



## **POST CRISIS EUROPEAN AGENDA**

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**Ph.D. Napoleon POP\***

### **Rezumat**

Criza economică este încă în curs de desfășurare, cel puțin din punctul de vedere al unor trăsături care fac foarte dificilă inversarea procesului, care creează confuzii și la lipsa de încredere din partea investitorilor. Mai mult decât aceasta, de fiecare parte a Atlanticului există opinii referitoare la măsurile de stimulare a ieșirii din criză. Atunci când vorbim despre următorul stadiu al creșterii economice trebuie avute în vedere riscurile predominante, cum ar fi durabilitatea pe termen lung sau reaprinderea inflației. Conform politicilor economice de bază practicate atât în Europa, cât și în SUA, în Europa contează cel mai mult pericolul inflației în cazul în care momentul potrivit pentru întreruperea fluxului de fonduri guvernamentale spre economia reală nu este bine ales. Situația economică a Europei, ca și în restul lumii, în ciuda unor semne că situația se află pe drumul bun (Asia de SE, SUA sau Germania), există o mulțime de îndoieli asupra asigurărilor date că recesiunea s-a încheiat și că nu poate reveni într-un timp scurt. Notabilitățile din domeniul economiei spun că intervenția guvernamentală ar trebui să continue, tocmai pentru că creșterea economică limitată la statistici nu este convingătoare. Convingerile, dacă există, sunt amestecate cu o mulțime de obsesii care, în opinia mea, alcătuiesc o agendă serioasă de dezbateri în Europa: deficitul bugetar în exces, pericolul inflației, noile reglementări ale sectorului financiar, credibilitatea zonei Euro. România, ca stat membru al UE, trebuie să se implice în toate aceste dezbateri întrucât ea trece prin toate dificultățile menționate

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care au nevoie de soluții conform standardelor europene.

**Abstract**

The economic crisis is still evolving, at least from the point of view of some features making the entire process of its reversing very difficult: uncertainties, confusions and lack of investors' trust. More than that, every rim of the Atlantic Ocean has its own opinion as to the timing of the exit stimulus measures. There are prevailing risks taken into consideration when we talk about the next stage of the economic growth e.g. its sustainability on a long run or inflaming the inflation. It is for sure, that according to the core economic policies practiced either in USA or Europe, in Europe what count most is the danger of the inflation, if the right time of stopping the flood of the governmental funds to the real economy is not well chosen. The economic situation in Europe, as all over the world, in spite of some signs that the economy is on the right track ( South East Asia, USA or Germany), there are a lot of doubts as to the assurance that recession is over and there is no way for an immediate return. Notabilities in economics see that governmental intervention should be continued, just because the economic growth consigned by statistics is not convincing. Convictions, if they exist, are blended with a lot of obsessions which in my opinion are making up a serious agenda of the debates in Europe: budgetary deficit in excess, danger of the inflation, new regulation of the financial sector, credibility of the euro zone. Romania has to be involved in all these debates as it is passing through all the mentioned difficulties which need solutions within the frame of European standards, as a member of the EU.

**Keywords:** economic crisis, budgetary deficit, eurozone credibility, macroeconomic policy, financial sector regulation

**JEL Classificaton:** E61, E62, F15, F42, F43, H62

Romania, as many other countries, suffers from the propagation of the international financial crisis into the real economy. The Romanian society is still caught in the whirlwind of a fiery debate, circumscribed to the immediately visible aspects of the impact. We can not fail to observe, however, that the debate, beyond the sincerity of the inherent worries, appeals to "economic innovations" which, through

form, expected effects, way of communication, public perception, prove increasingly noxious, as the economic revival delays. It is worthy mentioning that, at least after the last IMF mission in July 2010, to Bucharest, the most important message was that the set targets must be achieved with the known measures, which must not be changed.

Here is a beginning of predictability! But this is not yet synonymous with a real progress in the crisis of trust, yet in stages of the acute diapason. The lack of trust delays and even blocks the expected effect of the austerity measures, induces an excessive volatility on the market.

