-189 billion Euro (Froggatt et al., 2013). It is always difficult to estimate damage in a nuclear

event, and it is necessary to resolve and understand this as part of preparedness for an event from an economic point of view. **These facts raise troubling questions about insurance coverage and whether insurance companies should pay for damage that the bodies did not prepare for how to reduce it - insurance liability. In other words, a body, even if it purchased expensive insurance but does not prepare for the required incidents, leaves a very useful and legal opening for insurance companies to avoid paying.**

Worthy Response to the Problem: the ONDM Model

The ONDM model provides a comprehensive and multi-dimensional response to all the above and should successfully deal with serious nuclear accidents at level 6-7 on the INES scale. The model includes 17 macro stages describing how to act before, during and after a large scale nuclear event under 4 sets of automated, methodical, systematic steps – **preparatory actions before an event; actions during an event, immediate rehabilitation actions after an event; long-term rehabilitation actions**, which provide a defense chain envelope with overall integrated aspects for every stage of an event. These actions were built through in-depth analysis of countries and incidents, field research in Chernobyl, Finland, the U.S.A. and Israel and after professionalization and establishing an operational team of scientists, decision makers and senior officials from emergency organizations around the world.

As part of constructing the model and creating preparedness for a nuclear event, the ONDM team created professional concepts and terms to help decision makers prepare for a large-scale scenario, for management during an emergency and rehabilitation after an incident:

Basic definitions concepts for dealing with a nuclear incident defined by ONDM team:

1. **ONDM (TM) Nuclear Evacuation Ratio:** Ratio between number of population who received evacuation orders and the number of actual evacuees.
2. **ONDM (TM) Nuclear Overreaction Effect:** The effect of overreaction amongst the public and decision makers that is expressed by panic, radicalization and desire for

exaggerated safety terms. Overreaction caused by a lack of information substantially increases the chance that the authorities will lose control of an event.

3. **ONDM (TM) Nuclear Operational Maturity:** The levels of preparedness of a country, city, organization or authority entrusted with dealing with a nuclear event.

4. **ONDM (TM) Nuclear Rehabilitation Speed:** The amount of time in hours that it would take a country, city or organization to return to 50% of their normal functioning as it was prior to an event.

5. **ONDM (TM) Nuclear Spontaneous Survival Ability:** The amount of time in hours that a country, city or organization is able to survive in a defined territory without external help.

6. **ONDM (TM) Rehabilitation Chances of Nuclear Surviving:** Estimated percentage of ability to rebuild a defined territory after receipt of maximal internal and external aid.

7. **ONDM (TM) Effect of Efficient Nuclear Aid:** The level of influence that external aid provision has on a defined territory.

8. **ONDM (TM) Nuclear Defense Awareness:** Levels of awareness among individuals, organization, emergency services, government, authorities and the state about nuclear defense.

9. **ONDM (TM) Pre-impact ONDM scale:** Calculated mark for level of management, functioning and survival of a defined territory in case of a nuclear incident - before an event.

10. **ONDM (TM) Post-impact ONDM scale:** Calculated mark for level of management, functioning and survival of a defined territory in case of a nuclear incident – after the incident. The mark is comparative to management and functionality of other incidents around the world.

11. **ONDM (TM) Operational Nuclear Defense Model – ONDM** – an operational model for nuclear defense, made up of 17 macro-stages, which are categorized into 4 sets of automated, methodical, systematic steps defense actions: preparation, operation, immediate and long-term rehabilitation. The model is founded on basic concepts in the field of nuclear defense.

Implementing the ONDM model is a critical step in defense, and its contribution to a city or country during an emergency is extremely high. Lessons and means of coping learned from in-depth research have been adapted in this system and will form a strong foundation for better handling of future catastrophic events.

Conclusion

As described, today preparedness for a large scale nuclear disaster is deficient and one must remember that we remain at risk of an event as a result of arms, nuclear facilities, terrorism, human error or natural cause. The applied research analyzed and catalogued past mistakes, and through them and the experience of the researcher the ONDM model was constructed to deal with a large scale nuclear event at all stages, before during and after an event. The model is important not only for decision makers but for the general public that may be injured from an event that is not appropriately handled, because the time has come that we learn from past mistakes, analyze them and successfully realize the conclusions.

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“AT THE EMPLOYERS’ GATES: THE EUROPEAN CHALLENGE FACING ASYLUM SEEKERS AS EMPLOYMENT APPLICANTS”

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Abstract

The flood of asylum seekers in Europe in the past few years brings about a challenge to employers in accepting them to work. Offering a potential solution to the selection process targeted at helping employers in Europe sort asylum seeker job applicants who lack sufficient documentation, by using tools from the security world. Using these tools helps employers verify biographical and other data candidates provide in documents and declarations during their recruitment process. Briefly reviewing the phenomenon of asylum seekers in Europe, in order to explain the phenomenon of CV fraud and offering verification tools from the security world that were developed in an attempt to respond to this widespread phenomenon. Examine tools that are used worldwide and propose one tool that is suitable to help selecting candidates that lack sufficient documentation such as asylum seekers.

Keywords: Asylum seekers, Work candidates, Recruitment and selection, Employers, Data verification, Background checks, integrity interview.

Introduction

For many years I have specialized in establishing and operating security screening systems to check job candidates in the private sector. Establishing such systems is part of companies' operational risk management and seeks to limit the risk of employing unworthy people integrity wise. The tests seek to expose risks foci in the following areas: criminal activity, credit problems, verifying identity and certificates testifying to levels of education and verifying past employment records from the point of view of all aspects of integrity.

Verifying past employment records is necessary in light of the worldwide increase in CV fraud among job candidates.

Despite the aforementioned, from my experience and other findings worldwide, most managers undertake security checks, and especially background checks, for pure human resource motives. These background checks, which were developed in the world of security, provide a solution today to managers who seek to improve their recruitment and selection process. Nevertheless, this solution as successful as it may be for regular candidates is incapable of providing a similar solution for asylum seekers. The article will briefly review the phenomenon of asylum seeker job applicants (applying for work) in Europe, the efforts and means that states and employers use to recruit, select and integrate asylum seekers into the labor market. The article will review the phenomenon of CV fraud around the world, the solutions available to employers for reducing this phenomenon and a new way in which employers use security checks to select candidates.

The article will discuss the challenges of undertaking these background checks among asylum seekers and propose additional means of assistance, tools from the security world, in order to improve these candidates' recruitment and selection. As a professional in the field, who recognizes the managers' growing needs and their requests for assistance to improve candidate recruiting steps in a changing employment world, I can state that using background checks from the security world can provide a wide range of solution aspects. This article seeks to identify the difficulty and challenges of operating such tools from the security world regarding asylum seekers who sometimes lack, partially or completely, means of identification, such as: certificates testifying to levels of education or suitability for work as far as human resources aspects are concerned. The tool can help employers to authenticate and clarify asylum seekers' employment history, and thus increase the chances of integrating suitable candidates from this population into the labor market.

