

## **THE CURENT GLOBAL ECONOMIC CRISIS IN EUROPE PROSPECTS OF THE DEVOLPMENT OF THE EUROPEAN UNION**

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**Summary:** Global economic crisis that hit the European Union has acquired a new dimension to the debt crisis of several euro area countries, which threaten the very existence of Monetary Union, the single currency. The EU institutions have adopted a decision on the establishment of a temporary European Financial Stability Facility (EFSF) and later the permanent European Stability Mechanism (ESM), the aim of which is to prevent the bankruptcy of the individual euro area countries. At the same time they search for a way out of the crisis in further integration, adopted programs to strengthen the economic and monetary union by creating a fiscal union and the banking union. Deepening integration, however, requires the transmission of additional competencies to the authorities of the Union which is now hinting at a growing euroscepticism, nationalism and extremism, which complicates the situation. Still another deepening of European integration is the only way out of the crisis, the strengthening of the eurozone and of the entire European Union, which is an indispensable condition for Europe to remain a major player in terms of ongoing globalization.

**Keywords:** The European Union, eurozone, globalization, global crisis, debt crisis, economic and monetary union, fiscal union, banking union

### **The core of the current economic global crisis**

The current global economic crisis erupted in the United States as the financial crisis after the bursting of the real estate bubble, caused the crash one of the largest and oldest banks Lehmen Brathers and triggering a chain reaction that got a number of other major banks and financial institutions to the brink of bankruptcy. Then intervened a state which provided rescue package in the meantime unprecedented amount 700 billion US \$ to the rescue of other banks. The financial crisis has caused a shortage of investment capital in the market, run over into economic crisis and in regard to high degree of globalization, interdependence of national markets and the economy, and the crisis has spread to Europe and other continents as well. However, it had a different course in each continent, and even within individual countries. For example, had a minimal impact in China, where economic growth has continued, and as well in the European Union some countries avoid the crisis and continued in economic growth – for example Poland.

Therefore, some scholars say that it is not a typical cyclical economic crisis which accompanies the market economy. At the same time they ask the question what is the core of the current crisis? If it is not a typical cyclical crisis, is it a structural crisis, or a systemic crisis of capitalism? If it were a structural crisis, it would need to be fundamentally change the current structure of the economic

mechanism and as long as we have come to the conclusion that it is a crisis of the system, it would mean the failure of the capitalist economy and the need to search its systemic alternatives. They all seem to agree in the fact that it is a global crisis, although it has affected all continents, but mainly for the fact that crisis caused and made the ongoing globalization.

The concept of globalisation reflects an extremely complex and complicated process which affects all areas of society and so we may encounter numerous different definitions and approaches that can be used to analyse how it unfolds and the ensuing consequences. Some authors welcome globalisation enthusiastically and are optimistic that it will solve some of the fundamental issues confronting humanity. By contrast, a further group of authors views it in terms of danger and they focus primarily on the negative aspects such as the entrenching of existing differences between rich and poor countries, increasing differences in social standing within individual countries, the plunder of natural resources and the disruption of the natural ecological equilibrium, which may lead to the end of humankind (see, for instance Giddens, 1999). Globalisation occurs on an economic, social, cultural and political level and within each of these it has varied and distinctive consequences, which social science subjects to detailed analysis in within its various disciplines. Our position tends more towards the group of authors who analyse globalisation from a sociological perspective. The core of globalisation is found in the economy, where it unfolds unrestrainedly and uncontrollably, joining the world as one, linking it together to form a whole. It establishes itself unequally in various areas of social life – in some areas it is quite marked and aggressive, while in others it displays little interest. It is accompanied by the trend towards the creation of a single global economy, which is mutually interconnected and contingent. Gigantic supranational corporations are emerging which expand and control its sphere of influence across the world. Globalisation brings with it the unrestricted movement of capital, financial flows and trade that knows no borders and uses the most modern information technologies for communication and trade purposes. This uncontrolled movement brings forth a plethora of contradictions and/or exacerbates existing contradictions (the ecological crisis, the entrenchment of differences between the rich North and the poor South, between the rich and poor altogether, and so forth (Habermas 2000; Giddens 1999; Bauman 1989).