However, if we remain stuck strictly to the correlation of causes and of the effects of the global financial crisis with the economic crisis and with the packages of measures announced in consequence, just because the times goes by, personally I think that we can no longer see the forest because of the trees. What I want to say is that this obstinate focusing of the debates, almost exclusively, into the sphere of the economic, and raising the level of message transmission, of any kind of message – as excuses – to the level of the most credible personalities, seems to be a shrewd deviation of the attention, intended, or accidental, from a much more complex reality, crossed by a wider diversity of interests, either to be defended, or already changing.

The phenomenon of economic globalization reveals its new properties of disaster propagation, through its circulation system represented by the financial integration, with a shocking speed, leaving behind bankruptcy of financial entities perceived as strong organisms just a few days before their crumbling.

It is increasingly certain the fact that economy, in general, and particularly its functioning can not be understood and forecasted eluding the political context. Adam Smith and David Ricardo always referred to their bellowed discipline as **political economy**. The realities also lead us to the fact that nothing – ultimately and seen retrospectively – through the synergy given by the corroboration of lots of information unveiled sequentially, seems to be accidental, thus without a purpose.

Therefore, I join the opinion expressed by many people, despite the risk of being suspected of too much intuition, that the current crisis will have much wider effects than the economic and social

ones. The recent crisis started to reset the existing world order, not through a classical conflagration, rather through financial instruments turned into weapons of persuasion which have a far larger destructive effect than the classical weapons.

If we think well to the reversal of their connotation from complex financial instruments to toxic instruments, we observe that the damages are both material and human. The economic matter – the national and individual wealth – is suddenly decreased, and the stress of this contraction makes victims among the population. What more would the military want?

Another aspect, maybe of utmost importance, is the relevance of the human behaviour morality in an area in which society invested a lot of trust, i.e. the financial system. Actually, all the measures to strengthen the regulation and surveillance of the financial markets, to improve risk management, ultimately conceal the worry towards the deviant human behaviour, aspect which, although less commented, is one of the causes of the current crisis. This cause is crucial for the perception of the essence of the crisis of trust.

Admitting the hypothesis that a crisis may produce cultural changes in the broadest meaning, we must implicitly seek opinions from professions other than that of economist. If economy is the result of the human action non-dissociated of the human nature and behaviour, and if the cultural changes may generate new philosophic ideas, then we absolutely need the opinion of the philosophers and historians too. From the perspective of the supposed different and multiple effects of the current crisis, seen as argument for resetting the world order, the answer must apply a multidisciplinary approach.

The corroboration of just what was said here seems to show derisory the insistence of IMF director general Strauss-Kahn on just the three failures, as causes of the financial crisis. He attacked the domains of financial surveillance, risk management and discipline of the market mechanisms, which were discussed even during the G-20 debates.

The surprising propagation speed of the financial crisis required a swift reaction from the authorities, primarily to limit the damages, particularly in the systemic points of the financial system. This reaction was acknowledged as an all time example of crisis manifestation: the biggest (as number of authorities), largest (as volume of funds made available) and fastest, broadest coordination of

governmental and central banks interventions. These performances must be seen through the prism of the function performed by the so-called channels which transmit good or bad economic or psychological impulse.

On the same background of the phenomenon of globalization, some transmission channels were activated, other were inhibited, the new symmetry stressing the propagation of the adverse effects of the crisis and slowing the beneficial propagation of the measures taken to alleviate the shock of the crisis.

We will also observe that the symmetry between the swift time of intervention and the delay of the expected results also shows a distortion in the lag of the mechanism of the corrective monetary and fiscal impulses transmission through adequate channels; the lack of trust was thus doubled by the persistence of uncertainty, which cast doubt on the efficiency of the transmission channels during moments of peak expectations.

The essential problem of the moment is to restore the normal correlation between the real economy and the financial economy, maybe in a new paradigm of the economic growth. The reconsideration of the financial stability, as an indisputable necessity, takes place under the pressure of two realities: that of the post financial crisis economic relaunching and that of a new regulation, more comprehensive, of the financial sector. The purpose of this approach is to avoid that a possible new financial crisis hits the economic growth as hard as it did last time.