This article does not deal with the wider aspects of asylum seekers migration to Europe with an emphasis on: judicial, social, political, security challenging aspects posed by asylum seekers, the question of determining their status and others. Nonetheless it is worthwhile to briefly mention a number of key trends. According to 2017 data (Project 28. 2017), the return generated by this movement of people into Europe vacillates. 76% of

Europeans believe that the European Union (EU) does not deal with the issue of migration satisfactorily. A change of attitude among Europeans with can be discerned with regard to the reasons why this migration takes place: today over 50% of Europeans believe that asylum seekers should be characterized as labor migrants who came to the continent for economic reasons. This refers to a change in the 2016 trend in which it was believed that most asylum seekers arrived because of risks to their safety in their countries of origin. The question of building fences/walls is interesting, it appears that most Europeans are opposed building walls, but a majority of 79% supports strengthening border monitoring and maintaining them more effectively. Furthermore, most Europeans believe that the stream of asylum seekers has led to a rise in crime (64%) and terror (66%), believe that it challenges the society and culture of absorbing states (59%) and reduces job opportunities for long-term resident (48%) (Project 28. 2017).

Asylum Seeker Crisis

The stream of asylum seekers to Europe constitutes a challenge to the European Union and challenges basic liberal foundations such as the free movement of people and open borders on which the Union was founded. Such an unprecedented stream, the largest since the Second World War, has rapidly turned feelings of empathy and into fears regarding the existing asylum seeker crisis, and future concern about its implications for European society, social services institutions and the labor market (Zimmermann, 2016). It should be noted that despite the massive flow of asylum seekers without documents or certificates, the European Union has still not formulated a uniform policy or mechanism for sharing the burden. Therefore, member states do not feel obliged to increase quota numbers and entry visas and choose to determine policy, laws and restrictions independently (Nilsson, 2015).

Free economy, freedom of movement and employment are the cornerstones of Europe together with liberal principles embedded in the Union's agreements and treaties. However, today, countries connect between fears and security concerns about asylum seekers, some of whom have no means of identification or certificates .Therefore, they react Sometimes impulsively, contradicting the liberal basis on which the EU was founded – freedom of employment and movement, emotional reactions expressed by temporary closing of borders,

stricter monitoring of border crossings, opposition to a fair allocation of asylum seekers, restricting access to the labor market and restricting people's movement in the labor market (Nilsson, 2015; Zimmermann, 2016). Employers in Europe, have to face the challenge of diversity and quantity at their gates. About half of asylum seekers come from Syria, Eritrea, Somalia, Iraq and Afghanistan. They are heterogenic with significant differences in their makeup with regard to their professional and educational backgrounds. For example, the number of asylum seekers with academic or high school education is relatively higher among Syrians and Iranians, whereas amongst Iraqis, Eritreans and Afghans, the number of asylum seekers without any formal education is greater than the number of those with higher education (Adecco Group, 2017; OECD, 2017a).

Understanding the dimensions of migration requires providing data regarding the number of asylum seekers absorbed in Europe in recent years. Sweden has absorbed more than 327,000 asylum seekers between 2011 and 2015 (Nilsson, 2015), Austria absorbed in 2015-2016 125,570 asylum seekers (OECD, 2017b), 118.995 asylum seekers reside in Britain (Bearne, 2017), approximately 1.2 million asylum seekers have entered German borders between 2015 and 2016 (OECD, 2017a) and France has absorbed 152,190 asylum seekers during the same period (OECD, 2017b). Additionally, in February 2017, approximately 9% of jobseekers in Germany were immigrants or asylum seekers of which more than a half were Syrian (Adecco Group, 2017; OECD, 2017a).

It should be noted that despite the difficulties and challenges, the stream of asylum seekers also has a positive aspect. From the neo-liberal point of view, the migration phenomenon can help freedom of employment, movement, initiative and international trade. Free trade encourages competition, expands markets, allows job allocation and expertise through comparative advantage, and as a result increases productivity (Hartz, 1955; Spitz, 1982). Absorbing asylum seekers into society has the potential to instill new life into European institutions through economic growth and integrating talented and skilled people into the labor market, especially in an era when Europe is suffering from a demographic decline and slow economic recovery (Nilsson, 2015). Asylum seekers have not only brought a new reservoir of talents and skills to local labor markets, but have also increased cultural

diversity and contributed to innovation, productivity and creating new opportunities in the free market (Eurostat, 2017; Hire immigrants, 2016).

Short-term humanitarian needs relating to movement, registration or temporary housing become in the long-term requirements for work, education and social integration (Nilsson, 2015). Finding work is thus an integral part of successful integration and absorption into society. However, finding work as an asylum seeker is not a simple task even for to an educated and learned person with employment experience. Facing such a person are language barriers, cultural gaps, lack of local professional experience, lack of references, absorbing countries' non-recognition of documents, academic and professional certificates or professional years of service and difficulty evaluating their quality, poor interview skills, lack of understanding of the labor market, not knowing tools to seek employment and discrimination. Therefore, asylum seekers are sometimes forced to abandon the professional profile achieved in their countries of origin, if it exists, and be satisfied with jobs that do not reflect their abilities (Bearne, 2017; Benton et al., 2014; Hire immigrants, 2016). Most asylum seekers integrate into blue collar jobs (Adecco Group, 2017; OECD, 2017a).

In order to integrate legally into the labor market, asylum seekers need access. While migrants have free access to the labor market in most OECD countries, asylum seekers encounter restrictions expressed in waiting periods or passing fitness tests. Although access to the labor market has become easier for asylum seekers in recent years, in fact this involves a complicated and complex process both for employers who have to get approval from a number of authorities to employ asylum seekers and for asylum seekers who have to wait until their requests are approved (ibid). Despite these difficulties and challenges, European countries have tried to adapt policy and legislation to the newly created circumstances; e.g. Scandinavian countries such as Sweden and Denmark, combine issuing temporary work permits for asylum seekers with higher education and providing accessible learning programs for asylum seekers' children (Nilsson, 2015). In Germany the waiting period required by asylum seekers prior to accessing the labor market has been reduced and is now three months (OECD, 2017a). The country even passed the New Integration Act (2016) whose goal is to enhance integration by investing in compulsory programs for asylum seekers to learn the German language and deepen civil orientation (ibid).

Although the absorption and selection processes are still in their very early stages, authorities in Europe have issued pilot programs intended to try and evaluate the abilities and qualifications of asylum seekers and migrants. Programs include: (1) Internet measurements to test professional qualifications; (2) Implementing a points system that weighs points for education, language proficiency, employment background and social activities, (3) Carrying out interviews to evaluate qualifications, (4) Holding discussions with career advisors, (5) Reference to skills acquired informally, (6) Distributing questionnaires to evaluate ability to integrate into the labor market including questions about levels of education, language proficiency, basic skills, employment background and areas of interest (OECD, 2017a; Zimmermann, 2016).

