EUROPE'S FINANCIAL AND ECONOMIC CRISIS – VALID METHODS TO PUTTING AN END TO IT

VERONICA ADRIANA POPESCU[*]
CRISTINA RALUCA POPESCU[**]
GHEORGHE N. POPESCU[***]

Abstract
Specialists believe that Europe is mired in a deep debt trap as a result of the costly measures taken to deal with the financial and economic crisis and they describe the situation as being serious, but not without hope.
The majority of the specialists believe that without the euro, Europe would be in a much worse position.
In the fallowing paper, our intention is: first to stress the key factors that have led Europe to the current crisis, second to present some possible scenarios that the crisis may generate in the near future and third to give some viable solutions that might improve Europe's nowadays economical situation and help it get out of the crisis.

Keywords: *financial crisis, economic crisis, euro crisis, valid methods, deficit, competitiveness*

Introduction

Specialists believe that Europe is mired in a deep debt trap as a result of the costly measures taken to deal with the financial and economic crisis and they describe the situation as being serious, but not without hope. The majority of the specialists also believe that without the euro, Europe would be in a much worse position.

In the fallowing paper, our intention is: first to stress the key factors that have led Europe to the current crisis, second to present some possible scenarios that the crisis may generate in the near future and third to give some viable solutions that might improve Europe's nowadays economical situation and help it get out of the crisis.

That is why our paper covers the matters that implicate the economic crisis in general, which, of course, also depend upon the financial crisis elements. The theme of the paper is extremely important nowadays, especially due to the latest events that took place not only in Europe, but all over the world.

In addition to all these important ideas, the research starts with the main factors that have led Europe to the current crisis, and that is because many specialists in the economic and financial field said, at the beginning, that the current situation was caused by the euro and the euro crisis. Other specialists have stated that it wasn't the euro and it wasn't a euro crisis that caused the current situation, bringing the arguments that the euro has worked extremely well for twelve years, and more over the last two years, when the huge crisis took place, it even has actually helped protect Europe. This last category of specialists believes that the problem was the financial policy of the countries that have it, because during the crisis most countries responded in a proper and reasonable manner, in cooperation with the European Central Bank and also in an international context, a crisis that did not start in Europe but instead had its origins in America and then came over and engulfed Europe.

After that, the research continues with the presentation of some possible scenarios that the crisis may generate in the near future, and that is because our believe is that a proper system for controlling deficits is definitely needed and that should be the lesson that we have to learn from this major economic and financial crisis.

[***] Professor Ph.D., Academy of Economic Studies, Bucharest, (e-mail: popescu_gh_cafr@yahoo.com).

In the end, as a conclusion to all the important ideas presented and debate in our paper, we try to give some viable solutions that might improve Europe's nowadays economical situation and help it get out of the crisis. Firstly, we believe that was done wrongly five, six or seven years ago needs to be rectified, at any rate, which, of course, means that we need tighter supervision of budgetary policy. Secondly, we need greater oversight by the EU Commission, which was lacking, for example, in the case of Greece. Thirdly, a country that does not abide by the rules should have its voting rights within the European Union withdrawn, particularly in the euro zone, and that is why what would be even more effective is for a country that does not abide by the rules, and fails to stick to the joint recommendations as well as its own stability program, to be denied subsidies from the European fund.

All in all, our study was also based on what is the relation between the theme chosen and the already existent specialized literature, and that is the reason why our research will include different views that specialists have expressed in time in the matter of the economic crisis. In the current environment in particular, making that sort of forecast would be especially difficult as the euro exchange rate no longer takes its cue from fundamental data alone, and of course people are worried about the future, and they ask themselves what's the safest currency to be in. We strongly believe that nowadays environment makes it difficult to arrive at a forecast, not even for us but also even for analysts and economics specialists, but what should be remember as a concrete and clear fact on long term is the fact that fundamental data will play an important role and that as a result the European currency will be in a good position only provided the Europeans stick to all the promises they've made.