In contrast to the unlimited movement of capital, politics is only conducted at the local level, that is, within individual countries. Thus many of the classical instruments of economic policy no longer work. “Due to the unqualified and unstoppable spread of free trade rules and above all the free movement of capital and finances, the ‘economy’ is progressively exempt from political control (Bauman, 1989, s. 65). The state has lost its ability to maintain the dynamic equilibrium of the economy and implement social policies and provide the public services, which is one of its most important functions and as a consequence its sovereignty is being curtailed. “Any control of ‘dynamic equilibrium’ is now beyond the means, and indeed beyond the ambitions, of the overwhelming majority of the otherwise sovereign (in the strictly order-policing sense) states” (Bauman 1989: 64).

Supranational corporations relocate to where conditions are most favourable for the manufacture of products and the creation of profit – a cheap and relatively skilled work force, low taxation, favourable labour codes and weak unions. If all these positive factors have been exhausted then the supranational corporation moves on to a different country. It is not interested in the problems facing the country, in the social situation, it does not participate in training the workforce in education, in science and research or in social security. All that is left to the state.

States are forced to succumb to global capital. They try to entice global capital into their country and so they reduce income taxes and corporate taxes to a minimum. In the majority of European countries, progressive taxation, which

allowed for different rates according to the amount of profit generated, has been abolished, and in some cases, including Slovakia, a flat-rate tax has been introduced. This means that companies with the greatest revenues had their taxes reduced by 10 to 15 %. The highest tax rates are those in the Scandinavian countries, while the lowest are those with flat-tax rates. The greatest decreases in the upper tax rate were recorded in Bulgaria (30%), Romania (24%), Slovakia (23%) and the Czech Republic (17%). Corporate taxes have also fallen sharply. While in 1995 the average tax rate was 35.3 %, it is now 23.2 % (Švihlíková, 2010).

As a consequence, state coffers have seen reduced revenues and partly at least to compensate for this, VAT rates on basic items were increased from 5% to 20%. The states do not have sufficient resources to ensure that public services can be maintained at required levels and so there is talk of tearing down the social state. The increase in the cost of living for those who work as a consequence of VAT rate increases has resulted in the diminished purchasing power of the population and a deterioration in their social status. Insufficient public resources are causing the deterioration of social services, healthcare, education, culture and the end result is also a fall in growth rates. In order for states to be able to maintain social services at an appropriate level, they have to borrow money on the financial markets and become indebted.

### **The impact of the financial and economic crisis on the European Union and the eurozone**

The financial and economic crisis which afflicted Europe from 2008 onwards was not simply accompanied by the classical manifestations of crisis, such as a decrease in production levels, falling GDP and rising unemployment, but spilled into a debt crisis for some of the Eurozone countries and threatened the existence of the euro as the common currency of the European Union. The countries of the Eurozone and the EU institutions frantically sought ways of reversing the risks of the countries affected going bankrupt.

In the Greek case, the pressure of events led to the approval of a 110 billion euro loan to be financed by the Eurozone countries, the European Commission and the IMF to varying degrees. When other countries found themselves in danger, the European Financial Stability Facility, also known as 'the bailout', was drawn up and approved. It provides risk countries with loans totalling 400 billion euros, in the form of bonds, which are guaranteed by the individual countries of the Eurozone. So that the bonds would be awarded the highest AAA rating by the rating agencies, they were issued only under guarantee of the eurozone countries with the highest ratings, which means that in practice the actual amount available is only 200 billion euros. In this case, the countries did not deposit cash directly into the fund, but simply guaranteed the total amount of the loan. This type of fund was used by Ireland (85 billion euros) and later Portugal (78 billion euros).

Later, the decision was taken to create a permanent European Stability Mechanism (ESM). ESM has the financial cash of 80 billion euros, which embedded the reciprocally individual Eurozone countries, and the remaining amount of up to 750 billion euros provided warranty. In regard to the unfavorable situation ESM arose in July 2012 and it was decided that temporarily it was to act, together with the EFSF. This would increase its capacity by 200 billion euros from the EFSF. The purpose of these financial institutions was to provide loans to Eurozone countries that found themselves in trouble on the international financial market.

ESM bailouts are conditional on member states outlining a programme for the needed reforms or fiscal consolidation to be implemented in order to restore the financial stability. The country in concern will be analysed and evaluated on all relevant financial stability matters by the so-called Troika: European Commission,

European Central Bank and IMF. The austerity programs cuts of states budgets deteriorated the overall economic situation in the Eurozone and the entire Union, which went into an economic recession. Some analysts and economists have criticized the austerity programs, which realized all countries of Eurozone as the most important and emphasized the need for economic incentives that would have revived economic growth and made it possible to get out of the crisis.