German authorities are prepared to recognize professional years of service, however only if they match their professional levels and only on supply of professional certificates and approvals (Germany Recognition Act, 2012). One must remember that prior to entering a country of asylum, asylum seekers are meant to undergo security checking processes. These processes include identification and verifying identity, authenticating documents if such exist, medical examinations and security checks. These safety and security regulations are meant to assist and help filter and sort workers prior to their entry into the labor market (Hire immigrants, 2016). The serious challenge facing authorities is evaluation and examining levels of ability and qualifications in the absence of formal certificates or valid documentation about their professional or academic background. In Germany, an attempt has been made to overcome this by implementing various programs such as: (1) Prototyping project whose purpose is to evaluate skills through interviews with experts and/or examining samples of work carried out by asylum seekers, (2) Valikom project seeking to establish one standard practice for evaluating and recognizing professional skills acquired informally (OECD, 2017a), (3) Using profiles so as to formulate asylum seekers profiles while they are in absorption centers. A profile will enable allotting asylum seekers according to the needs of the European labor market (Zimmermann, 2016). Norway launched a qualification passport for migrants and asylum seekers documenting their employment background, language proficiency, qualifications and skills. Nevertheless, the pilot program is too restricted and narrow to prepare asylum seekers for the labor market (OECD, 2017a). In light of the

growing stream of asylum seekers, there is a need to reinforce filtering and sorting processes, to synchronize the steps taken during various stages of checking and to prepare a uniform absorption policy obligating all European Union member states (Nilsson, 2015).

There is an urgent need for member states to allow asylum seekers to integrate into the labor market. contribute to the economy by issuing temporary work permits during the long filtration process, to formulate systematic regulations, wide ranging and focused on evaluating skills and qualifications, faster verification of academic degrees and professional certificates, increasing transparency regarding qualifications and skills and recognition of professional abilities .Europe must promote regional or international platforms for sharing information, it must find pragmatic and easily implementable solutions and more sophisticated evaluation procedures. For example, a current proposal in Germany is to formulate a standard CV form in which asylum seekers can enumerate their abilities and qualifications (Adecco Group, 2017; Nilsson, 2015; OECD, 2017a). Without a long-term focus on education, economic and social integration, Europe is in danger of creating a lost generation of migrants and asylum seekers that will lead to unexpected future implications.

The CV Fraud Phenomenon

CV or application fraud is well known around the world and is naturally linked to work and work applicants. It can be defined as an act of presenting misleading, fictitious or any other false information that exaggerates achievements in the attempt to create an unfair advantage over other applicants (Clearly, Walter & Jackson, 2013).

Explanations for the phenomenon are presented as a response to difficult economic circumstances and struggle to find employment in a competitive labor market (Tuna & Winstein, 2008). In contrast, researchers have shown that CV fraud grows when the labor market blossoms and demands many workers, because perpetrators of CV fraud perceive a gap between themselves and others in desirable jobs and fear they are likely to remain behind (Dineen, 2015). Research in the field has discussed the most prevalent areas of CV fraud. Research that examined the attitudes of 2,188 Human Resource Managers in the U.S.A. found that 58% of them had encountered false CV's, with the main and most common areas of fraud being in the skills component (57%). Additional common areas of fraud were

misleading additions to areas of responsibility (55%), employment history and dates (42%), role title or description (34%), academic degrees (33%), fabricated references (29%) (Careerbuilder, 2014).

The USA is not the only place where CV fraud occurs. The phenomenon has global characteristics and is quite prevalent, though to lesser extents, in Asian countries such as China (14.64%), Hong Kong (16.5%), Japan (19.87%), Philippines (24.24%), Singapore (24.5%) and Malaysia (25%) (First Advantage, 2015). The rates are similar in Europe. For example, more than four-fifths of workers in Ireland admitted lying on their CV's when they applied for jobs (Ward, 2014). In Britain as well, research conducted among candidates in the financial sector found that in 24.97% of candidates' CV's there was at least one significant gap (Kelly, 2011). Sectors in the American labor market that are most affected by CV fraud are: finances (73%), entertainment and leisure (71%), information technology (63%), health care services (63%), and commerce (59%) (Careerbuilder, 2014). Asian sectors and industries most affected are the energy industry (26%) and financial companies (19.88%) (First Advantage, 2015). A 200% increase in CV fraud in the skills component was recorded in South Africa between 2009 and 2014 (Makhubele, 2016). In the first quarter of 2015, a 38% increase in CV fraud was reported in India (Hire Right, 2015).

Perpetrators

Fraud is found in every area that applicants believe it is likely to increase their chances of getting a job. Criminal organizations and other factors have identified the problem and demand and have developed an industry supplying various fake documents, such as fake ID cards, fake education certificates, and fake passports. A report of the US Council for Higher Education notes some 100,000 fake education certificates that are sold in the US every year (Makhubele, 2016). Experts warn about this growing, multi-faceted phenomenon. In 2007- 2008, in the U.S., there was a 22% increase in the number of exposed fake identities used to perpetrate offences entailing billions of dollars in damage. The aims of identity theft have spread into the areas of health, insurance, credit and more. It should be emphasized that in the context of getting work, since background checks were introduced for the purpose of uncovering any criminal past, criminals have found effective ways of infiltrating companies,

whether to commit a crime or with a genuine intention of getting a job that they would not have gotten had their criminal past been discovered at the point of entry through their true identities (Hedayati, 2012). Evidently, factors aiding applicants are becoming institutionalized and more sophisticated, in areas such as: education, certificates, references, filling employment history gaps, and more, (Career Excuse (n.d.); Fake Résumé (n.d). Damage caused to global companies by CV fraud is considerable, beyond the fact that recruiting workers who have committed CV fraud and whose honesty is dubious, constitutes a security risk in itself, and their employment is likely to lead to damage such as embezzlement, theft and more (Brody, 2010). Research conducted among 2,379 American managers, revealed that recruitment errors cost companies a fortune. 75% of managers reported recruitment mistakes of which 33% attributed their mistakes directly to CV fraud (Careerbuilder, 2016). With regard to the influence of recruitment mistakes, 36% reported loss of workforce productivity; 33% reported negative changes in work quality; 31% reported damage to morale; 30% reported an increase in non-planned firing; 30% reported having to recruit and train another worker; and 29% reported an additional and unnecessary time investment to recruit alternative workers. The cost of replacing workers due to mistaken recruitment increases with companies' size. So, for example, the cost for a company that has up to 500 workers is \$11,000 per case. The cost for a company with 500-1,000 workers is \$22,000 per case and for companies with more than 1,000 workers, the financial cost rises to \$24,000 per case, with an overall average cost of \$17,000 per case (CareerBuilder, 2016). When managers defined mistaken recruitment, the majority (58%) attributed damage down to work quality; 52% noted a negative approach; 51% noted damage to team work; 49% reported that workers' skills had not match what was written in their CVs and as such work plans and their actual execution were incongruent, 45% reported immediate attendance problems and 38% reported customer complaints about these workers. 20% of managers reported that they had discovered that their recruitment had failed within the first week and 53% reached the same conclusion within the first three weeks of employment (Careerbuilder, 2016).