This new correlation in the European debates creates tensions between the strong EU member states – between the strong euro zone member states and the northern states, on the one side, and the southern EU member states, on the other side. The crisis of the sovereign debts of Greece and the speculations of its replication in other countries such as Spain, Portugal and Italy, only harshened the debates on the economic governance of Europe, particularly between France and Germany, debates within which the euro zone can not be neglected.

It is difficult to say where Romania is, as EU member state, within this debate, but we are somehow following the pattern of a certain “isolation”, meaning that our own concerns are stronger than the concerns of the others, just as the return of each individual state to positive economic growth, is a gain for the immediate future of the

whole community.

The European atmosphere gradually acquired a rather clearer agenda, which doesn't lack contradictions, though, and which can be conceived in four headlines: economic relaunching, budget deficits, regulation of the financial sector and credibility of the euro zone.

This agenda is essentially pragmatic, just due to the emergency of the actions and it relies on the background of a new political commitment of the EU member states stated in the new "Europe 2020" strategy, in which the economic growth for employment is coupled to a "strategy for smart, sustainable and inclusive growth"

Deciphering the new strategy must not be done exclusively by acknowledging the failure of the Lisbon Agenda, rather by the **strong iteration of the necessity for coordinated and consolidated actions, by the materialization of the structural reforms, by the unblocking of the growth potential through policies of innovation and policies to produce cheaper, ecologic energy.**

In this strategy, in connection exclusively with the transatlantic relations and USA criticism, we observe that the European Commission recognised that the European project of integration lags behind the preset anchors, hailed politically, but very little achieved and with visibility within the global competition.

The conclusions of the Council of Europe held on June 17, 2010, homologates the new strategy with the necessity of introducing reforms which to recover the internal and international loss of productivity and competitiveness. Only the permanent and structural reforms can ensure the sustainability of the public finances and of the pension systems.

The policies of sustainable development and the policies dedicated to energy prefigure directly the massive orientation of the investments towards areas with a high capacity of replication of the effects in terms of volume of production and employment.

### **Economic relaunching**

Despite the packages stimulating the European economies in crisis, redressing was slow, uncertain in certain moments, the insufficient efficiency of the stimuli being periodically noticed, with the cost of sizeable social resources. The European economy, although aligned with the economy of the USA, Japan and the BRIC countries in terms of stimulants, is one step behind the relaunched economies

from other parts of the world.

If globally, in early 2010 summer, there were many comments on the fragility of world economy relaunching, despite the progress of the USA and Asian economies, and under the circumstances in which the World Trade Organization evaluated that the propensity towards protectionism in the international trade remained rather low, even in an adverse economic climate, in Europe, the plans for redressing still were in the stage of a certain reversal of trend.

It is just this situation which created difficulties to the G20 summit in Toronto – Canada, on the subject of the priorities (sustained relaunching or financial regulation); although the priorities were considered of similar importance, it was clear that the choice was different in the EU than in the USA.

The stake of the global economic relaunching remained in the optimality of the moment when the governmental stimulating packages were withdrawn. The EU wanted their immediate withdrawal, while the USA demanded a delay until having the certitude of an irreversible global economic growth. It is obvious that the preoccupation for the budgetary deficits in excess all over the world remained different, function of the institutional and/or political constraints, which differed, mainly between EU and the USA.

#### **Point of view of the European Central Bank**

The evolutions towards the normalization of the economic situation in Europe determined the president of the European Central Bank, Jean-Claude Trichet, to keep pleading for cuts into the public expenditure and to stop the increase of taxes, as soon as indubitable proofs of a healthy relaunching of the economy emerge. What remains important with such judgement is the manner in which such proof can be evaluated; there are doubts on the relaunching of some individual economies, even if the German economy is already officially rising.

