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The Process of Economization and Strengthening of EU Integration as a Way to Overcome the European Financial Crisis

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Summary:

This paper deals with the possible ways of overcoming the European financial crisis. In this paper the attitude to the current situation in the EU of the main EU member states, and the 'victims' of the crisis is considered. The author promotes the idea of deepening the integration processes in Europe as one way of preventing financial crises, which have become a regular phenomenon in the economy of the European Union. The author also shows the trilemma faced by the EU as it attempts to find ways of achieving the political and economic objectives of the union. The author concludes that one of the best ways to overcome crises is to strengthen integration efforts, as well as deepening the process of economization among the EU member states. This is confirmed by the examples of European cooperation in existence today.

Key words: European Union, financial crisis, euro zone, integration, economization, European cooperation.

Posílení hospodárnosti a evropské integrace jako nástroj pro překonání evropské finanční krize

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Abstrakt:

Tento článek se zabývá způsoby, jak překonat evropskou finanční krizi. Pozornost je zaměřena především na hlavní členské státy a „oběti" současné krize Evropské unie. Autor podporuje myšlenku prohloubení integračních procesů v Evropě jako způsob, jak zabránit finanční krizi, která se stala pravidelným jevem v ekonomice Evropské unie. Ukazuje také na trilema výběru politických a ekonomických cílů v EU. Dochází k závěru, že jedním z nejlepších způsobů, jak překonat krizi, je jednak prohloubení integrace a dále posílení principu hospodárnosti mezi členskými státy EU, což dokládá příklady evropské spolupráce.

Klíčová slova: Evropská unie, finanční krize, Eurozóna, integrace,

JEL: F55, E00, E60

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Contents:

Introduction

By aggravating old problems and raising new ones, world crises are not, of necessity, only destructive. They can also be creative, helping to break new ground and promoting the birth of fresh ideas and trends in economic and political development.

The financial crisis that originated in the United States has now turned into a European sovereign debt crisis. In some European countries it abruptly put an end to a period of soft budget constraints in which large capital imports had nourished a process of rapid growth, coupled with rising and unsustainable trade imbalances (EEAG 2011). During the first years of the crisis (2008-2009), the group of financially disadvantaged countries was determined in the Euro area by natural means (based on absolute indicators - national debt, budget deficits and economic growth). Random irony unites these countries geographically - in Southern Europe. Commentators and analysts have dubbed them with an apt name: 'PIGS', which is an abbreviation comprising the first letters of the English names of countries - Portugal, Italy, Greece, Spain. In 2009, this abbreviation was supplemented by Ireland.

Europe, as a collective project (of which the EU is only the most recent manifestation), can be understood to be a creature of the crisis. The reason is that Europe is trying to be a super-economy, but it consists of a loosely integrated set of overlapping economies that have produced (perhaps inadvertently) a structure that is proving surprisingly resilient (Cameron 2010: 37).

The crisis is not over yet, so it is better to analyze the new challenges facing Europe. The roots of the financial crisis have still not been addressed properly. Instead, Europe has substituted the reality of the financial crisis with the myth of the inadequacy of the political and economic situations in the individual member states. This crisis is neither brief nor temporary. The current crisis is a whole set of explicit and implicit problems in the European Union, which can be solved by the cohesion of countries, a strengthening of the level of cooperation and deepening of relations throughout the EU. To see the danger facing the project of European integration we only have to look back one decade. The contrast with the current situation is revealing.

This paper presents what European policy will entail if nothing is done in order to boost the integration processes in Europe in order to prevent crisis like the current one. The aim of this paper is to show that progressive alternatives are available in order to overcome this crisis. It is essential to realize that fact. In this paper an alternative strategy to tackle the crisis is described. This strategy puts forth economization, and the strengthening of EU integration, as a way to prevent crisis, and to preserve the future of both the Euro zone, as well as the European Union as a whole.

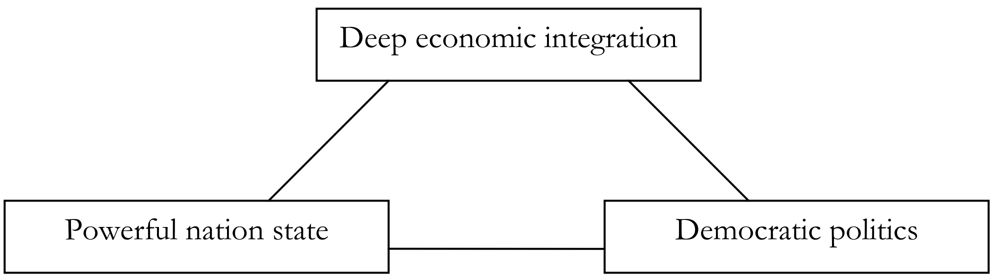
1. The origins of the present crisis in Europe

Europe's fiscal crisis was already a major threat to the global economy in 2011. And it will remain a primary concern for the time being, taking into account the complex issues surrounding the crisis; for instance, distrust of a fundamental solution, its political implications for EU integration, and the future of the Euro.

