BOOK REVIEW

Daniel Dăianu, Marele impas în Europa. Ce poate face România? [The great deadlock in Europe. What can Romania do?], Polirom, 2015, 376 pages, ISBN: 9789734652204

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Polirom Publishing House has achieved an honorary title by publishing *The Great Deadlock in Europe. What can Romania do?* written by Daniel Dăianu. The book, definitely a success in the field, compiles texts written and published by the author between 2012 and 2015 in various local publications. It is only seldom that such an amount of thoughts and ideas already scattered on the public writing space can be moulded into a book. In this particular case, such a performance happened due to the fact that a coherent and cohesive *philosophy* about the crisis coagulates and unifies the entire work; it provides the writings with meaning and a real explanatory and predictive power through topic, methodology and style, which is personal, familiar and renowned.

Therefore, we welcome the editorial event and count it as a true success. All those interested in the complicated phenomenon named crisis can find a real plethora of information, analysis and great ideas between the covers of Dăianu's book.

Endeavouring to shape a quintessential synthesis of the general inventory on written thoughts, we shall first remember that the author's key presumptions and doctrines are placed in a context in which the economic, the social and geopolitics compete in providing tracks and an insightful understanding of the crisis. For in-depth knowledge of the phenomenon, we are introduced to a Europe undergoing a major impasse, stressed, exhausted and dishevelled by major economic vulnerabilities, amplified by the financial crisis, the social insurance system, the euro crisis, the "sickness of the political process", as well as the geopolitical issues within its proximal vicinity. In a more general sense, we live in an interdependent world, which is easily noticeable in times of crisis, a world where "an America (USA)" which, after difficult years of turbulence, through unconventional policies has finally begun to show signs of recovery, and thus prevails.

By circumscribing his analysis to the rules of a global zero-sum game, the author builds his speech in the spirit of a prevailing neo-Keynesian philosophy; one that gathers, according to its faith, those who do not remain insensitive to the threat of debt deflation. According to such a philosophy, Daniel Dăianu confines

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that "believing in the power of moral values and of open societies as being capable of ordering the conduct of nations and states is ... naive" [p.19]. The renowned names with which he converses belong to the same dogma: Paul Krugman, Joseph Stiglitz, Hyman Minsky, Paul Volcker, Mario Draghi and, of course, the ubiquitous J.M. Keynes. Through them and others (Thomas Piketty, Emmanuel Saez), Dăianu explains the logic of appealing to policies that "win over markets" or to public policies that take into account the income distribution, as well as the private sector - production of public goods combination, in order to relativize the 'winners take it all' philosophy. Also leaning on structuralism and institutionalism, the author holds the belief that the ideological - doctrinal orientation matters less when providing an anthology of logical explanation for the crisis. On the contrary, he believes that in times of crisis "the European context goes beyond doctrine" (p. 255), while the left or right wing governments have adopted the same measures of coercion to overcome imbalances. Under the seemingly opposite title - "Economic development requires you to use and 'defeat' markets" [p. 23], Daniel Dăianu unequivocally presumes that markets are necessary for economic growth, which is impossible without them, although "free markets are not equivalent to the lack of regulations" [p. 23]. In other words, the author wants rules, best practices and regulations, especially when it comes to the financial sector. This is because, he deems that the era in which "the good and the clean ideas are eventually self-imposed" [p. 299] is left far behind. But what kind of regulatory intervention does Daniel Dăianu have in mind? In his own terms, he seeks neither "plethora of new regulations" [p. 42], nor "complex regulations" [p. 42], on the contrary, "promoting simplicity, clear rules and firm implementation" [p. 42] is what provides physiognomy to his stance.

Following this philosophical trail, the author's contributions offer various answers to the great inquiries about crisis.

We thus learn, within the causes section, through a compact and exemplary terse speech that "the economic crisis in Europe has sprung from braiding a derailed financial system with a faulty political and institutional structure of the euro zone, amid the various challenges of the welfare state" [p. 57]. In particular, the author takes into account complex causes and is convinced that the crisis is a penalty, a price paid for serious failures in managing the economy. It is worth noting, for example, circumstances such as:

- Reversing the normal sense of real economy - the nominal economy by ignoring the real economy in favour of excessive *financialization*. From this perspective, the author believes that, "globalization has played a historic trick on western industrialized countries, among which some have forgotten about industrial policies and have relied too heavily on the financial sector" [p. 25];
- The drift that the currency met from its original functions. "The fact that banking has increasingly become trading, speculation (casino game) instead of remaining a funding source for production ..." [p. 41] seems to the author

to be one of the greatest contamination dangers for all financial markets. In consonance with ‘too big to fail’, the danger appears even greater;

- The vitiation of business ethics, and, generally a flawed institutional culture, translatable into “policy errors and defective institutional arrangements, as well as a deviation in financial intermediation” [p. 51];
- The “enthusiastic” wave of deregulation over the recent decades;
- *Over-indebtedness* and banks’ errors in managing their own affairs;
- Hasty liberalization, total openness of economies (still poorly prepared for the tough global competition), external indebtedness, risky abolishment of own industrial policies and alienation of banking markets – causes that mainly affect emerging countries, including Romania.