Trichet admits that the view point of the decision-makers of economic policy in Europe is contradictory with the USA demand that the strengthening of the fiscal policy is postponed for 2011, not to speak of the minimal agreement on the best way to support a strong redressing of the global economy after two years of crisis. According to the opinion of Trichet, those who want an unwarranted prolongation of the policies of fiscal stimulation (among whom FED

president, Ben Bernanke) are wrong; the generalised message sent by the Obama Administration to the industrial countries calls them to „stimulate, activate and spend”, the recent statistics reflecting the different odds for the economic future of the states on either side of the Atlantic.

There are three causes which produced an unprecedented increase of the public debts: the drastic decrease of the revenue to the budget due to the recession; the increase of the budgetary expenditure which include significant packages of fiscal stimulation; and the additional measures which prevented the collapse of the financial system. Averting the financial collapse was much less costly, according to Trichet, if we look back at the volume of resources consumed by the first two causes of the increase of the public debts both in the USA and in Europe. If ECB calculations show that only these costs (consisting in guarantees, recapitalizations, removal of the toxic assets etc.) represented over 27% of the GDP, both in the USA and Europe.

The consolidation of the public finances from the European perspective, must be done at the global level, as ECB president Jean-Claude Trichet stated many times. The impact of this process, which must start in the shortest possible time (as demanded by the Spanish Ministry of finances Elena Salgado) must not be considered as negative, because the budgetary cut will help the consolidation of a sustainable economic relaunching.

The shock of the economic crisis determined the reiteration of the political commitment of the EU member states on the occasion of the summer Council of Europe, to proceed swiftly to the coordination of the economic policies involving a more comprehensive budgetary monitoring and macroeconomic monitoring; the solutions will be proposed by an operative group.

### **Budget deficits**

In terms of the European standards imposed through the Pact of Stability and Growth, the budget deficits in excess, much above 3% of the GDP involve a considerable concern as to the good governance, because if they get chronic, this is harmful even to the broader process of European integration.

EU project can not be endangered by the macroeconomic misbalance in one of its fundamental principles, much more so as the



budgetary discipline is institutionalized by community commitment at country level – more on the trust resulting from the obligations of the European treaty – and the excessive budgetary deficits can only be accepted on a temporary basis, on a trend of joining PSC standard, in a few years (two-three years) and with sanctions.

The effects of the plans to stimulate with public money have also been revealed by the unsustainable dimension of the national budget deficits, which caused problems with the sources of funds (international or private financial organisations) and with the costs, which evolved into a generally tense climate. The plans to stimulate the economies from budgetary resources also had a noxious effect – public indebtedness in relation with the **syndrome of the weak budget restrictions**.

The differentiated manifestation of this syndrome among the EU member states, made it difficult for the fiscal policies to return to sustainability along with the economic redressing from the perspective of a community action, but the medium-term restoration of the sustainability became an acute problem for the European economic governance, although the fiscal policies remain national.

The informal coordination of the fiscal policies achieved by Eurogroup, became more so difficult as the subsequent measures of austerity, taken individually by each member state, are far from having a common denominator. Under these circumstances, we are actually witnessing a process which is at least temporary of divergence of the EU member states fiscal policies, in a moment in which the situation of the Euro zone and of the single currency claim conceptionally the necessity of shifting to a single fiscal policy.

Within the new post-crisis context, the mentioning of this new desideratum which was “omitted” when the Euro zone was created, remains a theoretically interesting rhetoric, with practical effects which are insurmountable for the time being at the political level of the EU, because this involves not just modifying the treaty, but the acceptance of the member states, which is hard to conceive at this difficult moment for each single country.

Jacques Delors, prominent character of the European integration, recently declared that any attempt to conclude a new EU treaty which to regulate the unification of the fiscal policy is excluded, at this moment when the governments of the member states already excited not just by the crisis, but also by the fairly large number of changes to

the integration treaties, which occurred once every six years. He said that the improvement of the current PSC is acceptable, which doesn't need the modification of the acting treaty.

Herman Van Rompuy, president of the Council of Europe, who coordinates the technical groups involved in the evaluations required to achieve immediate progresses in the pan-European economic coordination, said that he is against opening "Pandora's box" by a simple amendment of the treaty, that a completely different manner of action is needed in order to strengthen the budgetary discipline.

