

## **KFG Workshop "Can Europe learn from other regions?"**

For a considerable time the European Union has been regarded as a model case of integration. Following neoinstitutional assumptions and the predictions of the theory of optimum currency areas, it has been assumed that the logical consequence of economic integration is trade liberalization and the establishment of a common currency. The Eurozone crisis, however, has demonstrated that economic integration, based on trade and financial liberalization, may lead financial instabilities. The validity of the assumption that liberalization of trade and finance lead to trade efficiency and financial stability at the same time has been eroded by the eruption of financial crises in the periphery in the last two decades. By setting out the assumption that the focus on stability-oriented incentives can provide a valid framework for explaining cross-regional variations of financial institutions the KFG (Kolleg-Foschergruppe) "The Transformative Power of Europe" at the Freie Universität Berlin has hosted two workshops, organized by Arie Krampf and Barbara Fritz on "The Financial Crises in Comparative Regional Perspective". The workshops brought together authors working on different regions in Latin America, Asia and Europe with the common theme to analyse how these regions address the demand for financial stability, thus leading to variations in the regional institutional design.

Sonja Puntscher Riekmann and Doris Wydra contributed to these workshops with a paper on a comparison of the construction of Fiscal Federalism in the European Union and the United States. Since the onset of EMU economic literature has opened a debate about lessons to be learned from other historical experiences, with a special focus on the US case. Similar pendulum swings between centralization and decentralization can be discerned in the American history, where decentralization was fought for in the name of state sovereignty. Similarly, European member states allowed for centralization to combat the crisis, but with the clear aim to keep novel institutions under their control. The aim of the paper is to test the scope of such a comparison. The paradoxes of fiscal policy continue as long as member states may defect or alter decisions in response to national preferences. The purpose of uniting is continually challenged by the purpose of member states to occupy the centre in order to satisfy their desire for sovereignty in welfare related policy fields being important to their electorates. But at a closer look also the US have come a long way from its initial constitutional moment, as the creation of fiscal federalism US-style did not occur at one point in time, but on several occasions and always in response to economic or financial crisis. In both cases we see "an incomplete federation in action", whose actions are constrained by past institutional choices allowing for sovereignty saving decision-making, but at the same time for the pursuit of common solutions. Institutional set-up, rules and norms are not fixed, but always open to re-interpretation, as incomplete contracts regulate power distribution between different levels of government.