The severity of the current European crisis has its origins in the convergence of four centrifugal forces; the rise of xenophobia; the Euro crisis; the foreign policy deficit and the lack of leadership. The issues are parallel, but they crossover dangerously under the same common denominator; i.e., the absence of a long-term vision. The result is that every difference between members, regardless of its nature, becomes a zero-sum game, a ferocious battle where anything goes in order to achieve a victory that can be shown off back home in the national capital, no matter how damaging it may be to the greater, common, project (Torreblanca 2011).

One of the factors is the trilemma in political strategies, which is connected with the integration aspect. As Dani Rodrik, a renowned Professor of International Political Economy at Harvard's Kennedy School of Government, points out in his latest book, an impossible trinity lies at the heart of the world economy. When confronted with a choice between the three political objectives: democratic governance, a strong nation state or deep economic integration, policymakers will find it impossible to combine all three at the same time.

Figure 1: The political trilemma of the World Economy



Source: ROOS (2011)

On the one hand, Brussels pulls the member states towards ever deeper European integration; while on the other hand, an increasingly frustrated domestic electorate is kicking and screaming for the restoration of national sovereignty.

Europe is forced to choose the object of its policies in order to stabilize the financial, political and social processes.

2. The analysis of the modern political and economic situation in the EU in the context of basic aspects of crisis

2.1 The current situation in countries, which are affected by the European financial and political crisis

The EU is heavily burdened by an increase in nationalism and a growing distrust and division between the member states – a phenomenon exacerbated by the recent crises, which have negatively affected relations among member states. The financial and economic challenges posed by the global crisis have provoked self-contemplation, national egoism and even some unilateral reactions especially in the early phase after the fall of Lehman Brothers in 2008. But the effects of the sovereign debt crisis are even worse, as they go well beyond the realm of the economy

But the debt crisis has not only harmed relations between Athens and Berlin. Mutual recriminations about a lack of solidarity carry the seeds of a new European divide. Anger over the crisis is increasing in both weaker and stronger EU countries. On the one hand, the weakest member states say that the EU, and especially its core countries in the Euro zone are contemptuous of, and impose too many burdens on, them, while asking for too much too quickly. On the other hand, the strongest member states feel overburdened and betrayed, and fear that they will have to 'pay' for the self-inflicted problems in Europe's periphery, and that the EU will eventually turn into a 'transfer union' (Emmanouilidis 2011: 9). On both sides, there is increasing nationalism and a rise of populism, which is exploiting the growing anti-EU sentiments. The EU is increasingly perceived as a problem and citizens and elites on both sides challenge the current recipes for successfully treating the crisis.

However, the crisis is far from being resolved. The situation in Greece continues to deteriorate as the country remains in deep recession and faces increasing reform and austerity fatigue. The government is struggling to reduce the deficit and an early return to the international bond markets seems increasingly remote, while the likelihood of some form of (mild) restructuring of Greece's debt seems to be growing day by day. At the same time, the results of the reform programmes and austerity measures in Ireland and Portugal remain unclear, and the fear of contagion remains high, as an extension of the crisis beyond the borders of Portugal cannot be excluded (Emmanouilidis 2011: 9).

The Eurozone remains the weak point of the entire European system. The Prime Minister of Great Britain, David Cameron said that Eurozone is a threat, not only to Great Britain, which retains its own currency, but also for the whole global economy. Meanwhile, the Cabinet of Ministers of Greece adopted a draft budget for 2012 that foresees the deficit of 6.8% of GDP; lower than the 6.5% deficit which was previously promised to creditors. The budget for the current year is expected to be passed with a deficit of 8.5% of GDP, instead of the planned 7.6%. That deficit will be higher by almost 2 billion Euros (Gazeta.ua 2011).

It must be understood that all the countries which are connected with the EU are suffering because of the crisis. It will be better to react immediately to prevent the crisis spreading throughout the EU.

