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Europe in crisis. Crisis in Europe

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We have already entered the fourth year of the global crisis, which at various stages and in different countries has taken different forms, originating from distress on the US housing market, evolving into the debt crisis mainly restricted to Europe, to finally take shape of an increasingly tangible economy and labour market crisis. In the European Union the current affairs have been additionally accompanied by the emergence of the democratic deficit. The problems that we have been facing are no longer of a purely economic nature, they are also political. Pleas for reforms and more solidarity on the one hand, and economic responsibility and financial discipline on the other hand, are accompanied by a growing conviction that simple solutions do not exist. The ambivalence of many suggested solutions is additionally reinforced by the high level of interconnections and imbalances among the EU member states, which make it impossible to introduce changes suitable for all parties. The question that has been in the air since the outbreak of the crisis, *Quo vadis Europe now?,* has not been answered in any satisfactory way yet. Nonetheless, the essential issues related to the current phase of the crisis in Europe deserve to be recapitulated.

The scale of the crisis and the speed at which it has spread is quite interesting. The arising panic and the pace at which subsequent economies have been “infected” provokes the question if it is really possible that nobody (financial markets?) managed to predict the looming problems. The accumulation of national debt is, after all, a long-term and easily noticeable process, as opposed to a single terrorist attack or a natural disaster such as tsunami, the scale and sudden arrival of which could justify the outbreak of panic.

Meanwhile, the actions of the so called markets look suspiciously like speculation, including succumbing to herd effects (e.g. the EU member states competing to surpass the 7% break-even point on bonds). Even though the concept of sustainability has been socially accepted in terms of the environment protection and has gained popularity within the scope of social politics in the face of demographic problems, it is still completely unknown in the financial sector. Its unrestricted development (financial assets have greatly surpassed the global GDP) and no actual reference to the real economy have been ignored for too long.

Analysts are practically unanimous about the necessity to plan a future exit strategy for the common currency area, which would allow member states to leave the eurozone and would specify the conditions of such a step. The lack of clear regulations in this respect is one of the elements of the failure of crisis management. However essential it may be for the proper functioning of economies, it is absent in almost the entire EU. The establishment and implementation of such regulations produces multiple benefits, one of which, according to what economists say, is exerting positive motivating pressure on national decision-makers, in order to encourage them to introduce reforms and at the same time stabilise external markets. Instead of applying stopgap solutions and extinguishing future fires (which are probably inevitable), it might be a better idea to prepare and equip a proper rescue system. The lack of crisis management and a rescue mechanism is considered one of the major crisis-exacerbating factors.

One after another, the increasingly “groundbreaking and historic” EU summits have yielded new sets of indices. Negotiating thresholds, limits, etc. is meant to fulfil a crucial informative, comparative and disciplinary role. Putting the question of the validity of their implementation as a prerequisite for the EU convergence aside, extra attention should be paid to the growing concerns about the so called, government by statistics, which is nothing more than a dictatorship of figures over government or, to put it bluntly, a chase to fulfil new criteria. A more subtle approach seems to be crucial in this situation. This is what the analysts of the leading European centres mean, when they talk about the need to consider the following: the processes involving the less-developed economies catching up with the established economies and the consequent price growth (the Penn effect); the changeability of the value of deficits and public debt in relation to GDP, as well as the types of government expenditure, which would allow to differentiate between the long-term capital expenditure, e.g. related to environmental protection or education, from social expenditure; or as far as the level of debt is concerned, determining its maturity or types of creditors (national, foreign).

The preventive and corrective elements characteristic in the excessive deficit or excessive imbalance procedures provoke reflection over their validity and effectiveness, which is especially crucial in the latter case. Will a country struggling with a GDP drop and implementing growth-curbing economical packages still be able to settle a fine for breaking regulations? Shouldn't other sanctions be discussed, such as depriving a country of its right to vote, or temporary suspending its decision capability at EU assemblies, or at least decreasing its credibility in international rankings? Moreover, the implementation of new rules and procedures aiming at early risk detection and correction, as it is assumed by e.g. excessive imbalance procedure, entails certain practical challenges. What attracts attention here is spillover – a situation when certain economic processes spill over or affect several countries, a capacity to introduce reforms of countries under a given procedure, or the tendencies observed within the monitored categories.