1. Key factors that have led Europe to the current crisis – a short presentation

Our research starts with the main factors that have led Europe to the current crisis, and that is because many specialists in the economic and financial field said, at the beginning, that the current situation was caused by the euro and the euro crisis. Other specialists have stated that it wasn't the euro and it wasn't a euro crisis that caused the current situation, bringing the arguments that the euro has worked extremely well for twelve years, and more over the last two years, when the huge crisis took place, it even has actually helped protect Europe. This last category of specialists believes that the problem was the financial policy of the countries that have it, because during the crisis most countries responded in a proper and reasonable manner, in cooperation with the European Central Bank and also in an international context, a crisis that did not start in Europe but instead had its origins in America and then came over and engulfed Europe.

Due to all these reasons, the majority of the specialists believe that it wasn't the euro and it wasn't a euro crisis that caused the current situation, and that is because the euro has worked extremely well for twelve years, and over the last two years, as this huge crisis took place, it has actually helped protect Europe. We strongly believe that without the euro, Europe would have been a scene of currency - policy devastation, and it would look today totally fragmented, and exposed to the influence of the dollar and other currencies. So, the main conclusion is that the problem isn't the currency.

Specialists have not only once stated that the problem was in fact the financial policy of the countries that have it. Therefore, during the crisis most countries responded in a proper and reasonable manner, in cooperation with the European Central Bank and also in an international context. It is also very important to stress the fact that this particular crisis did not start in Europe but instead had its origins in America and then came over and engulfed Europe. All in all, confronted with such a terrible situation, politicians on the whole acted in the right way. Our belief is that it did take a lot of money in order to avoid the catastrophe. Like in any other critical situation, negotiations during the crisis took place within a framework consisting of the European Stabilization Fund and undertakings to reduce deficits. And at this particular point comes a very important question, which refers to the need of a proper system for controlling deficits, its main importance and how should it be properly maintained in time.

2. Possible scenarios that the crisis might generate in the near future

After presenting the main factors that have led to the appearance of the economic and financial crisis, the research continues with the presentation of some possible scenarios that the crisis may generate in the near future, and that is because our believe is that a proper system for controlling deficits is definitely needed and that should be the lesson that we have to learn from this major economic and financial crisis.

In addition to all the points stated in the previous section, we would also like to stress that what was done wrongly five, six or seven years ago needs to be rectified, at any rate, which means, of course, that we need firstly tighter supervision of budgetary policy; secondly, we need greater oversight by the EU Commission, which, for example, was lacking in the case of Greece. If you look at Greece now, oversight by the International Monetary Fund, Commission and European Central Bank is suddenly working well and thirdly, a country that does not abide by the rules should have its voting rights within the European Union withdrawn, mainly in the euro zone. Moreover, specialists have more than once emphasized that it would be even more effective for a country that does not abide by the rules, and fails to stick to the joint recommendations as well as its own stability program, to be denied subsidies from the European fund. As a consequence to all these interventions, nowadays Greece, oversight by the International Monetary Fund, Commission and European Central Bank is suddenly working well.

We can take the example of Greece at any time, in order to make a statement regarding all that we have presented earlier. Even if budgetary consolidation plans are going according to schedule, the question is what happens when the European protective shield expires. That is why, to our mind comes the questions whether will debt increase again as a percentage of economic output or will the country be able to refinance itself on the market or has the shield simply allowed us to buy time.

In order to see which of these scenarios will be viable in time, for now it's a good thing to have bought ourselves some time and thereby restored calm, not only on currency markets but also in the countries concerned, so that they can tackle their structural problems. Our believe is that if countries are able to be successfully over the next two or three years, we will then be able to take an objective look at whether they continue to need help, or will be able to solve their problems without outside assistance. That is why, what's important now is to maintain the pressure on countries to ensure that they do not let up on the measures under any circumstances. Of course, if in two or three years' time things will evolve in an upper trend, it will be politically feasible to extend the life of this protective shield if necessary.

