

## Introduction Walter H. Fisher - Head of Department

It is my pleasure to inaugurate the first edition of the IHS Department of Economics and Finance Newsletter.

In this issue we highlight the placement successes of five of our graduating students.

Updates about our teaching programs and the successes of our students will also be an important part of the Newsletter.

Indeed, we are proud to participate in three advanced degree programs in economics and finance. These are the Master of Science in Economics, a joint effort between IHS and the TU Vienna, the PhD in Economics that is organized by the Vienna Graduate School of Economics (VGSE), and the PhD in Finance that is run by the Vienna Graduate School of Finance (VGSF).



*This newsletter is interactive and has therefore some hyperlinks implemented. Links connect you directly to our new Facebook page, a Twitter client and content on the IHS webpage. Just click on the symbols and icons!*

### Features

Each Newsletter will also include a special feature article covering a current topic of academic or policy interest. For this first edition of the Newsletter we will feature an interview with Professor Paul De Grauwe, who will speak about the future of the Euro. Finally, please do us give feedback about the Newsletter, both praise and criticisms are welcome! [wf]



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## Social Media New Web 2.0 Strategies

The term Web 2.0 is associated with applications on the World Wide Web that allow participatory information sharing, user centered design and collaboration on the internet.

A Web 2.0 site, such as Facebook, allows users to interact and collaborate with each other in social media dialogues as creators of user-generated content

in virtual communities. Web 2.0 applications encourage users to more actively interact. With our new Facebook fan page we take a step forward towards a new Public Relations strategy for the Department. People world wide can now join the page, watch photos and videos, read articles and related content, and not miss the latest news. [ag]



follow us on  
twitter

## Twitter The Realtime Department

Some well known scientific institutions very successfully promote their activities through Twitter. They don't miss out the chance to engage with their partners, students, or customers by providing quick live updates.

The Department of Economics Finance has implemented a Twitter client that up-

dates the Department's new Facebook page. Twitter is currently the most powerful social media tool. A tweet can reach a few thousand people in the world just in seconds. [ag]



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## Students Recent Placements

**“You’ve got mail!”** At this time of the year, students graduating in the IHS Economics master program are hearing from universities all over the world about their admission successes. They look forward to continue their graduate education in world famous institutions. We asked them about their impressions. [ag]

### Info Study Programs

The IHS Department of Economics and Finance offers, together with its partners, high-quality Master and Ph.D. programmes that give students the opportunity to continue their scientific careers at one of the top-20 universities in the field.

For more details:  
[www.ihs.ac.at](http://www.ihs.ac.at)

**THOMAS JUNGBAUER**  
(Northwestern University):  
“In Economic Theory, Kellogg School is second to none. Not only does an IHS Master’s degree enable top-class placement – it moreover provides its students with a solid background in Economics and rigorous quantitative training necessary to excel in such programs. While focusing on American PhD-style coursework, 2<sup>nd</sup>-years enjoy to collaborate with world-class faculty on research questions of their choice.”



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**LISA WINDSTEIGER**  
(London School of Economics):  
“Studying at the IHS, I obtained a deep and interesting insight into academia. The program may be hard work, but it is definitely a good preparation for a high-level PhD-program and it can open the doors to even the most reputable places. I am very much looking forward to doing my PhD at the London School of Economics.”



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**STEFAN SCHNEEBERGER**  
(Yale University):  
“For me, the IHS was the crucial springboard to Yale. Without the program, I doubt that I would have gotten the great opportunity to do my PhD at such a prestigious university. The program was intense and involved a large amount of work, but it really paid off in the end. And it was also a lot of fun to study with a great group of peers.”



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**SIMON NEUMÜLLER**  
(Geneva University):  
“Prior to the IHS program I obtained a BA in Governance & Public Policy. Having this rather unusual background for graduate studies in economics, the IHS gave me the opportunity to get familiar with the tools necessary to conduct up-to-date research. Hence, I am now really looking forward to pursue a PhD in International Economics at the Graduate Institute in Geneva.”

**ANDREAS GULYÁS**  
(University of California, LA):  
“For anybody who wants to pursue an academic career, the Master program at IHS is the place to be. Faculty is really approachable and their doors are always open for you to drop by. They not only are very helpful inside a classroom setting, but moreover they provide invaluable support during the PhD application process.”



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## Interview Paul De Grauwe: Solidarity on a Larger Scale

World-class economist Paul De Grauwe is pressing for more solidarity within the EU financial system.

**Prof. De Grauwe, you are known as controversial and your comments on the economic situation of the eurozone seem to disrupt the academic consensus. Why is that?**

I get a lot of opposition in German speaking countries. Not so in France, Italy, or even England. The things I propose find much more sympathy. Why that is so strong in Germany or Austria, I don't know. But, there is generally a very strong faith in the markets. It seems that this faith is stronger in countries that are economically more powerful.

**In your papers and official statements you strongly plead for strengthening political ties within the eurozone. Can you explain why that is so important from your point of view?**



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This idea that we don't need a political union, that if we just follow the rules of markets then everything will be fine, is simply wrong. The EU is in essence a political project. And the implication of this is to build political ties.