2.2 The attitude of Germany and France to the current situation in the European Union

The primary reason behind the growing uneasiness is the slower-than-expected recovery in the five Southern nations of Europe: Portugal, Greece, Italy, and Spain, plus Ireland (in Northern Europe). In particular, the economic recovery in these countries has been relatively slower than the other European nations. According to a recent EU report, the estimated growth rate of the EU member states in 1Q of 2011 was 0.8%, which was actually slightly higher than the forecast. However, much of the growth came from Germany (1.5%) and France (1.0%), which together account for over half of the overall EU economy (KCMI 2011: 1-2). It is no wonder that these developed countries are primarily worried about the situation that prevails in the economic territory of Europe. They are trying, at their own expense, to stabilize the economy of those countries which are now in crisis, in order to reduce the negative impact of the crisis, and to increase the competitiveness of all EU Member States. Therefore, developed countries such as Germany and France promote the idea of deepening the integration processes in Europe, but also with separate responsibility for each country. There is an aspect of balance between solidarity with countries in difficulty, and the pressures to be exerted on them so that they take the necessary measures to correct the dis-equilibrium. Agreeing to unconditionally support countries in difficulty would have fuelled moral hazard. Conversely, refusing to support them increases the risk of plunging the area into financial crisis. It is difficult to strike a balance, especially when the economic and political difficulties are inspiring a search for scapegoats, whether abroad or among the European institutions.

Now there is a transition to the new phase of the European crisis, whereby not only the weaker member states, but even the much stronger ones, are suffering. This new phase causes the bigger countries, like Germany or France, to suffer from the problems caused by a lack of confidence in their national assets among international organizations, as well as on the part of ordinary citizens. For example, Germany's industrial development started to slow down. In August 2011 the country's GDP grew by 2.8%, although the expected growth was by 3.2% (Syvokin 2011). Now, when the main economy of the European Union began to deteriorate again, economists all over world started to talk about a new phase of cyclical crisis. After all, the continent's main problem - sovereign debt – has remained unresolved. According to the latest investigation by the European Commission, Greece already has a debt of 115% of GDP. Most importantly, the country does not seek to restructure its debt.

The experience of 2010 showed that even the rapid economic development of one country out of the whole EU27, it will not really solve any problems for the other member states. That is why, for several months the European Union must decide whether such a country can independently conduct its own economic policies. In addition, large countries can no longer help weak ones. But there are no more disputes about the exclusion of Athens or Dublin from the EU. It would seem that politicians and ordinary Europeans have now realized that the disintegration of the EU would only worsen the economic situation.

When Eurostat published figures showing Germany's economic growth (only 0.1% in August 2011); UniCredit Global Research analysts began to say that Europe could enter a new phase of economic recession During 2Q of 2011, the European GDP grew by only 1.7%. This is worse than the most pessimistic forecasts predicted (Syvokin 2011). Analysts believe that this happened mainly because the German economy cannot accelerate federal production levels, because it has enough problems.

During the period of July-August 2011, the export indicator of the Euro zone fell by 4.7%, and it immediately hit economic growth of Germany (Syvokin 2011). Also after the Chernobyl and Fukushima disasters, Berlin decided to close all nuclear reactors till 2022. It will dramatically increase the consumption of natural gas and other fuels. That will lead to increased expenditures. It is clear that Berlin will not be able, in the near future, to contribute as much money for the resolution of common European problems as it did in previous years.

France also became one of the countries in the EU, which began to suffer because of the crisis. Paris can still service its own debts. But, according to the Governor of the country's central bank, Christian Noyer, the banking system came under attack when the rating agencies began to reduce the rates of the country's largest bank Societe General. Investors lost interest in its bonds on the American market. The bank's ratings were immediately reduced by two points. Experts immediately began to say that France's banking sector is in the process of deregulation, and that this may adversely affect the economy.

However, France and Germany would not like to seek union of the economic systems of the EU. If it was to happen, then Paris and Berlin would have to give up part of their powers to the EU institutions. This they are unwilling to do. Moreover, Brussels is blamed for the fact that there have not been created normal conditions for controlling the economy.

Moreover, the EU cannot decide what to do with the small countries with large debts. Because most of the large countries, led by Germany, do not want to, nor do they feel the need to, give more money to the small countries. The big countries want to save their money. For example, the people in France and Germany demanded that their respective governments do not bail the weak countries out financially. Besides, the bailout strategy was a failure and now the EU must find new ways to deal with the crisis, which has even begun to affect large member states of the EU.

3. The trend of the economization and strengthening of EU integration as a way of crisis prevention

Europe is a major economic player, which has promoted and profited from economic globalization. But the old continent is challenged by new economic players, and by the negative economic, financial, and social effects of the global crisis, as well as by the European sovereign debt crisis. The balance of economic power is shifting, and Europe – or at least parts of it – risks feeling the long-term consequences of the crisis more severely than other world regions. Many member states struggle with low growth rates and severe austerity measures aimed at decreasing high levels of national debt and deficits. It is rather difficult to resume a balance in such situation (Emmanouilidis 2011: 15).