In the end, the idea is that if it turns out that the financial ratios for countries for which this has been done have improved decisively, that governments and people have made a huge effort and a lot of sacrifices have been made and there will also be a willingness not to let these countries down. All in all, the great success of the European Union has always lain in exporting stability, rather than importing instability. In the end, as a conclusion to all the important ideas presented and debate in our paper, we try to give some viable solutions that might improve Europe's nowadays economical situation and help it get out of the crisis. Firstly, we believe that was done wrongly five, six or seven years ago needs to be rectified, at any rate, which, of course, means that we need tighter supervision of budgetary policy. Secondly, we need greater oversight by the EU Commission, which was lacking, for example, in the case of Greece. Thirdly, a country that does not abide by the rules should have its voting rights within the European Union withdrawn, particularly in the euro zone, and that is why what would be even more effective is for a country that does not abide by the rules, and fails to stick to the joint recommendations as well as its own stability program, to be denied subsidies from the European fund. It is also a fact that a country is not responsible for the debts of others, and that is due to the European shield.

3. Viable solutions that might improve Europe's nowadays economical situation

After presenting the main factors that have led to the appearance of the economic and financial crisis and after emphasizing some possible scenarios that the crisis may generate in the near future, the research continues with some viable solutions that might improve Europe's nowadays economical situation and help it get out of the crisis.

Firstly, in this matter, at the begging of this part a new question is raised in regard to where specialists should expect the euro exchange rate to go in the short to medium term. It is also a fact that in the current environment in particular, making that sort of forecast would be especially difficult as the euro exchange rate no longer takes its cue from fundamental data alone. So, if people were to look at the fundamental data only, the euro zone wouldn't be in such a bad position, it would certainly be doing better than the UK, US or Japan, where debt levels have reached even greater proportions. Nowadays, in a crisis such as the one we've just experienced, the safe-haven issue also plays an important role and although economic data in America is worsening, the dollar will not necessarily weaken in such a situation. Of course, due to all the changes that occur unexpectedly today, people are worried about the future, and they want to know what the safest currency to be in is. In this matter, specialists have stated that it is still the global currency of the dollar and that makes it difficult to arrive at a forecast – even for analysts and economics specialists. Long term, we do believe fundamental data will play an important role and that as a result the European currency will be in a good position – provided the Europeans stick to all the promises they've now made. So, as a possible solution, it would be more than wise to consider as a point of reference of medium and long term the dollar as an etalon currency.

Secondly, in this matter, another question is raised in regard to where specialists should expect in the near future, and that is how likely the chances of the Americans trying in a very systematic way to inflate their way out of their debt situation can be rated. As the world's biggest debtor, they would certainly have the opportunity to do so. That is why, going back in history, one can realize that America did indeed to some extent inflate its way out of debt after the Second World War. By contrast, under Bill Clinton the US had an incredibly positive performance. Clinton had inherited a huge debt mountain from the Reagan administration. Eight years later, however, he handed over a surplus to his successor. The Clinton government was also able to achieve a superb economic performance – in which 20 to 30 million new jobs were created – through budgetary consolidation, coupled with relatively low interest rates, a flexible labor market, and a highly productive financial market. But if the Americans were now to go down a different route – in other words, inflation combined with low interest rates – this would only be possible with the cooperation of the Federal Reserve, which is nevertheless a big temptation. The US is still the world's biggest debtor. So, as a possible solution, it would be more than wise to consider as a point of reference America and the position that it takes on the market place in the near future.

Thirdly, in this matter, another question is raised in regard to where specialists should expect in the near future, and that is the one concerning USA who is heavily indebted to the Chinese, which raises the suspicion to the Americans that this dependence can be an existential threat to their country. Of course, there is indeed a dependency between America and China, but the Chinese have so far used their own currency reserves responsibly and only slowly begun to move toward allowing the renminbi to rise – and first and foremost they don't want to do that under pressure. A very important fact that must be taken into account when analyzing this delicate situation is that if the dollar were to suddenly weaken even more, America's position as a world power would also be weakened. On the surface it would perhaps bring them a bit of relief on financial policy, but on the other hand there is a risk of other countries also restructuring their currency reserves. In turn, this would be associated with a major risk to the political and economic power of the US. Even in the most difficult of times, American presidents and finance ministers have always emphasized their wish to retain a strong currency. A weak currency is not a good advert for a world power. So, as a possible solution, it would be more than wise to consider as a point of reference the fact that America is conscious of the possible dependency and of being in a vulnerable position for the moment.