Protectors

Among others, employers around the world use risk management policies to protect and maintain their business activities. One main purpose for this is to reduce dangers of accepting unsuitable workers into their ranks in terms of integrity.

Realization of risk owing to workers' criminal activities during their employment is expressed by fraud, embezzlement and theft of resources (money, property, and information), exposure to damages from sexual harassment, violence towards other workers, customers and suppliers. Thus, in addition to traditional human resource selection methods intended to identify the most suitable applicant for a role, which examine among others: skills, education, experience and because of the growing exposure to CV fraud, more and more companies are adding checks to help verify or refute this and other data provided by candidates for work. Carrying out in-depth, often invasive checks such as polygraph tests, and integrity interviews (Brody, 2010) is not always possible, for various legal and logistic reasons. This may explain the increasing popularity of and demand for job applicants' background checks, which seek to confirm or refute negative information, as a tool for supporting decisions made in the recruitment process. The emphasis on type and depth of check is determined by the client, and checks are performed either by the company itself or an external factor. Such additional checks are background checks. These include checking a candidate's criminal past and/or civil legal problems, exposing credit risks, verifying driver's license, relevant information on the social media, employment data to verify information provided by a candidate, emphasizing employment history and dates, skills, performance in previous places of work, references, pay, work permits, as well as identity verification, and educational details including training courses. In the U.S.A., 2,379 managers reported that 72% of them carried out background checks on candidates, with the most common checks being: 82% checked criminal records, 62% verified employment history, 50% verified education, 44% checked for use of illegal drugs, 38% driver licenses, 29% performed credit checks (Careerbuilder, 2016). Three of every five companies in the US reported that they recruited workers from another international background, of which only 18% carried out background checks for these candidates, with the majority focusing on requests for checking criminal records (71%) and (61%) authenticating work permits (Sterling Back Check, 2016). In Europe, the Middle East

and Africa there was a 25% increase in the number of background checks requested by companies between January 2011 and December 2013 (First Advantage, 2013). In Asia, research examining companies and candidates in countries such as Japan, South Korea, Malaysia, Philippines, Singapore, and China, as well as in Australia and New Zealand, and based on deciphering almost two million checks, an overall increase in the number of background checks requested by companies in these countries was registered - from 42% in 2013 to 67% in 2014, although it is a relatively new practice in Asia. Further perusal of the data from Asia revealed that the most common checks requested by employers were in the areas of employment (53.65%) and education/training documents verification (21.36%). In 2014, no fewer than five different background checks were performed on more than 67% of candidates compared to 42% in 2013. A higher trend requesting checks was identified in countries such as Singapore, Hong Kong, Japan, New Zealand and Australia, where 45% of all candidates underwent six different background checks versus 28% in countries such as China, Philippines and Malaysia (First Advantage, 2015).

Background Checks and Asylum Seekers in Europe

Data shows that background checks for job applicants are acceptable around the world and their extent is broadening. This can be explained by the relative ease with which these checks can be carried out in a global world versus traditional checking tools such as: polygraph tests, integrity interviews and more, which require meeting legal and operational challenges such as applicants being physically present for checks. Despite the relative ease of performing background checks in contrast to aforementioned traditional checking tools, challenges and difficulties remain when so doing around the world. This is because of laws and regulations that guide employers with regard to what is permissible to be checked, language and cultural gaps between those carrying out checks and candidates, technological gaps that make it more difficult to acquire information in carrying out these checks, which by nature respond to the need where there is a need to focus on another country or region, where a candidate used to live. As stated, these challenges and difficulties are even greater when work applicants come from another background, for example those who come from other countries. It should be emphasized that those who carry out checks face the challenge of so

doing even with work candidates who are citizens of the same country, for example the U.S.A., a challenge deriving from diverse approach to and legislation regarding background checks between states in the U.S.A. Nonetheless, the popularity of background checks for work candidates is growing among employers. Perhaps the desire to reduce the risk of a relationship with an unworthy employee from the point of view of integrity would be the main incentive for carrying out background checks. However, research findings show broader considerations.

Findings show that companies' main reason for carrying out background checks on candidates derives from pure human resource considerations. Thus, 74% of companies that carry out background checks stated that their main driving consideration was to improve recruitment quality, 56% to improve suitability after recruitment, 49% to improve company image and reputation and only 43% identified safety and security considerations (Sterling Back Check, 2016).

It appears that employers around the world use security checks in general and background checks in particular to recruit and select candidates for pure human resource purposes, thus raising questions this article does not address: why do managers employ security checks to improve the quality of recruiting and selecting work candidates? Do traditional selection tools and management systems require updating so as to meet the needs of recruiting talent in a multifaceted and challenging global world?

The asylum-seeking population with its diverse traits and the way in which it arrived at the gates of employers has created an enormous challenge for the recruitment and selection procedures. A procedure for verifying a candidate's data, which is a foundation stone to support decisions to recruit candidates, is most problematic with this population. Asylum seekers, even if they carry with them means of identification and/or professional and academic certificates, challenge employers to decipher these documents in foreign languages, while examining their quality and their level of authenticity. This challenge is even greater when asylum seekers do not carry such documents either in full or partially. Thus, verifying past employment, experience, education, references and qualifications becomes challenging and expensive and largely relies on self-reporting with all the problems this entails. Background checks that are so common among employers as a tool to help recruitment and

selection are greatly weakened, even completely useless, in the face of the challenges that the asylum-seeking population of work candidates place before employers. In such circumstances, employers can be helped to make better selection choices by conducting integrity interviews with asylum seekers. Thus, despite the fact that employers prefer background checks to authenticate candidates' data and refrain from conducting integrity interviews, it appears that with the asylum-seeking population this is an effective and relatively available solution to help with their recruitment and selection. A integrity interview, In addition to Regular employment interview, has an investigative and in-depth nature, carried out by an interviewer who is trained to aspire to truthful information and to confirm or refute negative information, which is meant in its originally use to expose information with regard to employment Occupational delinquency and derives from the security world . Such interviewers have the ability to help employers acquire an opinion that supports a clear recruitment procedure and authenticate data relevant to purely human resource aspects. The procedure of training such an interviewer has In addition a unique nature in which training is required in relevant areas: complete proficiency in the language of interviewees, ability to read and write asylum seekers' language, understand their religious, ethnic and cultural makeup and norms. Interviewers must be able to evaluate relevant academic and profession certificates presented by candidates in their mother tongue. For this procedure to be speedy and effective, such interviewers must be readily available to employers. One can hire interviewers from external suppliers, if they exist, or employers can train regular interviewers who will acquire, in addition to their training as interviewers in the area of human resources, or allocate interviewers specifically for this task, short basic training on site over a few months. Employers can operate such a procedure comprehensively or selectively according to the range of candidates at an advanced stage of the recruitment procedure or for candidates with a high level of qualifications according to the needs and demands of employers.

