

Book Review: Europe on the Brink: Debt Crisis and Dissent in the European Periphery edited by Tony Phillips

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Europe on the Brink brings together a selection of seven important voices in economics in a discussion of the biggest economic issues currently facing Europe. Essays from those including Nobel Laureate Joseph Stiglitz will certainly be of interest to students, finds **Adrián Cosentino**.

Europe on the Brink: Debt Crisis and Dissent in the European Periphery.
Tony Phillips (ed.). Zed Books. 2014.

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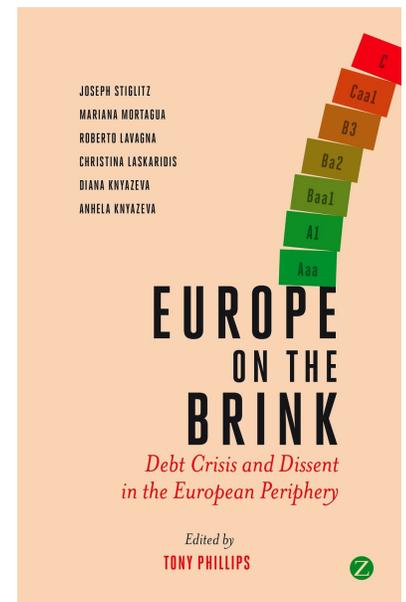
Europe on the Brink presents an exhaustive and global view of the development of the crisis now called the European Debt Crisis, with, in this reviewer's opinion, a correct balance of emphasis between the social and economic impacts resulting from the crisis. The book's focus highlights the interdependence between the factors that provoked the global financial crisis in 2008-2009, with its epicentre in US capital markets, and the European crisis, concentrating on contagion and spill-over effects to the old world continent.

The work is structured in a coherent and attractive way for a general reader. It combines a precise technical language with colloquial and dynamic prose that provides the reader a panoramic understanding of the issue at hand. The theoretical revision of economic theories in the literature on crises and on theories of transmission mechanisms is a key element to understanding the events that occurred in the economies studied in this book.

Following a review of key works on the topic, the book details the factors that led to the crisis emphasizing both international factors as well as internal ones – the latter being inherent to the economic dynamics governing the functioning of the European Union itself.

Regarding external factors, the emphasis lies in the role of financial integration between the United States and Europe, the hidden risks carried within the dizzying growth of financial innovation characterising the pre-crisis period, and the lax regulation on the part of the public agencies, who proved extraordinarily passive when confronted with the process of risk accumulation by the financial system that they were supposed to oversee. The author is keen to argue that this regulatory failure was partially motivated by an ideological bias: i.e. confidence in the efficiency of the self-regulation of financial markets. It also analyses regulatory capture and the so called "revolving door" between financial regulators and banks where former Wall Street executives became public functionaries charged with regulation, and after leaving office they took roles, yet again, in the private sector as executives in investment banks.

As regards internal factors, the book focuses on structural current account imbalances, which characterized trade in goods and services between Europe's economic centre and its periphery, and how the introduction of a common currency reinforced these external disequilibria. Also stressed is the failure of governance in the multilateral institutions which intervened in the crisis – the IMF, the European Commission, and the European Central Bank – with a critique of the theoretical framework that they adopted to diagnose, and later to contend with, the problems with which they were presented during the crisis development. Also covered is the lack of democratic representation of these institutions engaging in arbitration between the interests of the periphery nations in crisis and their external



Argentina's experience also clearly demonstrates the hypothesis that debt restructuring should not be considered as a mere transaction. Rather, it should be considered a dynamic process existing within a larger macroeconomic policy framework, orientated in a first stage toward the stabilisation of output and employment, and, during a second stage, designed to induce a process of balanced growth and economic development, preserving fundamental macroeconomic equilibria throughout the process.

Framed this way, one may add that the design of a restructuring process should not be limited to creating a transaction which induces the maximum participation of creditors possible; rather, it must include the planning and execution of a financial strategy aimed at the restoration of government solvency. This financial strategy must be based in an inter-temporal sustainability objective and focused on optimizing both domestic and external financing sources, developing local institutional investors, and achieving an efficient management of assets and liabilities. This in turn is required to thoroughly attend the functions that society delegates to governments, such as covering basic social needs, providing high quality public goods and services, and the execution of economic policies that foster economic development.

Nevertheless, it is necessary to keep in mind that the underlying legal framework that applies to the process of default and restructuring of sovereign liabilities presents serious omissions that can plague the type of restructuring strategy described above. This gap in the framework leads, in turn, to the possibility that holdout minorities can prevent the successful culmination of the restructuring process. While the book attests to innovations such as [retroactive Collective Action Clauses during the Greek restructuring processes](#), Argentina's modern reality constitutes an excellent leading case for understanding the possible consequences of these flaws in the international financial architecture, which in turn can give rise to harmful confrontations between the sovereign and holdouts, who through free rider behaviours seek to obstruct the process of financial normalisation, and thereby put at risk the achievements attained by same.

When faced with this situation, numerous academics, policymakers, sovereign nations, and multilateral institutions have recognised this black hole in the international financial architecture, and have formulated a multitude of initiatives intended to offset them. In this regard, the world is attending to a rich discussion in how to reconcile these new ideas, concepts and initiatives, so as to generate better conditions for future sovereign debt restructuring processes. One hopes that this book and future works can provide some valuable inputs to this debate.

Adrian Esteban Cosentino graduated in Economics from the University of Buenos Aires (UBA). He holds various postgraduate degrees in Finance, Economics and Banking from Institutes in Argentina, Taiwan and Germany, and teaches various graduate and postgraduate courses in Buenos Aires. Adrian has held many government positions including Secretary of Finance, Undersecretary of Finance, member of the board of the Argentine Investment Bank for International Trade, and the Central Bank of Argentina. He and his team are currently members of the Debt Restructuring Unit of Argentina's Ministry of Economy and Finance; which Adrian coordinates.

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