The crisis revealed the instability of the monetary union, which lacks the fiscal element. According to Bela Balassa's model, in the process of integration, member economies abandon their powers one by one, tighten cooperation, and pass subsequent stages, beginning with a customs union, through a free trade area, an internal market, a monetary union and finally a political union. The euro turned out to be as successful as a (fake?) fair-weather currency, but in the face of the global economy turbulences, the fundamental weaknesses of the eurozone, as the optimal currency area have been revealed. Further insistence on this duality is impossible. Europe has to decide if it is really ready for "more Europe". A step backwards does not seem to be possible, as some costs have already been borne, such as the solutions undertaken so far, including the famous six-pack, the European semester, new elements of the macro and microprudential supervision architecture.

It is difficult not to get the impression that all measures aiming at helping the euro to recover from the crisis are based on the so called negative stimulation. Whereas, the correct logic of a well-functioning system should assume that there are not only obligations, but also rights, penalties and privileges. Germany's demands concerning fiscal discipline should then be beneficial for those countries which fulfil them, which means e.g. as pro-European experts argue – comunitising the debt through the issuance of Eurobonds.

The measures taken so far have been called by European politicians themselves as "insufficient and delayed". The EU, however, learns by its mistakes, and the current problems become only the opportunity to test the *doing by learning* concept – reacting and adjusting quickly to the upcoming challenges, along with the changing circumstances, while decision-makers gain new knowledge.

The crisis in Europe is mainly of political nature, which is reflected in the cacophony of voices, as well as the absence of agreement and readiness to reach a compromise. Additional restrictions result from election cycles and commitments towards the electorate, as well as actions aimed at stabilising financial markets by all means. The euro itself is more of a political rather than economic project. The history of the eurozone, including the accession of Greece, chronic crossing of debt thresholds by the founding states of the "hard core", such as Belgium, or ignoring and breaking rules by France and Germany leave no doubt in this respect. The ongoing arguments between France and Germany, which only fuel the crisis, reflect in fact the cultural diversity – the deeply rooted differences in the approach to the role of market and national economies, the character of leadership, the role of regulation, etc. The nature of the eurozone crisis is economical, in the sense that it reveals the main problems of modern economies – a monstrous state of prosperity, measured on the scale of deficits and public debts, the expansion of the financial sector, with no real influence on economy and finally, low competitiveness of many countries, accompanied by the fundamental flaw of the monetary union, i.e. the lack of a fiscal pillar. What lies at the basis of those problems, is the lack of convergence of the member states, and consequently the lack of synchronisation of economic cycles. The failure to fulfil the underlying condition for the optimum monetary area by the eurozone stems from the diversity of economies of the member states, and more importantly, the lack of synchronization among them (the concept of rotating slumps, i.e. rare cases of desynchronised drops of economic activity), which results in the shock asymmetry affecting the economies. The lack of resistance to this kind of maelstrom, in the situation where there is only one common interest rate and no autonomous monetary policy facilitating all the necessary adjustments, additionally exacerbates the problem. Voices have been raised that the eurozone can be an example of the massive asymmetric shock (the interest rates applied by the EBC turned out to be too low for the economies of southern Europe and led them to a bust, causing the asymmetric shock).

Analysts, especially the representatives of Brussels pro-European think tanks, question the existence both of the so called fiscal problem, and the fiscal agreement which is currently being passed. It is difficult to consider the deficit level of 4% GDP which is common for the rest of the world as high, without questioning the excessive State control of many economies. Similar conclusions can be drawn after comparing the level of public debt of the eurozone states with the level of debt in the US or Japan. It is also difficult to call the proposals of fiscal discipline accepted at the December summit a real fiscal union. Experts in Brussels actually consider them to be serious abuse. A fiscal union cannot be discussed unless there is a common budget, common financial sources, e.g. an introduction of an EU financial tax, or finally the issuance of Eurobonds. Experts suggest that the fiscal union ought to have its own minister of finances, who would be granted both political authority and suitable democratic legitimacy, including the power of veto in reference to budgetary plans of given states, and that would be responsible for assessing their public sectors and setting deposit insurance, or administrating the federal tax. They also postulate both fiscal and banking federalism, and in the long run, strengthening the democratic EU institutions (i.e. by changing the mode of election to the European Parliament), and during the transition period – of all the necessary adjustments – establishing institutions catalysing and modernising the changes, following in the footsteps of the post-unification *Treuhandanstalt.*

Moreover, as experts indicate, forcing the suggested solutions will require “the Himalayas of legal acrobatics”, due to the fact that introducing new intergovernmental agreements is restricted by the premises of treaties, which require a unanimous decision of the member states to be changed.