Conclusions

Europe is facing an unprecedented wave of asylum seekers at its gates. Meeting such a challenge and all its components requires systemic thinking and complex actions by the

European bloc. Such actions must include broad thinking exceeding the geographical borders of Europe to countries of origin and not just target or transitional countries such as Turkey and others from which asylum seekers arrive. Despite the desire to block their arrival from countries of origin as well as deportation of asylum seeker policies, it appears that the majority of asylum seekers land in boats on the European coast without advance control or screening. From there the journey to target countries and employers is short and leaves employers in Europe alone to face the unprecedented ongoing and growing challenge. Many problems deriving from the very fact asylum seekers arriving on the continent are affected by the extent of asylum seekers' integration into work. The importance of their integration into the labor market is extensive. European Union member states invest extensive resources in helping resolve and reduce some of the problems that have been created. On the one hand, mutual desire and need of countries and employers to integrate this population into the labor market and on the other hand, the need to absorb the best possible candidates from this population into employment, is an enormous challenge that does not always line up. Integrating solutions for asylum seekers between state auspices and employers are of great significance. However, employers are faced with these candidates now, sometimes without any serious ability to carry out organized recruitment and selection procedures such as those executed with other candidates. The regular recruitment procedure that relies on verifying identity and documents, employment authenticity, worthiness and other checks and with the assistance of checks from the security world such as background checks for candidates, cannot be fully or partially applied today because of language gaps, cultural differences as well as an absence of documents and difficult processing and understanding the authenticity and importance of such documents in their language of origin, if they exist.

In front of the growing trend around the world to use security background checks as a tool to help employers recruit and select, the popularity of using tools requiring direct interaction with candidates, such as integrity interviews, has declined. Nevertheless, such interviews faced with the unique circumstances and nature of the encounter, with asylum seekers, is an efficient and available solution. Such interviews, if conducted by experts at employers' facilities, are likely to fully or partially be a tool to help in the procedure of recruiting asylum seekers with an emphasis on verifying relevant information.

Target countries in Europe must support and help executing such a step. Nevertheless, employers should not wait if this help is slow to arrive. Employers possess the opportunity to employ integrity interviews for asylum seekers even without state help and to commence using such interviews in recruiting asylum seekers after checking all the legal and other aspects of this procedure that are likely to challenge it. It is worthwhile checking whether these services can be procured from external suppliers immediately or whether it is better to train such interviewers within the organization. Basic training for such interviewers is a matter of months and employers can use this immediate evaluation tool to solve dilemmas connected to the recruitment process of asylum seekers.

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THE FRENCH-GERMAN APPROACH ON THE FUTURE OF THE EUROPEAN UNION

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Abstract

The European political scene became uncertain in recent years, as several crises shook the continent from the ground. Starting with the BREXIT and the rise of populist parties all over the European continent and continuing with the migration crises, the Eurozone crises etc. – all of these led to the emergence of several scenarios and proposals for the future of the European Union. France and Germany were always at the core of the decision-making process, as they are two of the most important and powerful member states inside the Union, especially now that UK has decided to leave. Therefore, the rest of the Member States are looking up to them, expecting solutions for this general crises the EU is facing. This article seeks to analyze and determine the importance and influence these two Member States have inside the EU and how are they planning to use that influence in persuading others on following their action plans. Is it possible they join forces and start working together properly towards a common goal, or their historical past will catch up to them preventing them to think about the general wellbeing of the Union and the greater good?

Keywords: France, Germany, EU, future, partnership

1. Introduction

60 years have passed since the Treaty of Rome was signed. What has come to be known as the European Union has developed through the years, but what seems to remain constant is the perpetual crises that takes place inside the continent. As Jean Monnet stated “Europe will be forged in crises, and will be the sum of the solutions adopted for those crises” (The Economist, 2018).

UK's decision to leave the European Union left the other 27 Member States in shock and took them by surprise, as nobody was expecting a country will ever leave this supra-national organization that is the EU. UK's decision shouldn't come as a surprise, though, as it is well known – both for the European elites as well as for the general public – that UK never actually connected and shared the European values promoted inside the Union. It is also known that this relationship was damaged even before it started, if we remember UK's double failed attempt to join the EEC - at the time – and the “empty chair crises” where French president Charles de Gaulle used his veto right twice to prevent it from joining. After UK eventually managed to join it was struggle after struggle and compromise after compromise from both sides, as almost immediately after becoming a member UK held a referendum to exit the Union – that didn't happen at the time – but lead to the acceptance of several opt-out decisions from the UK, including the opt-out from the Eurozone. It seemed that both parts were struggling to make this relationship work, but eventually the rope was too tight and pressure eventually caught up to them, resulting in the British exit, or BREXIT from the Union.

Given the history, some would have thought that UK's departure would affect the EU to the point of dissolution, but the exact opposite happened, as recent developments, speeches and policy actions show that the remaining 27 Member States decided to turn to flexibility as the driving force that will keep the EU up and running in the post-BREXIT era. What BREXIT has thought European leaders is that the EU should evolve and become less elitist and centralized, and more flexible, focused on its citizens and their needs from all across Europe. BREXIT was a start that could become an incentive for other European countries to leave, if a common ground isn't reached and a major reformation of the whole European project isn't started (De Witte, 2017).

Another effect of this elitist and centralized organization, that seems to be impenetrable and incomprehensible for the broad public, is the rise of Eurosceptic and populist parties. One of the reasons why these right-wing movements and political parties are so popular, and on the rise nowadays, is because they promise the return to the system of European nation state we had in the 19th century and at the beginning of the 20th century. What the average citizen may not know and can be easily fooled with these empty promises

is that this reversion is impossible because of one simple reason: globalization. Politics, economy, the judicial systems communication and cultures have become too interconnected and interdependent, that even Marine Le Pen would hit a concrete wall if she tries to reverse them at this stage of the game. And not only she would hit a wall, but she would also lose the support of her electorate in the process. On the other hand, nation states remain the main form of organization, in spite of this globalization phenomenon the world is facing. Even in this supra-national structure that is the EU, sometimes the nation state is what is needed, as is far stronger than this hybrid structure. Let's take the 2008 financial crises for as an example, where the nation state was the only actor that had all the required instruments (financial, legal and political) to face that crises. Of course, the difference between the two structures is that the nation state has a history and culture that tightens their citizens and makes them feel part of a whole. Also, there is intense communication not only between the state and its citizens, but also between citizens themselves. This communication leads to the establishment of a specific national identity. However, national identity can easily become nationalism when people feel marginalized and underprivileged in structures such as the EU. Not having a communication established, even regulated between European citizens we can't really talk about a European community where average citizens discuss their common issues (Wahl, 2016, pp.158-161).