The important role played the ECB, which has launched a program of buying bonds of troubled countries on secondary markets so-called Security Market Program (SMP). In August 2012, the ECB prepared a new program of buying bonds called Outright Monetary Transactions (OMT). On the ground of program ECB purchases bonds in Eurozone countries, at their request, but they must first apply to ESM, which based on analysis of the economy shall draw up a recovery program of the economy. If they accept the terms and conditions of financial aid, the program can be run. The program works to subdue panic in international financial markets and, consequently, reduces interest costs of highly indebted countries and helps relieve the pressure on the markets of marginal states.

The problems presenting a danger for the common currency of the euro occurred due to the fact the Eurozone contain countries with unequal levels of economic and social development. A common currency requires a harmonised monetary and economic policy. The single currency policy is secured by the European Central Bank; however, fiscal policy is implemented by the individual countries independently. The common framework for fiscal policy within the member states is stipulated within the Stability and Growth Pact, which holds that the state budget deficit should not exceed 3 % and that the public debt of the country should not be greater than 60 % of GDP; nonetheless, the majority of countries have not adhered to these stipulations. There were been no clear sanctions for breaking the Pact, and those that did exist were not utilised. In the period of general boom and economic growth, this did not cause any real problems and so breaking the Pact was tolerated. The EU institutions have, therefore, prepared a whole series of specific measures designed to tighten financial discipline for all the member states. These include the Competitiveness Pact and the Euro Plus Pact and most recently at the last European council summit held on 8 and 9 December 2011 the decision was taken to create a fiscal union (European Council. Brussels, 9 December 2011).

The economic crisis, therefore, fully revealed the friction between the single currency policy as implemented by the European Central Bank and the isolated fiscal policies of the individual countries within the eurozone. This contradiction has to be removed and a coordinated and common fiscal policy established in order for the currency union to function. Some analysts and politicians in the Union argue that the loans do not solve the problems faced by indebted countries, but simply postpone and exacerbate the problems that in fact require immediate bankruptcy. Others believe that bankruptcy and debt restructuring would have a negative impact on the financial system of the other countries and this would affect the whole Eurozone more adversely than providing loans would. The debate has, therefore, been reduced to whether the crisis should be solved by the combined forces of the whole of the EU and the gradual deepening of integration, harmonisation, the creation of economic union, fiscal union and political union or whether each state should focus exclusively on solving its own problems. Harmonising the countries of the EU is, however, hampered by the growth of nationalism and isolationism in various member states. Deepening integration requires changes at the political and economic level, but also requires civic changes- the creation of a European people.

**Resolution of the crisis in the euro area. The creation of economic,**

## **fiscal and banking union**

The European Union thus once again finds itself at a historical crossroads and looking for ways ahead in the future. In the search for causes of the debt crisis and the way out of economic crisis again appeared the basic dividing line in the consideration of the European Union and perspectives of its development.

On the one hand was a group of eurosceptics who have argued that by the adoption of the Lisbon Treaty, the Union in legislative steps for the integration is going too far, directive of the European Committee tied up activity of the member countries, hampered their development and as a result the development of the entire Union and overcome the current crisis. Recommend to revert back, cancel the Lisbon Treaty, a number of EU directives and to return some powers back to Member States. In this way was also the statement of British Prime Minister D. Cameron, who pointed out that when the UK fail to negotiate appropriate terms in European Union, Britain will in 2017 organize a referendum on the abidance of Britain in EU. (Cameron Promises Referendum by 2017 on U.K. Leaving EU. 2013)

The second group scholars and politicians believes that after the adoption of the common currency integration had not continued fast enough and has remained at the half-way. Therefore, they recommend making further important steps on the way of integration, which not only will allow overcoming the current economic and debt crisis, but will help restore its economic dynamism and return its status as a major global player.

Very concisely the situation was characterized by the Nobel Laureate in economics J. Stiglitz in an interview for the magazine Der Spiegel: "Europe is facing a critical point. The alternatives are "more Europe" or "no." The halfway configuration is unstable ... Europe needs a common banking system and a common financial framework. If Europe borrows as a whole it could have even better access to credit than the United States." (Interview with the economist Joseph Stiglitz. 2012) I am inclined to agree with J. Stiglitz that Eurozone stopped on half-way and although it can be painful and required sacrifices, it is necessary to continue down the road of furthering integration. This fact was expressed by the Oli Rehn saying: "Economic and Monetary Union either will complete through a much deeper integration, or we will have to accept a gradual decomposition of the European integration process, which lasted more than half a century." (Rehn 2011)

When it managed to save the euro zone and solve the debt crisis of the euro area, the EU authorities focused attention on the removal of the internal causes which triggered the crisis in the eurozone and adopted a measures of further development and continuation of European integration.