Whether these are the decisions made, packages introduced, new indices established or funds used – whatever is necessary to cure the eurozone - a question about the legitimacy of these actions, and in the case of institutions about their accountability needs to be asked. The question of democratic deficit gains a different dimension in the face of a crisis. It is no longer a question of the European Commission which is “distanced from the electorate” or the decreasing role of the European Parliament with the simultaneous growth of the significance of informal groups, such as the Frankfurt group, but it is also about the new bodies equipped with special supervisory and controlling prerogatives on the one hand (EBA), and technocratic governments of many southern European countries – not chosen in democratic election, but rather nominated by Brussels on the other hand.

The logic of the accepted solutions which are meant to be remedies for the current crisis, i.e. holding on only to the issue of fiscal discipline and the permanent sharpening of the Stability and Growth Pact may bring to mind the well-known street lamp metaphor, i.e. “strenuously looking for a lost key in the light of the lamp, rather than elsewhere where it is dark”. What about the role of the banking sector, especially the issue of the co-dependence of banking institutions and home finances or permanent imbalances on the current account within the eurozone?

Which approach, from Poland’s point of view, is more appropriate: the one promoted by France which assumes greater arbitrariness and discretionaries of decisions, or the one used by Germany, which in a nutshell, is based on greater automatism and clearly defined criteria? Warsaw has got used to meeting criteria and introducing necessary corrections, which were required before the accession to the EU, so we are already familiar with conditionality. Still, have we thought about the price we are ready to pay for “sitting at the table and making decisions”? Or are we condemned to years spent in the waiting rooms of the new elite euro area, whatever it may be like? The lesson Poland needs to learn from the present crisis is the situation the south-European countries and the risk of economic slump, which may result from lowering interest rates at entering the eurozone, and the possibility of consequent sudden stop.

The current crisis is also an expression of distrust and disbelief in growth. It is characterised, on the one hand, by the unreliability of the market, perfectly exemplified by Ireland and its banking sector as well as the development of the real estate bubble, or other similar consequences of financial innovations, which are called “the weapon of mass destruction” by W. Buffet himself; and on the other hand, by the fallibility of the state, as exemplified by Greece. However, looking at the crisis from a long-term perspective, one may risk a statement, that perhaps it is only a temporary failure in a long economic cycle (Kondratiev waves), or a necessary improvement of the previous “life on credit”, “living beyond one’s means”, or in other words high leveraging of economy, or that perhaps it is the reflection of historical dependencies called “hat-shaped relationship” (S. Gomułka).

Europe needs heterodox solutions. The traditional policy mix, which the US or Japan can refer to, is not a solution here. Hence, the pleas for more creativity in EU crisis management, or the critical application solutions made by pro-European Brussels experts. Furthermore, deleveraging both banks and budgets seems to be a must in so called financial capitalism, a pathological system in which finances are divorced from the real economy, they were supposed to serve and in which “institutions are too big to fail” were originated. This is also where the idea of the division of investment and commercial banks, mending the fundaments of today’s financial systems by determining the level of financing the economy, and the size of financial institutions, and regulations concerning the taxation capital flow started. It needs to be mentioned, though, that FAT, also known as Tobin tax, is for some a remedy, which will put an end to speculative trading and might become a source of a deposit guarantee scheme, while for other being a perverse mechanism, the cost of which, due to tax incidence, will be transferred on citizens, and will eventually weaken economic growth.

Considering the number of member states and the diversity of their interests, the EU seems to be condemned to “integration through disintegration”, i.e. to undergo processes along the idea of “*a la carte*”, “Europe of multiple velocities”, or “Europe of changeable geometry” (A. Warleigh), or as it is already in use in certain aspects “the reinforced cooperation”, that is, as some say – “A Union within a Union”. Further integration will most probably mean resigning from more rights, relinquishing a part of their sovereignty to gain the possibility to participate in the decision-making process concerning the future development of the Community.

Apart from the historical and political premises, the survival of the euro will depend on economic factors – a simple analysis of costs and benefits, of both a possible split and the sustained revival of the eurozone. The degree of interrelations between economies and the exposure of financial institutions suggests that the expected consequence of a split would be, enormous. Will the euro survive the destruction of the confining EU, i.e. will an avant-garde group or perhaps the core of the Union emerge from the 27 member states, forming a membership of 17 eurozone states? Or will it give way to challenges and irreconcilable purposes and remain only a "shell" of the EU?

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