It was easy for the populist parties to find this crack and infiltrate in it as militants against the European project (that is held reasonable for everything bad that happens at national and European level), and in favor of referendums on European and Eurozone membership, where people feel they have a voice that's heard.

Another reason for this success is the general gloom that took over the European economy. Even though the Eurozone is more or less stable now and there is a certain economic growth, in some parts of the continent growth rates are still low, unemployment still high and public debt remains large across the Union. All of these unsolved issues are due to the fact that the architecture of the Eurozone is still incomplete and the common ground on the matter is still nowhere to be found. If we sum up the migration crisis that still remains an issue among Member States, the foreign and security policy that is still not properly regulated, the democratic deficit and, maybe the biggest problem of them all – EU's

unpopularity among both Member States and its citizens – we can say that the EU has enough to deal with for at least another 60 years (The Economist, 2018, p.2).

European leaders that were commemorating on 25th of March 2017, in Rome, the 60th anniversary of the European Economic Cooperation Treaty, are more than aware of these issues, and together with the EU institutions they have adopted the Rome Declaration where they plead for unity, flexibility and evolution, as a way to ease the tension between Member States and start solving the problems the EU is facing at the moment: *“We will act together, at different paces and intensity where necessary, while moving in the same direction, as we have done in the past, in line with the Treaties and keeping the door open to those who want to join later”* (Aamann, 2018).

BREXIT was just a warning of what could happen if things keep working the same way, and if change and reformation is not pursued. For this purpose, several European leaders and citizens have turned to France and Germany as the most powerful states inside the Union, the basis of the whole European project and the most plausible actors that can relaunch this project. Therefore, in the following chapters I will try and analyze the relationship between the two countries and how this new Franco-German initiative that was so talked about lately, will influence the future of the EU.

2. The Franco-German relationship through the years

Even though 2017 was a troubled year for the EU, the Franco-German relations saw a re-boost of their bilateral relations and a determination from both countries to lead the EU Member States towards the future of the European project.

The relationship between the two powers weren't always defined by cooperation and friendship. As we have come to know, the beginning of the European project was in fact an attempt from French and German leaders to bring the differences and fights between them to an end. The two countries were enemies even before the Second World War, which only contributed to increase the animosity floating in the air. If Germany was always considered the European enemy, the country that everyone from the continent, and beyond, was fearing, France was always a strong supporter of the European idea, but mostly on European

unification – under its leadership if possible. Many countries were looking up to France as an example to follow in terms of European values, culture and democracy.

As a result, at the end of the Second World War, France decided to step up and regain the power it used to have inside the continent. Jean Monnet and Bernard Clappier started working on a plan of European unification, but as they were no diplomats it was little what they could do, not to say almost impossible to convince European leaders to join resources and create a community that will eventually end conflicts between nation states inside the continent. This is where Robert Schuman – a respected French lawyer and politician, which at the time was France's Minister of Foreign Affairs - comes into play.

The Schuman Declaration, the first and most symbolic milestone in the Franco-German relationship after the Second World War, was a call to put together France and Germany's coal and steel resources under a supranational umbrella. As Schuman outlined in his declaration the pooling together of these two resources will *"make war not only unthinkable, but materially impossible"* (European Union, 2018). As he not only called for Franco-German reconciliation, but also he made a call for other European countries to join the movement - because in his own words *"the coming together of the nations of Europe requires the elimination of the age-old opposition of France and Germany"* (European Union, 2018) – the date he held the declaration, 9 May, is the day the continent celebrates Europe Day. As a result of this declaration and call for unity the European Coal and Steel Community was created (in 1951), which subsequently developed into the European Economic Community (EEC) and later on the European Union.

The initiative was a real success as from that moment onwards there was no armed conflict or war between any European nation, ever again. Of course this doesn't mean that animosity and competition between France and Germany ended as well. Instead of being a Franco-German agreement of equals, the Schuman Plan was an exclusively French initiative that was automatically approved by Germany, without further consideration, because the German government was desperate to find an opportunity to redeem itself and re-enter the European arena after the war. Of course France didn't trust Germany at that point, but instead of continuous conflict with its neighbor, France decided to reverse its foreign policy and start

a constructive cooperation with Germany, a cooperation that would benefit both sides (Mourlon-Druol, 2017, pp. 4-5).

After this historic moment it was a continuous political ping-pong between the two powers. Since the break-up of the Soviet bloc and the German reunification, France saw its power inside the continent and the community threatened, even though it never actually lost its position on the global arena. It was no longer France calling the shots the way it pleased and to its best convenience. Therefore, it came up with a plan of European integration, mainly through the creation of a single European currency (Lefebvre, 2004, p.1).

The growing instability of the currency at international level in the '70s showed the need to come up with a plan, inside the EEC, that can reintroduce stability within the monetary relations Member States had. The German chancellor at the time, Helmut Schmidt, together with his government managed to reach an agreement with the French president, Giscard d'Estaing, after several attempts made by the French government through several proposals that were rejected by the Germans. In 1978 both countries took the lead and developed a new European currency framework – the European Monetary Fund (EMF). This initiative enabled deeper integration within European countries. But then again, this agreement wasn't an equal one either, as it represented exactly what the German government wanted and what it was ready to agree on, preferences the French government only validated (Mourlon-Druol, 2017, p.6).

It is true that through the years several disagreements and compromises between the two nations took place, but eventually their relationship stands for reconciliation, peace and solidarity. Inside the EU the Franco-German couple represents the political leadership of the Union. This leadership promotes European integration, deals with political crises management and establishes subgroups within the member States. All of the in an effort to solve Europe's crises. As a way to formalize the bilateral relationship and to increase the cooperation between the two countries, French president Charles de Gaulle and the German chancellor Konrad Adenauer signed on January 22, 1963 the *Elisée Treaty*. Through this Treaty they committed to consult each other on all important matters that might require a common position (Valant, 2017, p.1). Even though the Treaty was an important moment in the couple's history, it actually had very little results. More than an actual Treaty, it is the

symbolism that lays beneath this agreement that is important. This is why it was renewed and revised every once in a while, to be able to meet the demands of the time. For instance, the revision of the Treaty made in 2003 created a Franco-German Ministerial Council and developed a Franco-German history textbook (Mourlon-Druol, 2017, p.4).