After lengthy negotiations between states at the level of the Council of EU was adopted the "Euro Pact Plus" (Euro Pact Plus 2011). The main result of the meeting was the adoption of the documents on the establishment of a fiscal union and banking union. Pact includes the following proposals:

- The budgetary semester: EK will treat the proposal of the state budgets of the member states before they will be approved in national parliaments. EK will express its opinion, objections or recommendations from the perspective of long-term stability, sustainability on compliance with the criteria of the Stability and Growth Pact;
- In case the country breaches the rules of the Stability and Growth Pact, penalties shall be imposed. The country, which exceeds these rules inserts the amount of 0,2% GDP in the ESM, or the EC and in the case that a deficit is not removed by, or if a country will not proceed according to the schedule drawn up by the EC, the amount of the budget will remain in the EU budget. The revised Stability and Growth Pact, which establishes a system of automatic sanctions entered into force in December 2011.

In March 2012 Leaders of the 25 European Union countries have signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (popularly known as the "fiscal compact") entered into force on 1 January 2013. The treaty aims to strengthen fiscal discipline in the euro area through the "balanced budget rule" and the automatic correction mechanism." (Fiscal Compact" entered into force on 1 January 2013) The Pact did not attach the United Kingdom and the Czech Republic.

Negotiations are continued about other topics as well, for which, however, hard to find major promotion by member states, for example: harmonization of tax bases in case of corporate taxes of the Eurozone; condition for a retirement age on population growth; the abolition of a rule under which, together with inflation increases the salaries (wage indexation).

In December 2012 the European Council adopted a further direction - to create a banking union within the Eurozone. The first step in this way should be to prepare and carry out banking surveillance of the ECB in Eurozone member states. The plan is based on a report entitled "Towards to real economic and Monetary Union", drawn up by the President of the European Council Herman Van Rompuy, together with President of European Commission, the President of the European Central Bank and chairman of the Eurogroup. (Herman van Rompuy: Towards to real economic and Monetary Union 2012)

The emergence of the banking union foresees three areas where the introduction of prudential surveillance is only the first step:

- a) Banking surveillance is the first step towards the creation of the bank union;
- b) Special fund to rescue banks that may get into trouble in the future;
- c) The creation of a Europe-wide fund to protect bank deposits.

The legislation of the banking union should be completed in February 2013. The ECB should start with surveillance already from July 2013 in the case of large, systemic important banks in Europe and in banks of troubled states. Surveillance should be gradually extended to all important banks. It was decided that surveillance will be applied to banks with assets exceeding 30 billion euros, or those that make up a significant share of the national banking market. This will increase the effectiveness of the spending of funds so as to use effectively in the interests of the whole and to not misuse. (European Council 13/14. December 2012. Conclusions)

The treatment involves the coordination of national reform, where in the paragraph 12 article a) sets out: "coordination of national reforms: the participating Member States will be invited to ensure, in line with Article 11 of the TSCG, that all major economic policy reforms that they plan to undertake will be discussed *ex ante* and, where appropriate, coordinated among themselves. Such coordination shall involve the institutions of the EU as required by EU law to this end. The Commission has announced its intention to make a proposal for a framework for *ex ante* coordination of major economic policy reforms in the context of the European Semester" (European council 13/14. December 2012. Conclusions. Art.12, clause a).

### **Political context in the Eurozone and the EU**

The paradox of the current times, however, is that the deepening of integration presupposes the transfer of other competences member states of eurozone to common European authority. On the other hand, however, economic and debt crisis, recession, to which the European Union has fallen, caused a rise of mistrust in most countries of the Union, of its ability to overcome the crisis, caused the

growth of euroscepticism, nationalism, isolationism, which are in direct contradiction with the need for integration. In a number of EU countries it has strengthened the positions of the nationalist and anti-european parties, a number of them got to the national parliaments, or have even become members of the governing coalitions and got an opportunity significantly influence the government's decision (e.g. in Greece, the Netherlands, Belgium, Finland). Even some traditional parties are moving in their position more towards to euroscepticism for example, the British Conservative Party is increasingly slipping away from the Union and in the party there have appeared propositions to organize referendum in the United Kingdom on leaving the EU. In a number of EU countries there is intensified irredentist tendencies and efforts of the regions to separate from their mother countries. For example, Scotland has already agreed with the Central Government, that in 2014 they will hold a referendum on Scottish independence. In the Spanish autonomous region Catalonia nationalist parties won in the regional elections, which promised their followers to organize referendum on the independence of Catalonia. The situation is complicated even in the heart of the Union in Belgium where Flemish representatives' carry out the long term issue of separation from the less developed Walloon.

