Секція: Міжнародна економіка

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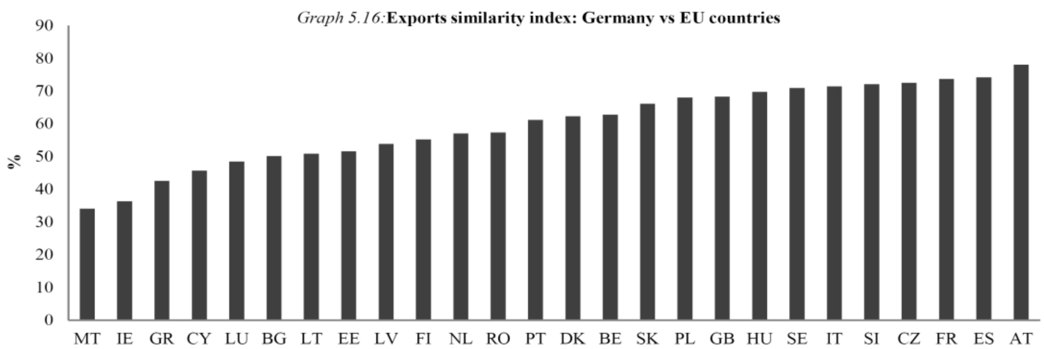
THE POSSIBLE SOLUTIONS TO THE EUROPEAN CRISIS

The most recent financial crisis started in the United States in 2008 and it spread very rapidly to Europe. The Euro zone began to feel all serious consequences of crisis and search solutions to deal in 2010 or so. Particular countries in Europe saw their costs of borrowing go to a roof. It especially concerns Greece, Ireland and Spain. Portugal and Italy also got very close to the cliff. So, which are possible solutions to the crisis in Europe? Well, nowadays the vast majority of opinions are all about policy in terms of austerity. This means European economies will be able to recover from recession to the extent that governments abandon in all ways. Furthermore, priority is given to reducing deficits, regulating costs and wages.



Note: Finger-Kreining Index calculated over a breakdown of total exports into 279 products.
Source: Comission services calculations based on COMEXT.

I actually have another view on this problem. As for me austerity measures cannot work quickly and it will take from 5 to 10 years to feel the result. European economies are highly interconnected in fact, so translated into real terms if one of them going poorly it would influence on the others. Another thing we also should keep in mind is the same currency in the Euro zone. From these two points we can look on the situation in the European Union. It's obvious that most European countries are highly dependent on the demand from other members of the EU. Now in 2014 it is also clear that some countries especially in the south (Italy, Portugal, Greece) lost their competitiveness relevant to northern countries such as Sweden, Austria, Germany. The last is one the biggest exporters in the world and we can see an interesting statistics which shows that the most effective countries during the crisis are those which export is quite similar to German. [1, p.7] They tend to export similar kinds of goods and services. However, countries which suffer the most have relatively low similarity (Greece – 35%, Ireland – 42%) whereas in Italy and Spain it's over 60%. So, these two countries often will feel themselves competing against Germany. Whether they want to regain competitiveness, they couldn't devalue currency and their policy should be based on making adjustments and lowering salaries.

Now let's turn to Germany. It is the largest EU economy which has impressive surplus in terms of both goods and services. About half of this surplus is originated in Europe itself and nearly one forth in the rest of Europe. Definitely, it the weak side of German economy that it is so orientated. Now we can look on two common attitudes to Europe problems among Germans. First view is that Germany shouldn't pay for other mistakes and cover or forgive debts. Interesting fact that in German language, the same word is used for debt and for guilt: die Schuld. The second one is that the future of Germany depends on how well other European countries do in the future. So, it's important to think about solutions in more constructive way.

What's obvious to me that some surplus economies such as Germany, Austria and Netherlands could stimulate their domestic growth in hope that it will generate demand for the goods produced by the southern European countries. Other thing that can be implemented is increasing of the wages to the level that also cause new demand on the Southern Europe products. That's going to help the southern periphery, because the Germans buy goods and services from Portugal, from Spain, from Italy, from Greece. Germany can afford wage increase because over the last 15 years, productivity in Germany has grown faster than wages. And probably one specific thing is to allow a little more inflation and as a result a slightly higher prices. It's probably a good idea because of two reasons. Firstly, there is a risk of deflation in

Europe which causes lose of incentive for firms to invest and create jobs. And the second reason is that higher inflation help individual countries that happen to have a lot of debt to reduce the burden of carrying these debts.

And number three, Germany should not balance it's budget so early. German economy can borrow at real negative interest rates, that includes the government. That's because a lot of lenders would like to put their money in a place which is relatively safe. With a balanced budget then Germany contributes to the procyclical policies that are essentially producing in more recession, are producing a shrinkage of GDP throughout Europe.

These all are short-term steps.

If we look on the long prospective it is necessary for the EU to create some type of a fiscal union. So, that when there is a recession there could be a common authority which policy can help to overtake a problem. Another institution which is needed is a banking union. It will help to lower the rescue of national banks during crisis. [2, p.16] In addition, the last point that is needed to become created is a single labor market, which will make it possible to find jobs more easily within the EU and help to reduce unemployment.

All the solutions mentioned have the goal to avoid Euro collapsing and make the European economy more stable to new challenges of the XXI century.

Literature:

1. Globalization TrainLab. “Global Risk. New Perspectives and Opportunities “// University of Pennsylvania. 2011
2. Jesmin Rahman, Tianli Zhao “Export Performance in Europe: The Role of Vertical Supply Links”// IMF Working Paper. 2013