Nowadays, the current Franco-German leaders – Emmanuel Macron and Angela Merkel – are revising the *Elisée Treaty*, after the French president made a call to the German chancellor during his Sorbonne speech, in September 2017. Therefore, on January 19, the two leaders agreed in Paris to draft a new version of the Treaty, as a way to mark its 55th anniversary (Files, 2018) but also as a statement for the EU Member States and the rest of the world, showing that they have started to make the first steps towards deeper cooperation and that they are ready to take the lead in the process of European reconstruction.²⁵

There are plenty of examples of this tight cooperation between these countries, and how their respective leaders managed to find a way to work together in and for different circumstances. We'll discuss more about these Franco-German political leaders and their actions in an attempt to understand the current leadership of the Franco-German axis, in the following part of article.

3. The Franco-German power couples and their contribution to the future of the EU

During these 60 years we've witnessed several ups and downs in the Franco-German relationship and their quest for European supremacy. However, both countries - especially through their leaders – have influenced the European integration process. We will try and analyze the relationships between those leaders and their input regarding the changes made at European level.

The ones who lead the pack and were the first couple willing to cooperate with each other were Charles de Gaulle and Konrad Adenauer. They set the tone of this reconciliation process, when de Gaulle invited Adenauer to his home in Colombey-les-Deux-Églises, in

²⁵ For the full joint declaration, please consult "L'amitié Franco-Allemande est l'affaire de tous ! Emmanuel Macron", *YouTube*, <https://www.youtube.com/watch?v=RXbcAYxuZxw>, accessed 16 march 2018.

September 1958. Adenauer was the first and only world leader to step foot in de Gaulle's personal home, a move cautiously and smartly made by the French President to convey the idea that war and enmity between the two countries should be replaced by trust, respect and mutual understanding. Also, the Élysée Treaty was designed under their leadership and they were the first leaders to sign this treaty, providing an example and setting a precedent for the future Franco-German leaders that followed (Mourlon-Druol, 2017, p.3).

Personal connections were critical for this reconciliation process and President Giscard d'Estaing and Chancellor Schmidt shared a true friendship that helped not only their respective nations, but also the whole European project during their time in office, when the European Council was created (1974) and the basis for the European Monetary System were put (1979) (Valant, 2017, p.2).

Another important mention is the Mitterrand-Kohl couple, which was responsible for the internal market and the Single European Act (1986), therefore for future integration of the European countries. During their leadership the Europeanisation of Germany resurfaced as a priority and a goal for the country that was once seen as the plague of Europe. This shift in policy was due to several reasons, but the central pawn that made all of this possible was Chancellor Kohl. He had a clear vision and made considerable efforts to reinforce Germany's European identity, which would have been impossible without the French contribution (Bulmer and Paterson, 1996, p.13).

The following time frame saw the Franco-German relations struggle, due to the German unification that left France significantly weaker inside the Community, and Germany started to question its role in Europe. Therefore, the Maastricht Treaty (1993) saw a stronger Germany ready to fight for its interest, and a weaker France in the face of the newly unified Germany. Agreements between French President, François Mitterrand and German Chancellor Helmut Kohl were critical at a time when the creation of a Single European Currency was discussed. However, at the end of the negotiations, when the time to sign the Treaty came, we can say that the French and German governments agreed to disagree on several important issues, and as a result there is, even nowadays, an incomplete monetary union (Mourlon-Druol, 2017, p.6).

Given the fact that the Franco-German couples are by far the most influential inside the EU, it is no surprise that there is a continuous competition between the two, regarding whom holds most of the power. It is true that France was always frightened by the German power and following the say “keep your friends close and your enemies closer”, decided to join forces with Germany, instead of fighting it – in a context where France knew that little were its chances to win that fight. On the other hand, Germany always envied France in terms of culture, architecture, literature etc. and always felt the need to compete on these areas and in many others.

Partly, one of the reasons France always wanted to take European Unions’ lead was because of this fear of the German power. As an example in this regard, is the 2000 Nice Summit, where France insisted on an equal voting weight with Germany in the Council of Ministers (Lefebvre, 2004, p.1). The Chirac-Schröder agreement from 2002 regarding the constitutional convention seemed to get things back to normal and on the right track for both countries, but their divergent positions regarding EU’s interior design – the path and policies that should be followed – lead to the negative outcome of the Constitutional Treaty in 2005, when it was rejected by both France and The Netherlands (Valant, 2017, pp. 2-3).

As we can see, the current leadership of these two countries – Emmanuel Macron and Angela Merkel – has a high bar to stand up to, when they have such important political figures that precede them and managed to become a part of the world’s history. The pressure is even higher for the two leaders, as the Franco-German couple is the driving engine of the EU – the relationship that stands at the core of the European integration. In today’s European environment, that faces several crises, this long time alliance needs to step up and provide the much desired, but also much needed leadership that surpasses national of historical divergences, in this process that will forge the future of the EU.

There are two areas I have selected as case studies for establishing the decisions and measures that have been and will be made in several policy areas. I will analyze the Eurozone crises and the Foreign and Security Policy and try to establish how the Macron-Merkel couple input and influence shapes and tries to solve these policy areas.

3.1. The Eurozone Crises

As I have stated before, the Maastricht Treaty created an incomplete monetary union, which represent the starting point of Eurosceptic beliefs. In their view the treaty was only an agreement between France and Germany, where France accepted the German unification and in return Germany accepted to give up the Douche mark and exchange it for the Euro.

This move may have seemed restless at the time, but by launching the Euro in 1999 and replacing national currency with it in 2002, the EU was taking a huge step towards deeper political and economic integration between Member States (The Economist, 2018, p.4).

Everything went well for a while, but then, after the 2008-2009 recession, several issues and inconsistencies of the Eurozone started to (re)surface. Even though several measures were taken, it appears that the results are still not the expected ones as unemployment rates are still high in most of the EU Member States, and the modest growth rate won't help solve this issues that the austerity created. During this crisis it became more than clear that the European institutions are unprepared to solve debt issues, and also it became clear that the withdrawal from the Eurozone was never considered, therefore there are no clear rules in this cases where the very existence of the common currency was called into question. The European Central Bank interfered immediately, at its interference was a success, but its limitations were brought to light during the process. After this economic stagnation was all over Europe, except for Germany, especially in countries such as Portugal, Italy, Greece and Spain. The introduction of the Euro in 2002 was a good and important step for the EU, but it didn't solve the differences that were already there, between the Member States of the Eurozone, and the economic crises only magnified the already existing imbalance. It also managed to call into question the existence of the Eurozone and to show the desperate need for reform, as the economic integration has serious limitations that together with the common currency are the roots of this perpetual crisis Europe is facing nowadays (Gualerzi, 2017, pp. 394-397).

