

BOOK REVIEW

**“THE ECONOMIC CRISIS AND ITS AFTERMATH IN THE
NORDIC AND BALTIC COUNTRIES
DO AS WE SAY AND NOT AS WE DO”**

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The book *The Economic Crisis and its Aftermath in the Nordic and Baltic Countries Do As We Say and Not As We Do* written by Professor Dr. Hilmar Þór Hilmarsson is unique in many respects. It provides a broad view about the Nordic-Baltic countries, their response to the crisis of 2008/09 and the post-crisis consequences. Both regional and international aspects have been analyzed, namely regional institutions such as the European Union (EU) and global institutions such as the International Monetary Fund (IMF) in the operational sphere where policy choices of these nations get influenced. The author points out that Barry Eichengreen (Professor of Economics and Political Science at UC Berkeley) suggested that the title of this book should include: ‘Do as we say and not as we do’, reflecting author’s view mainly to a comparison between how Nordic countries may want the Baltic States to respond to crisis as compared to how they would respond themselves in comparable situations. In order to support this statement, the author mentions some instances, for example, comparison of how Finland and Sweden responded to the banking crisis they experienced in the early 1990s with how the Baltic States responded to the 2008/09 global economic and financial crisis, arguably under Nordic (mainly Swedish) influence. All those countries are then influenced by regional and global institutions. Thus, the author framed the title of the book as “The Economic Crisis and its Aftermath in the Nordic and Baltic Countries: *Do as we say and not as we do*”.

The author has used the word “Crisis” in the title mainly to indicate the global economic and financial crisis which was experienced in the latter part of 2008, but other crises are also discussed for comparison, including an earlier crisis that hit Finland and Sweden in the early 1990s. In view of the author, the crisis response was influenced by the ownership of the banking system in Baltic States and the consequences continued post-crisis. The author says that historically, Baltic States are integrated with the Nordic countries and when the Baltic joined the World Bank Group as full member states, they also joined its Nordic Constituency, which is known as Nordic-Baltic Constituency. Same arrangement is used at the International Monetary Fund. The author points out that Iceland, the smallest member of the Nordic group, made the political decision in 1991 to become the first country in the world to recognize the independence of the Baltic States. As small emerging countries, the Baltic States tend to limit their international involvement in their own economic, political and security interest. The Baltics are member of the Nordic Investment Bank, based in Helsinki, Finland.

The author visited the Baltic States and as a Political Advisor to the Icelandic Ministry for Foreign Affairs, he himself involved in integrating them into Nordic-Baltic World Bank Group coordination by chairing the meetings for the constituency and he took initiatives also to invite the Baltic States to those meetings which were held in Reykjavik for the first time. Geographically, the scope of the study is subject to mainly Nordic countries and the Baltic States together with the interaction between small states and external forces which include USA, Russia, China, European Union, International Monetary Fund and some major commercial banks etc.

This book has been divided into thirteen chapters. Each chapter presents case study and comparative analysis. The theoretical approach applied by Professor Hilmarsson in this book is multidisciplinary. It draws on theories in economics, international trade and finance, political science, public administration, and public policy. This broad approach also reflects the author's academic training and diverse experience in economic development, international trade and finance, and public administration: working as a staff member of a global financial institution i.e., the World Bank Group in three different continents, as an advisor to the minister for foreign affairs in Iceland, and in academia as a professor. Definitions and theories used in each chapter of the book have been discussed in detail. There are some definitions which are still debated, such as what constitutes a small state. Such discussions are relevant for the study because the author has focused on Nordic countries and the Baltic States which are all classified as small states in European small states literature. Comparative analysis done by the author is based on the notion that what is small is relative to what one is comparing with. What is a small state in the Asian context may not be small in the European context? Theories about the behavior of small states in multilateral institutions are also discussed, together with the critical analysis of how they co-operate with, influence or are influenced by larger states, as well as other small states, when they are participating in the multilateral arrangements including regional and global institutions.

The book also discusses theories of economic integration in the context of the Nordic countries and the Baltic States. These countries have different levels of economic and political integration in Europe and therefore, they have different arrangements with the EU as member or non-member states.

The methodology used in the book is the case study method, i.e., multiple case studies and comparative analysis. Among the sources of evidence used for analysis in the book are secondary data, including reports and scholarly literature such as articles and books. The author has also conducted interviews and exchanged emails with many scholars, mainly in the field of economics, international finance, political science, and public administration. Direct observation also plays a role in this book, as the author draws on his experience and observations prior to and during the 2008/09 economic and financial crisis. Since 2006, he has lectured as a professor at many universities in all three Baltic States. Collected data have been used in tables and graphs constructed by the author to make sure that they can be compared across the countries discussed. The multiple theoretical and methodological approaches used in this book have made a possible ground for analysis. The period covered is 2005 to 2016 together with some historical figures especially related to countries' membership accession to various organizations and institutions. The Nordic countries and the Baltic States are closely connected via their financial sectors, with the exception of Iceland. Trade and investment links play a vital role in making economic integration between these countries. The author points out that these links have affected crisis transmission more than they affected crisis response. Nordic-Baltic region achieve economies of scale in their production through cross-border trade with Europe. Besides this, cross-border capital flows within the EU are also an important aspect for Nordic-Baltic region. Author explains that all the Nordic countries and Baltic States are participants in both European Economic Area (EEA) and the Schengen Area despite maintaining different and separate level of economic integration with Europe. The author highlights the issue of small states' alliance either with larger states or international organizations or both for their prosperity and even for their survival. The Nordic countries and the Baltic States also participate in regional institutions such as the EBRD (European Bank for Reconstruction and Development), which has also been active in reconstruction in the Baltic States and provided assistance to Latvia during the 2008/09 crisis.

