

West European Studies

Newsletter

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Minister Dagmar Schipanski speaks on German reunification

Dr. Dagmar Schipanski described the process of German reunification following a ceremony in which representatives of Indiana University and the University of Erfurt signed a contract of cooperation. Dr. Schipanski, the minister for Science, Research and Art in the German state of Thuringia, and a former German presidential candidate, was accompanied on her November 5 visit to I.U. by Dr. Dietmar Herz, the director of the Erfurt School of Public Policy. In a ceremony at Bryan Hall, Dr. Herz signed an agreement pledging mutual cooperation and friendship between I.U. and the University of Erfurt. Patrick O'Meara, Dean of International Programs represented I.U. as signatory to the contract, which had also been signed by Dr. David Audretsch, Director of West European Studies and Director of the Institute for Development Strategies.



Dr. Dagmar Schipanski serves as minister for Science, Research and Art in the German state of Thuringia. She is also a former German presidential candidate.



Patrick O'Meara, Dean of International Programs at IU, and Dietmar Herz, Ddirector of the Erfurt School of Public Policy, signed the contract between the two institutions.

Following the ceremony, Dr. Schipanski spoke to an audience of students, faculty and community members at the International Center on the achievements and further challenges associated with German reunification. Citing 2003 as the thirteenth anniversary of the unification of the former East and West German states, Dr. Schipanski assessed the progress that has been made and the work that remains, in creating a truly united Germany. Achievements highlighted by Dr. Schipanski included the expansion of the West German legal system to the whole of unified Germany, and the recognition of former East German residents

as citizens with equal rights. Dr. Schipanski also described the improvements made in her own state of Thuringia since reunification, particularly the construction of a new 5 mile tunnel, the aesthetic renewal and modernization of towns, and the positive environmental benefits from conversion from coal energy to gas. The investment of American companies was crucial for many improvements and for the creation of jobs, said Dr. Schipanski, naming Shell and GM, among others, as corporations which had contributed to the economic development of the former East Germany. The minister also stressed the role of science, research and innovation in generating economic growth and employment, and pointed to the increase in the number of universities in the former East Germany as a positive development, especially the founding of the Max Planck and Hoover Institutes. Dr. Schipanski spoke of the contract of cooperation that had been signed earlier in the day, and the value of such an agreement in fostering global competency among students. She described how the University of Erfurt could spur economic development by supporting industry. Dr. Schipanski concluded with a reminder of the need for more work in healing the divisions of the past, citing high unemployment rates in eastern Germany compared to the west as an example of the challenges the nation still faced. Reunification, she said, ultimately required the efforts and civic commitment of individual Germans.

Who is happy with the strong Euro?

WEST professors comment on the financial aspects of European integration

The euro is stronger than ever before. This month the single European currency hit a new high of over \$1.20. Compared to July 2001, when one euro has worth 84 cents, this is a 44% rise in the euro (and 31% fall in the dollar). How significant is this change in the relative values of the two currencies and how does the euro's swings affect the European economy and the process of European integration? The dollar-euro exchange rate is often considered the world's most important price, with potentially bigger economic consequences than the prices of oil.

The euro raises, problems in the euro zone as well. Recently, Sweden refused in a referendum to accept the euro. In the past year, Germany, France and Italy broke the pact's rule on the 3% deficits of GDP. Moreover, France has already received the European Commission's recommendations and is likely to get fined if it continues to run a large deficit. But could the fiscal rules of the euro zone be practically enforced? Is it possible some of the members could get fined and how will this affect their relations with others in the EU? And finally, what is the future of the euro? In spite of the strong euro, some euro-skeptics argue that the creation of the single currency was an elite project with little public support which will not last long.

WEST asked its faculty members for a commentary on these questions. Prof. Roy Gardner and Prof. Lawrence Davidson discuss below the performance of the euro and its significance for American and European economies.

Roy Gardner

Chancellor's Professor of West European Studies and Chancellor's Professor of Economics

The fluctuations in the exchange rates are often exaggerated, which in Economics we call "overshooting". Here, there has been overshooting in both directions—relative to fundamental value (which is take to be parity, 1 US\$ = 1 euro). First, the euro overshot on the downside, and was very much undervalued at \$.80. Now, the euro has overshot on the upside, and is somewhat overvalued at \$1.20. A large economy like that of the USA or EU mostly takes these fluctuations in stride; it is small economies that are hit harder. One thing we can be sure of, as long as the US\$ and euro float, we will continue to experience a lot of exchange rate volatility (ups and downs).

The euro was created in order to complete the European single market and promote ever closer union. In this regard, the euro is a great success. Pricing EU-wide is much more transparent, and EU competition policy is much more able to enforce single-pricing throughout the zone.

Of course, there are problems. In the past year, Germany, France and Italy have broken the pact's ceiling on deficits of 3% of GDP. When big countries break the rules---here the Growth and Stability Pact---it jeopardizes the entire EU structure. Although there is an enforcement mechanism in place, one can scarcely imagine enforcement against 3 big rich countries simultaneously. If the Finance Ministries of the Big 3 do not soon get their fiscal houses in order, we're looking at the first big crisis of the euro, and it's strictly internal.