The election of the centrist, pro-European, Emmanuel Macron as the French President brings new hope on the continent, as the Franco-German renewed leadership can now help the EU take steps forward and solve the existing crises. Starting with the Eurozone, as the

obvious first choice, the road won't be an easy one. The differences between the Franco-German economic philosophy are not the only obstacles that need to be surpassed. Even though the Euro was a Franco-German initiative, the couple has disagreed through the years on how to solve the problems the Eurozone is facing. Germany has always wanted stricter rules regarding government budgets. France, however, always looked for common instruments and more active microeconomic policies, even though most of the times these ideas were ignored by Germany (Grant, 2017).

When Macron was part of Hollande's government, he had a strong view regarding the Eurozone reformation, calling for elements such as transfer union, risk-sharing and demand management at Eurozone level. He keeps the same ideas even now that he became President of the Republic, but in order for this ideas to actually be implemented, Germany has to approve them. And Germany has different views on managing the Eurozone economics. It opposes any kind of transfer union, wants stricter compliance with budgetary rules and argues that Member States should not be bailed out unless holders of their sovereign bonds take losses (Grant, 2018).

Therefore, Macron knows that shifting Germany's policy will not be an easy job, as German hostility to the Keynesian system is undiminished. Yet, France remains optimistic in this project of Eurozone reformation. The plan is to complete the banking union by the end of the year, which is challenging due to the fact that deposit insurance is incompatible with banks practice of holding large amounts of their government's debt (Gros, 2017). Later on they should deal with the transformation of the European Stability Mechanism (ESM), a bail-out fund into a European Monetary Fund, establish a Eurozone budget and institutional reforms such as the creation of a Eurozone finance minister. The French know that the idea of a Eurozone finance minister is not a very popular one, not only in Germany, but also in several other Member States, so they describe this initiative as the "end of the process", therefore they expect a compromise on the matter from both sides (Grant, 2018, p.3).

All in all, the euro remains a troubled currency, whose direction is uncertain, but there is a general agreement that the Eurozone needs further integration. The disagreement appears on how to accomplish this integration. Germans do not share the French taste for flexibility in terms of fiscal policy as they prefer discipline and rules (The Economist, 2018, p.7). Still,

Merkel will probably agree to some of Macron's demands, especially if he achieved reform in France, mainly because of the EU's power politics and because Germany needs France as a strong partner to run the EU, now that UK decided to depart (Grant, 2017, p.2).

3.2. Foreign and Security Policy

When it comes to EU's Common Foreign and Security Policy (CFSP) the Franco-German couple is more limited because the subject is such a sensitive one, both for the couple and for other global powers. Also, the cultural and strategic differences between the two, are some of the reasons why they haven't managed to reach a total consent on the matter.

Even though the CFSP dates since 1999 when France and Germany signed a joint proposal on the matter, there are still several important issues they couldn't solve, even nowadays. Progress has been made in the last couple of years, but their diverging concepts on the matter don't allow them to move forward. One of the first most important moments in the Franco-German security cooperation history was in 2003 when both of them refused to invade Iraq together with America (Valant, 2017, p.5). Since then, at a European level, the only success they've managed to achieve was in 2016 when the Franco-German couple managed to convince their partners that the Union needs an exhaustive reform in the Common Security and Defense Policy area. In 2017 they've also agreed on establishing a Military Planning and Conduct Capacity (Kempin and Kunz, 2017, p.8). Apart from this, little has been made on this field.

If they manage to come up with a solid action plan this will benefit not only EU's Security and Defense Policy, but also it could add value and it could help in the future consolidation of the Franco-German partnership. Since Macron took office, the two countries have started to work hard on CSDP matters, issuing a joint declaration in September 2017, and also starting to work on a new version of the *Elisée Treaty* which is important as a statement and a way to influence several other nations to consider and join the plan and to realize that security matters are becoming more and more important for the EU. Through this plan they are trying to give a new impulse to the EU in terms of defense and security, by introducing new cooperation mechanisms such as the Permanent Structured Cooperation

(PESCO) (Frontini, 2017). PESCO will allow Member States - with high military capacity - to closer cooperate outside the EU 27.

If they play their cards right, a security and defense partnership between these two countries inside the EU will be the true start of the European project, especially considering the treats and challenges the Union is confronting with at present. Therefore, if they want success in the matter, a permanent dialogue between Paris and Berlin should be established - fulfilling the provisions made in 1963's *Elisée Treaty*. The partnership shouldn't only be about discussions and plans, but also it should be an institutionalized, or at least have organized and planned regular meetings, between the two, that could also serve as a way to facilitate communication between parliaments and military/diplomatic representatives (Kempin and Kunz, 2017, p.13).

Either way, the cooperation between France and Germany in terms of security and defense (but not only), should represent a starting point for a more inclusive European project. Unity inside the EU seems to be the biggest problem at the moment, a moment when it should be more important than ever. With the treats existing both inside and outside the Union, security and defense become more and more important every day for the EU nations, and the Franco-German couple seems the only plausible option for managing to take the lead and bring the Member States together, in a joint action against the forces that treat the EU.

4. Conclusion

BREXIT has raised several issues among EU's Member States and has also resurfaced some of the old problems the Union was confronting with. Since the creation of the European Coal and Steel Community, the emphasis was on the Franco-German tandem, as an example of unity, integration, integrity and indivisibility.

France and Germany are the two largest and more powerful EU countries (especially now that UK has decided to exit the Union). As large countries, that have powerful and diverse economies the couple would be able to face the BREXIT costs by themselves, and would be also willing to "take a hit for the greater good" and for their main strategic interest – the European Union (Springford, Lowe and Oppenheim, 2018).

The couple saw their position inside the EU as guardians and models for other Member States in the integration process. Their leaders' position was a continuous one through the years. At the beginning they took this leader position involuntary as the continent reconciliation depended on the Franco-German reconciliation. As time passed they started to take this leadership position deliberately with the purpose to straighten the integration process and the EU as a whole. The importance of this leadership is visible the most in their joint effort to save the Eurozone. In terms of Foreign and Security Policy it is more than visible that their influence and their actions are more limited. Both of the countries are also involved in other organizations and decision-making mechanisms, this together with the fact that their national foreign and security policies are so different, makes it really difficult for them to reach a common strategy in the matter.

On the other hand, relying only on the Franco-German couple is a mistake that the EU should be careful not to make. Leaving the rest of the Member States on the side and not involve them in the decision-making process, as much as they should be, is dangerous for the Union as it will only help the disintegration process to deepen and spread across the continent. As important as France and Germany are for the EU, they still can't be the only ones deciding for all 27 Member States. Allowing this could mean that they may try and implement their national policies and/or preferences, and even though they work for Germany and/or France that doesn't mean those policies would work for other Member States as well. There are several other factors that need to be taken into account, such as their economic and political history, for instance.

The ideal scenario would be that through this Franco-German partnership, especially the new EU power couple – Macron and Merkel – they manage to mobilize other Member States to work together towards a common goal – improving the EU and build a better future for the European generations to come. If in the past the basis for any European disagreement were France and Germany, in the future the two countries should become the basis for any improvement inside the European continent.

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