Professor Hilmarsson has discussed about issues related to small states such as governance issues which are vulnerable in small states with small institutions and limited human and administrative capacities. Key issues, in this regard, are related to how do small countries work with international organizations and how do they manage their relationships with large multilateral powers and bureaucracies? Baltic States, after getting independence, formulated their economic policies including fiscal and monetary policies, exchange rate regime etc. The author has made a comparative analysis of experience of the Nordic countries in the early 1990s financial crisis with the experience of the Baltic States during 2008/09 financial crisis when the economies of the Baltic States were hit exceptionally hard. After 2008/09 crisis, Sweden, a Nordic country advised the Baltics to adopt the euro but without national referendum whereas national referendum was practiced in

Sweden in 1990s resulting in the rejection of the euro. The author looks at this as a case of “Do As We Say And Not As We Do”.

It is very interesting to see issues prevailing in the euro area. Professor Hilmarrsson mentions that all three Baltic State governments adopted euro as a common currency after becoming members of European Union (EU) and he discusses how a common currency makes a ground for ties between member states and also unpredictable consequences when some member states are inside the currency union (e.g. Baltics) and others out of it (e.g. Sweden).

Professor Hilmarrsson highlights some fundamental problems such as lack of solidarity within the diverse group of nations, absence of full banking union within the euro area and how economic spheres get affected or pressurized due to different growth rates within the currency union, since countries within the euro area do not have independent monetary and exchange rate tools to help them readjust. He points out an important issue in this regard that Baltic banking system is the part of currency union and the Nordic owners of the Baltic banking system exist outside the currency union. He critically analyses how awkward situation prevails within Nordic-Baltic region in this regard. He indicates the danger of risks in one country spreads to others in chain in the matter of growing interlinkages between financial systems in the Nordic-Baltic region. Issues related to rising debt levels in the Baltics and the foreign bank bailout during the 2008/09 crisis have been analyzed. The problem of lack of democratic accountability in case of ECB is also highlighted because ECB is considered as one of the strongest institutions within the EU. Issues related to Nordic welfare model and its adoption in the Baltic States have been analyzed. The author mentions that adopting the Nordic welfare model in its entirety would be out of reach and unsustainable at their current income level. Nor is there any reason for them to copy the Nordics on every account. He points out that currently the Baltics are closer to the free-market neoliberal Anglo-Saxon model and in his analytical view, the Baltic could gradually adopt the Nordic welfare model with more equal income distribution and more inclusive societies. Issues related to democratic aspect have been discussed and how is it in EU?

One-way outward migration out of Baltics and its negative aspects on the long-term economic growth have been highlighted and critically analyzed. Even in case of geographical boundary, the author points out that historically the Baltic States have been attacked or occupied on all sides, from the north by the Scandinavian countries, from the east by Russia, and from the south by Germany. Historically, these are fragile states, which have constantly struggled for survival.

In the comparative analysis of two small countries in the Nordic-Baltic region, Iceland and Latvia, he highlights many important facts. In terms of fiscal adjustment, the government of both countries implemented painful budget cuts, although the front-loaded fiscal austerity programme in Latvia was much more radical. As a welfare state Iceland ran larger fiscal deficits and for a longer time than a neoliberal Latvia did. Iceland and Latvia both were badly affected by the economic crisis of 2008/09, each has its own distinct history and culture and they are at different stages of development, both economically and socially. The author has analyzed the challenges faced and action taken by the governments of Iceland and Latvia during the 2008 crisis.

In this book, the author has highlighted the successes and failures of the Nordic countries and the Baltic States, the lessons learned from their experience of the 2008/09 economic crisis, and future challenges. The internal strengths and weakness of these countries are assessed as well as external opportunities and threats. Existing potential ground for Nordic-Baltic co-operation is discussed as these countries are linked via trade, investment and mobility of labor, in addition to a shared common history.

Lack of economic and political autonomy is considered among the main reasons behind poor post crisis performance in all three Baltic States and slow post crisis converging with either the richer Nordics or the EU15 member states. The author puts likely economic explanations of this poor performance chapter by chapter.

When economic development in Baltic States and Iceland is compared and analyzed, author highlights the striking differences in this regard. Besides this, the author has made an effort to answer the research questions and also raised many questions that make a basis for further research. Overall, this book provides carefully researched details of Nordic-Baltic region. The chapters written by Professor Hilmarrsson in this

book offer insightful and theoretical views on the economic crisis, policy approach, welfare model, global system in case of cross-border investment and trade links, economic aspects of migration, inter-linkages of financial systems, socio-economic development and fragile democracy etc. Professor Hilmarsson with his broad academic background and experience discusses several issues on Nordic-Baltic region that are of global importance. The book is a welcome and a valuable addition to the existing literature and very useful for academician, policy-makers and general readers. This book for sale at the publisher's website Routledge and is also available online at amazon website.

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