**What does this mean for the eurozone?**

If a big European country gets busted this could seriously threaten the eurozone. The eurozone is fragile, because it can only exist if each individual European nation thinks it is in its own interest to stay in there. When countries believe it is not in their national interest anymore they will pull out of the eurozone. And the knowledge that this can happen is a destabilizing factor for the financial union. When there is fear that certain countries default, the probability that these countries default gets higher.

**But economists commonly claim that markets are self-regulating. You stated before that only a political union, hence a budgetary union, could guarantee the future of the Euro. What is true?**

Economics is like a religion. Some economists argue that markets are efficient and therefore we should believe their judgments. Furthermore the same economists believe that these judgments are

more reliable than those of politicians. This is not founded on theory or analysis. I can equally argue the opposite and say: "No, I trust politicians more than the 'markets'." And who can say I'm wrong? Of course I'm aware that many politicians are not to be trusted, but the same holds for the markets.

**So is it wrong to claim that markets are self-regulating and therefore more efficient?**

There are some areas where I trust the market more than the political system. It is all a matter of in what areas is one system more effective. When you want to have bread on the table you better use the market. But for other things you better don't use the market.

**But who can play the role of a regulator?**

It must come from the political system. There is no other way to do it. Pollution is one example: The civil society has to get organized, to force

politicians to interfere in this whole process of the market and constrain actors in their capacity to pollute in some way. Distribution is another example: The ideal market system is neutral in terms of distribution. The equilibrium could be one where some individuals get nothing and starve. But that's also an equilibrium outcome. Again, only the political system can regulate towards common welfare.

**The political system is never independent from the economic system...**

That's why I believe a democratic system is the best way to discipline the market. Then you have an alternative circuit: So those who get nothing will organize themselves and bring together a political force to correct for that. We have been relatively successful in Western Europe to do that.

**The EU as a political union is such a project...**

Yes, there is a lot of redistribution. We are far from being perfect, but certainly we have built in mechanisms of redistribution, social security and

### About Paul de Grauwe

Paul De Grauwe, professor at Katholieke Universiteit Leuven (Belgium), focuses his research on international monetary economics, more specifically on issues relating to monetary integration and exchange rate economics. As a member of the Group of Economic Policy Analysis, advising the EU Commission President Manuel Barroso, and former member of the Belgian parliament, he is currently one of the most well known and popular advocates of a financial assurance system for EU member countries.

LINK: 

## Interview

so on. The market doesn't produce social security. In order to have workable social security, you need to apply force. Concerning the health insurance system, the market will fail to provide it, because there is a 'negative selection': Those who feel very healthy will not be tempted to sign up for insurance. It's what we have done in Western Europe - you force everybody to insure him or herself. But that's outside the market, because the market doesn't force people. If you let the market decide the laws you will not have a proper health insurance system.

### **Let's go back to the eurozone: Is there a need for a European financial insurance system?**

Yes, indeed. My claim is that there is a need for automatic solidarity. Monetary unions need insurance mechanisms that are capable of helping member countries not only out of altruism, but out of self interest. Before government

bonds were held domestically. The eurozone has opened that up, so that as a result in many countries nowadays a bigger proportion is held outside than by residents. Therefore when one country gets into financial difficulties it triggers financial problems elsewhere. There is a big divergence in debt-to-GDP ratios, which points to a structural problem of the eurozone. When a member state fails we cannot talk of a localized problem anymore. At the moment we have to deal with systemic problems. The key problem of the eurozone is that it is a financial union without a political union, and therefore without mechanisms of automatic transfer in times of crisis. Countries were not willing to automatically transfer resources to deficit countries. When Greece was hit nobody wanted to help.

### **Do you think bondholder haircuts facilitate market discipline and can help enhance financial stability?**



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There is too much focus on moral hazard like Greece, while Spain and Ireland are a totally different story. Spain and Ireland have nothing to do with moral hazard. Both

countries had the best fiscal policy prior the crisis. The intention is clear: Punishment of the sinners. But the proposals that were made even intensified the crisis.

As a result they made the eurozone more fragile.

### **So is there a future for the Euro?**

The basic problem is the absence of a political union. And we are even more far away from a budgetary union. Monetary policy is fully centralized, while fiscal policy, taxation, social policy and wage policy remain in national hands. For this reason there are no instruments to avoid divergences and there were no instruments to deal with the crisis. I think financial solidarity is essential.

We are condemned to show some solidarity. Hence, we need a political union to force some countries to show more solidarity. We can only proceed by making small steps. The creation of the European Financial Stability Facility in 2009 was such a step. I don't believe in big revolutions. Intellectuals usually want something 'better', faster, a technical solution. That is utopian.

I claim without these steps towards a political unification the eurozone has no future. [ag]

On 26.1.2011 Vienna Graduate School of Economics (VGSE) held a discussion evening in celebration of its establishment this academic year at Bank Austria's Oktogon. The inauguration event was titled "The Future of the Euro" and included a public lecture by Paul De Grauwe.