The measures envisaged by Daniel Dăianu bear the imprint of the economic philosophy in which they were forged. Essentially, he envisages a stronger regulation of the capital market and an antitrust legislation also applicable to the financial industry. Since “banks have a public function and induce systemic risks, they cannot be left to their own devices” [p. 43], the regulation of the banking system does not elude the author. But, above all, in full Keynesian spirit, the most consistent measure by which the “central banks take the reins” [p. 47] is the massive injection of liquidity. For Daniel Dăianu, appealing to the bank as a last resort lender and giving up the “hypothesis of efficient banks”, have the following explanation: “... where the policy interest rates are very low, there is no room for reduction and consequently the QE (Quantitative easing) on a large scale becomes recurrent; QE would be a way to counteract the damages within the transmission mechanism by acquiring private bonds” [p. 48]. Therefore, *it is Keynes*, not Mises, nor Hayek, nor Rodbard! A policy is to be shaped by the dramatic instant that the crisis sends and not by a lesson taught in the classroom; without further comments concerning the recurrent phenomenon handled in this manner.

Romania did not appear “different” to Daniel Dăianu [p. 194-195]. The path dependence does not seem to provide a consistent framework of explanations [p. 193]. What the author “especially” mentions is that Romania’s own growth model is detached from all the lessons that the “experienced ones” have offered in the past 20 years; a model difficult to manage due to: a strong *euroisation* of the economy which heavily burdens the exchange rate; a shortage of the aggregate demand; approx. 90% of financial institutions being disposed; a strong dependence on external markets, as well as a flawed policy regarding the management of natural resources, etc. This is a summary picture of Romania, a country facing an unprecedented crisis. In this regard, the author’s antidote consists in a number of 8 measures, clearly exposed from page 26 up to 28.

According to the title I chose for these reflections, induced by the book in question, it is appropriate to dwell upon some main conclusions bearing the status of “lessons” or “thesis” regarding the crisis:

- “At national level, both public and private debt matter, especially the external one” [p. 91]. When a country has to pay an external debt with a currency other than its own, the previously mentioned thesis becomes even more valid;
- “No matter how I advocate for financial discipline within the relations between creditors and debtors, there are situations when a country cannot pay for reasons that transcend the inconsistencies and weaknesses of its economic policy” [p. 98]. The institution of bankruptcy appears to be sent on the side-lines, and in such circumstances, for instance, Greece could draw an opportunistic conclusion;
- “The capture of public policy by interest groups ... the divorce between public sectors and economic performance, the politicization of public administration, the corruption and, last, but not least, the loss of a ‘moral compass’ undermined the trust in public institutions ...” [p. 104];
- Returning to the past, sending the business world to the paradigm drawn from Adam Smith’s *Theory of Moral Sentiments*, as well as from Max Weber's ethics, Kenneth Arrow and Amartya Sen [p. 105] provide a solution that could attack a fundamental evil;
- “The Eurozone crisis also shows that economic performance highly depends on the quality of institutions, which is reflected by the ability to impose budgetary discipline without stifling the economy” [p. 112]. The author’s advocacy towards reforming the “extractive institutions” which devour undue rents from the public sector [p.185] is developed with this point, in accordance to Acemoglu and Robinson.
- “The last decade in Europe, in the EU, has masked a <<poisoned apple>>. The economic growth in various countries was unsustainable, being increasingly consumed by public and private debt, while the banks were conducting extravagant operations. Thus, the premises for an unprecedented crisis since the Great Depression were created” [p.119-120];
- “Over-financing savings represents a disaster” [p. 121];
- The crisis brings out behaviours with nationalistic and protectionist flavours [p. 188];
- “When the money run [...] the *sudden stop syndrome* occurs, more specifically, the impossibility to have access to financing, which could transform a liquidity crisis into a solvency one” [p. 234];
- Etc.

I have not exhausted the range of interesting ideas that the book of Daniel Dăianu provides. Nevertheless, it is up to the interested parties to find them all through a careful and also necessary reading. I have no doubt that there will be many readers. The book in question incites. Its doctrinal stance calls for reflection, either if in agreement or disagreement with the author. The important thing is that it will arouse interest and will maintain the dialogue regarding one of the fundamental themes of economic theory and practice.