"Europe is under the influence of its integration policy reshaping to the new Europe, but ethnicity remains a part of reshaping its political and non-political reality." ( Gbúrová 2010:13) This means that ethnicity that has been shaped by centuries still remains a potential political weapon and a part of the various ethnical concepts of European society. "Ethnicity is a reality of life that well-targeted policy can exploit"(Ibidem: 13)

Herald a deterioration of the situation have been riots in the suburbs of the France but also the growth of nationalism and xenophobia in the Netherlands, Belgium and other countries. The outbreak of the current global economic crisis caused the increase all of the negative phenomena. Large parts of the society in particular, youth fell into a deadlock, are frustrated, can't see any prospects for themselves in society and therefore are searching for the enemy, the one who caused the situation, and are looking for a simple solution. It is suitable for the growth of the influence of nationalistic, racist, a groundswell of neo-fascism movements. Their hatred is traditionally turning against immigrants, against citizens of other races, different religion, and different nationalities and now have found their new enemy who causes their problems the European Union.

Hard austerity measures, cuts of public spending, which required EU and which was made conditional on the granting of loans from the EFSF and ESM, make it possible to deal with the debt crisis, to save the euro, but in several countries have caused a slowdown in economic growth, deepening of the recession, the growth of unemployment and the deterioration of social status of workers. These concerned mainly the countries that have gotten into debt crisis. The most difficult was the situation in Greece, where GDP dropped by 20%, unemployment has reached 22,3 %, foreign debt 18% % GDP. Unemployment in Spain has reached 24,6 %, and among young people, more than 50%. Therefore, these measures have sparked mass protests, demonstrations, strikes and expressions of dissatisfaction of employees of different industries. The mass protests have triggered turbulence on the political scene, have caused the fall and changes of Government in Greece, Ireland, Spain, Portugal and Italy. In several countries, were created technocratic Governments, for example in Greece, the Government of the Prime L. Papadimos, in Italy of Prime Minister M. Monti, in Spain of Prime Minister M. Rajoy, to bring forth the country out of the crisis. In such a situation, activated the nationalist and anti-european political forces, which have abused the dissatisfaction of citizens and tried to get them on his side, and turn their dissatisfaction against the European Union. Therefore, the Governments in these countries have been under tremendous

pressure, have a great responsibility. Although the situation is still complicated, the measures are gradually starting to produce positive results. The representatives of the European Commission stated that the danger of the split of the eurozone is to stave off. "Well, 2012 was not the year the eurozone broke up. It was a year in which the eurozone proved its political resilience, a year in which we took the necessary bold decisions to ensure the unity and the sustainability of the euro. Today, those still predicting a break-up of the eurozone are sadly behind the curve." (Olli Rehn: Speech - Reforming Europe, beating the crisis. January 11<sup>th</sup> 2013) At the same time, it is important to emphasize that the cut of public expenditures, balanced budgets are not the main goal. The most important are structural changes, the new investments, which will increase the competitiveness of the country's economic, take off to recovery and stable economic growth. The spending cuts must not be used to justify the destruction of the welfare state, destruction of the functions of the public sector. "Our joint efforts are all about reforming and improving the European model of social market economy. They are about ensuring our citizens welfare, perspectives for the future, stability and security." (Olli Rehn: Speech: European Semester 2013)

The further development of the European Union by way of deepening integration is important, therefore, for Europe to remain a global player on the international scene. In the case that it fell apart, Europe will change to a handful of small and medium large states, which will squabble among themselves and lose any influence on the development of world events. Europe can only remain a global actor in the form of a strong and united European Union. Therefore, in addition to the completion of the monetary and economic Union more attention must be paid to the common foreign and security policy of the EU and the European security and defense policy. Only a uniform, stable and prosperous Europe can play an important role in overcoming the crisis and the creation of appropriate conditions for the solution of global issues and the further development of our planet

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