Fourthly, in this matter, another question is raised in regard to where specialists should expect in the near future, and that is the one concerning how great is the temptation for Europe to inflate. Specialists believe that the European Central Bank will not go down that road, because it is an organism committed to stability, and due to this fact its committees, presidents, vice-presidents and chief economists have demonstrated that convincingly over the last twelve years. Europe's experience in the 1960s and 70s showed that inflation is not the way to solve the existing problems. The European Central Bank is obliged by international treaty to target stability alone and that is different than in the case of the Federal Reserve, which is also required to keep a watchful eye on business activity and the economy. So, as a possible solution, it would be more than wise to consider as a point of reference the fact that Europe has a strict system of checks and balances that has proven itself, and the Europeans and European Central Bank will not depart from that.

Conclusions

In the first part of our conclusions we would like to summarize the main outcomes of our study concerning Europe's financial and economic crisis and the existing valid methods to putting an end to it.

First, the key factors that have led Europe to the current crisis are not the euro and the euro crisis, but in fact consist of the public debt that is still a big concern for Europe. While fiscal tightening can have a dampening effect on growth in some countries, it is unlikely to derail the broader European economic recovery. The example that we have shown in our study is the one of Greece. Prior to the global financial crisis, risk premia on Greek bonds versus safer European sovereign borrowers such as Germany, were very low and their yields similar. Greek government bonds were almost considered as a substitute to German bonds and that is why the implicit assumption seems to have been that if Greece or another weaker European economy is not able to pay back their debts, there will be a transfer of money from the stronger countries to the weaker ones. The European treaties do however contain a "no bail-out clause," meaning that member states are not liable for the debt of any other countries in the currency union. In this particular example, after Greece drastically revised its public deficit estimate to almost thirteen percent of gross domestic growth (GDP) last year, there were increased fears that Greece might not be able to pay back its debt and might not get support if needed, which implicated that over the past months this put pressure on other southern European sovereign issuers, as well as the euro.

Second, the possible scenarios that the crisis might generate in the near future are strongly related to the US dollar and to the USA position on the market place. On May 10, the euro zone countries and the IMF agreed to provide up to roughly 720 billion euro to countries facing financing difficulties. In technical terms there will be a special investment vehicle (SPV), which obtains funding of up to 440 billion euro through direct injection from the member states or by issuing bonds. To ensure lower financing costs, the bonds will be guaranteed by the European countries. This vehicle will then support countries in need by buying their debt and thus ensure refinancing. The IMF would provide an additional 220 billion euro and an additional 60 billion euro are available from the European Commission. The European Central Bank (ECB) is helping as well. In an unprecedented move, it announced that it will purchase government debt in order to support the functioning of markets. However, it has made it very clear that the intention of the purchases is to restore an orderly functioning of markets. The amounts purchased have initially been fairly small and the ECB is committed to absorb the created liquidity to avoid inflationary effects.

Third, as viable solutions that might improve Europe's nowadays economical situation we have mentioned: that it would be more than wise to consider as a point of reference of medium and long term the dollar as an etalon currency; it must be taken into account as a point of reference America and the position that it takes on the market place in the near future; it has to be stated that America is conscious of the possible dependency and of being in a vulnerable position for the moment; it is also good to be remarked the fact that Europe has a strict system of checks and balances that has proven itself, and the Europeans and European Central Bank will not depart from that.

Of course, we would like to mention that the implications of such outcomes must be taken into account in the near future, which also proves to be unsecure and strongly related to the position that will be played by the dollar currency and by USA. We would also have in mind as a suggestion for future researches to present in a closely manner the relation that exists between euro and the dollar and the implications of the two currencies in the world development process.

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