In order to redress this imbalance, Europe needs a system of generally accepted supervisory measures as well as codes of practice in the financial industry, in addition to tight public debt constraints so as to tame the excessive and unhealthy capital flows that caused the crisis. Once such a system has been established, the current difficulties of the Euro may turn out to be mere teething troubles in what will ultimately become a success story in the process of European integration (EEAG 2011: 10).

In the current crisis, European cooperation and solidarity can offer real and lasting solutions. Europe can be more than a zero-sum game, with only some winners, while the rest are losers. European solidarity does not cost anything in the long term. On the contrary, all member states stand to gain from it. The first priority is to put in place a truly efficient rescue mechanism for the Euro Zone. But if we want to make sure that the crisis does not repeat itself in 10 or 20 years time, the economic governance of the European Union must be transformed and financial reform completed (PES 2011: 6).

The trend towards economization has affected the activities of Euro-Atlantic institutions. Thus, the EU demonstrates its intention to strengthen economic integration. At the EU summit in Brussels (February 4, 2011), a Competitiveness Pact was considered (EurActiv 2011). This Pact was proposed by France and Germany, and it provides for the harmonization of corporate tax in the EU member states, the introduction of a single retirement age, the elimination of the index linking of wages and increasing the responsibility of EU member states for bad fiscal performance.

“We want a stronger integration of European economic policy to achieve greater competitiveness,” said French President Nicolas Sarkozy during the summit. "We want to make the different European economies converge, and we are in agreement over a structural plan to bring the answer to the challenges Europe is facing," he added. The French official explained that, for the first time, Paris and Berlin were proposing to use Article 136 of the Lisbon Treaty. This Article allows the Euro Zone countries "to strengthen the coordination and surveillance of their budgetary discipline" without the approval of other EU member states (EurActiv 2011).

One of the most important aspects concerns the difficulty of gearing the European institutional structure towards greater integration. Monetary unification has been designed in such a way that it does not involve the transfer of other powers to the EU institutions. Such a transfer is not possible without initiating a complex procedure for amending the Treaties. This makes it very difficult to make the next steps. This is why the financial support created to help countries in difficulty (the Financial Stability Facility) has been defined so as to prevent it from being considered to be a budget transfer mechanism. It will provide funding only at penalty rates, and on condition of macroeconomic adjustment by the debtor country. Ultimately, it became necessary to change – even if only one paragraph of, the Union treaty.

The process of formation of EU institutions, aimed at ensuring financial stability, continues rapidly. For example, the appearance of The European System Risk Board and The European System of Financial Supervisors is direct evidence of this.

European leaders have to make a choice; either they revitalize integration through strategic projects, or they risk letting euroscepticism grow into eurosclerosis once again. It took European policy-makers well over a decade to overcome stagnation and creeping disintegration in the 1970s and 1980s. When they finally succeeded, two decades of dynamic development followed, which made the Union significantly stronger, deeper and wider (Emmanouilidis 2011: 31)

Conclusion

Coming to a conclusion, in this situation, and given that the Monetary Union was designed without taking into account the necessary mechanisms for dealing with a crisis like the current one; the logical thing to do would be to figure out ways of perfecting the union so that it functions in a balanced way and, as necessary, to improve its governance through the introduction of new instruments, as well as reinforcing the authority of its institutions.

Recently, EU officials, who were warned by the experts, have acknowledged the fact that the crisis in the Euro Zone acquires the features of the regular phenomenon, and cannot be managed by those measures which have been endorsed by only one government, or even by a group of member states for individual countries. The crisis in the EU's economy exerts an influence on the political sphere. This is reflected in the EU's governing bodies' inability to take adequate and consistent anti-crisis measures.

Strengthening European integration requires building strong project partnerships between Member States. In the EU 27, no single actor, or group of actors, could pull it off alone. To attempt to do this would merely be playing to one's own public. Strategic projects demand strategic coalitions to generate momentum. They are not born out of 'summitry'. They are not declared. They have to be constructed – and that is what European leaders need to do now (Emmanouilidis 2011: 31).

When economies become more integrated, either democratic principles, or the strong nation state will have to go. After all, if the liberalized and financialized global economy were to be made accountable to democratic principles, new forms of global governance and democratic representation would have to be devised, requiring the conferral of national sovereignty onto transnational institutions.

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