This is maybe the single biggest reason for the recent Sweden's "No to the Euro". As Swedes asked themselves (they are running a 2% budget surplus), "Why should we be paying for the rule-breaking Germans or French?" Yes, Sweden is a small country (economy and population slightly larger than Indiana), so this represents a road bump on the road to Europe, nothing more. Rather like Norway's "No" to EU a decade ago. However, the reason, mentioned above is quite important.

What is the euro future? The entire EU has been a top-down process, with the (enlightened) political elite driving every integration advance---from Monet to Werner to Delors. The euro is no different in this regard. Its wholesale acceptance by the public at large (to say nothing of the rest of the world) shows that it is here to stay.

Lawrence Davidson

Professor of Business Economics & Public Policy, Kelley School of Business

What a ride! After much planning and fanfare the euro emerged in January of 1999 from the EU womb with a value of about 0.856. In other words, upon entry, one dollar could obtain less about 86 European cents. By New Year 's Day of 2002 the exchange value was 1.122 – implying a appreciation of the euro of about 31 percent in three years. As I write in December 2003, the euro has strengthened against the dollar even more.

What is there to say about all this? First, somewhere in the gyrations seems to be an average value close to unity, suggesting that the long-term value could be somewhere around parity. Second, hardly anyone likes the wide swings which seem at least partly motivated by psychology and speculation as opposed to fundamental factors. When the euro declined it was viewed by some as a sign of European weakness. European exporters like Siemens and VW didn't complain, but the many French and other European consumers didn't much appreciate paying more for imported products. Today, with the euro stronger, EU pride is restored but the exporters aren't so happy. The many US citizens who travel to Europe or who consume Nokia phones, wines from the Alsace, and other such products are not very happy either.

Finally, what are we to make of future changes? My guess is that the euro is probably stronger today than fundamentals can support. Sure, the US has a large trade deficit and things aren't perfect in George Bush's economy. But somehow, I think, the world's currency traders are not fully incorporating difficulties of an EU enlargement, a new constitution, and a 21st century brand of eurosclerosis. My guess is that the value will head back toward 1.0, though not without some possible swings in either direction.

WEST Alumna prospers in Europe for 13 years

Laura Meyer plans to return to academia after years as a top manager and consultant

After graduating from West European Studies at Indiana University, Laura Meyer made a rapid career and occupied top positions throughout Europe. She defended her thesis in WEST in 1987 and a few months later she flew to Paris and started studying on the IU-SPEA/Ecole Nationale d'Administration program during the fall semester. She remained in Europe visiting her friend in Amsterdam and then continued on to Berlin during the spring of 1988, where she received a scholarship to study on the "Heart of Germany" exchange program between IU and die Freie Universitaet.

She remained in Europe working as a management consultant in Germany and the UK with Alexander Proudfoot S.A., now Proudfoot Consulting. Then she moved to Munich and began her career with the Wm. Wrigley Jr. Company. She was European internal auditor, working throughout Europe and Africa, and then was promoted to Financial Manager in the Netherlands and lived in Amsterdam. "I used my Dutch daily, which I learned from the FLAS scholarship that I had received through the WEST program", said Laura.

Wrigley's asked her to move to Poland and implement an enterprise-wide computer system for the new Wrigley factory in Poznan. Following a successful implementation, she returned to Munich and worked for Wrigley's. In 1998, she left

Wrigley's and moved to Amsterdam where she worked as a consultant with Cambridge Technology Partners.

In 2000, after 13 years in Europe, she moved to Chicago. "It was a bit of a shock to return to the States, and in the midst of the presidential election," remembered Laura. She became North American Director of Operations for her friend's start-up company, First Tuesday. After the company was purchased, she worked on another start-up, WorldWIT--World Women Innovation Technology. More recently, she was Managing Director of WSEP Ventures, Inc. in Chicago. Currently, she is working at a global economic development start up in Chicago and planning to return to the academia soon.

Now Laura Meyer is in Europe again to celebrate Sinterklaas with her Dutch friend, Ellie, and her family. Laura met Ellie as a student in WEST.

Faculty Highlights:

Audretsch directs a research unit at Max Planck

Professor David Audretsch, Director of West European Studies at Indiana University, is leaving for Germany for eight months. He will be director of a research unit at the Max Planck Institute for Research into Economic Systems in Jena, working on "Entrepreneurship, Growth and Public Policy in Europe."

Robert Rohrschneider will be WEST Acting Director

Professor Robert Rohrschneider will be serving as Acting Director of West European Studies for eight months starting from January while David Audretsch is in Germany. Professor Rohrschneider's teaching and research interests center on comparative politics of advanced industrialized democracies with a concentration on Europe.

Gardner, Chaouli, Sheehan awarded travel grants

Professor Roy Gardner was awarded a travel grant to attend the American Association for the Advancement of Slavic Studies in Toronto, Canada, where he chaired a session in the end of November. Two professors received WEST financial support to participate in the annual convention of the Germanic Studies Association

in New Orleans, Louisiana. Prof. Michel Chaouli presented there a lecture on Kant and the turn to aesthetics. Prof. Jonathan Sheehan spoke on the Enlightenment Bible.

Student News:

Sean Keefer, master's student in WEST, has successfully defended his thesis. The title of his work is "Economic change and Regional Voting in Spain." On his thesis committee were David Audretsch, Director of WEST, Dan Knudsen, Associate Director, and Josep Sobrer, Professor of Catalan and Spanish. Sean will continue his studies in a Public Affairs program in Buenos Aires, Argentina, through Georgetown University.