On the other hand, there are voices pleading merely for "more work to legitimate" ideas – the most important one being the establishment of an European budgetary authority – which are not included in the treaty.

We witnessing, though, a formal compromise by which the European Commission we acquire competencies of analysis of the national budgets, particularly of the member states members of the Euro zone, before they are submitted for approval to the national parliaments, process that might be defined as a check of their constitutionality versus the current PCS or versus an improved PSC.

This measure actually exceeds the formal commitment of the member states through the treaty; this will rather induce the **perception of distrust** (the case of Greece), almost generalised, within the governmental behaviour "tormented" by the measures of austerity, than the understanding of a formula of assistance from the European Commission during a critical period for the EU.

The dispute between France and Germany, which became obvious from the impossibility of arranging a meeting between the two presidents before the EU summit of June 17, 2010, only underline the fact that the problem of economic policies coordination within the EU and the Euro zone, although desirable, is delicate over the long-term, even behind the consensus prepared for the G20 summit.

"Europe 2020" Strategy calls for fiscal sustainability and for the acceleration of the plans for fiscal consolidation, while taking the risks into consideration. We must, however, highlight that the stress is on the **necessity to use the indicator potential GDP as a benchmark for healthy economic policies**, the increase of the potential for growth being achieved in correlation with the long-term fiscal consolidation.

The technical reference is not accidental, the quasi-inertial

economic growth supported by unsafe funding, in excess of the potential GDP, always prove to be misleading, aggravating the internal and external imbalances and enlarging the regional differences of development.

The strict position of the EU concerning the fiscal consolidation after the international financial crisis is the object of US criticism. The US vision of economic relaunching is visibly closer connected to governmental stimulants and to the necessity to continue this stimulation until having the certitude that the private sector resumed its economic growth using own resources.

In connection with this vision, the opinions of Paul Krugman, Nobel Prize winner, become very interesting. He accuses the **"budgetary orthodoxy"** shown mainly by the European leaders, whose single effect is that the world economy will enter a possibly long process of deflation. Referring to the economic history and mentioning the "Long Depression" of the 19<sup>th</sup> century and the "Great Depression" from the 20<sup>th</sup> century, Krugman says that the two events were not marked by a permanent economic decline, on the contrary, in both cases there were periods of growth followed by new depressions.

### **The inflation obsession**

For the Europeans, this obsession seems legitimated by the economic history of the continent – see the 20<sup>th</sup> century – but one can notice that at least in the starting stage of financial crisis, the lessons of the old depressions have been learnt. The inflationist danger makes all the governments shift to austerity programs. But, in 2008 and 2009, says Krugman, unlike their forerunners who increased the interest rate when the financial crisis started, the current leaders of FED and European Central Bank, reduced drastically the monetary policy interest rate and supported credit granting.

There is another behavioural asymmetry in front of the financial crisis: the current governments allowed the increase of the budget deficits, while the governments in the time of the two depressions tried to balance their budgets which were confronted by falling economies. From this difference, one can easily enter the deflationist trap of both Europe and the United States, according to the experience of Japan in the 90s.

The economists observe that the "return of the expensive money"

to finance the deficits, just because of the orthodoxy of the balanced budgets, might render inefficient the austerity programs in some countries, started either without stimulating the demand, or before the consolidation of the signs of economic redressing.

In such situation, the reduction of the governmental expenditure and the increase of taxation, on the background of a declining economy, will hardly restore the trust in the business environment. Furthermore, the reduction of the public expenditure in the middle of a depression, contrary to a rational analysis, will take that particular economy towards deflation, which Paul Krugman calls “a process of self-destruction”.

The logic of the budgetary orthodoxy’s consequences during periods of economic decline takes us to the conclusion that its price might be a prolonged and significant unemployment rate, while some people in this situation might never get a paid job.

#### **Regulation of the financial sector**

The endangerment of the financial stability by the effects of the last international financial crisis is about to ensure the convergence of ideas on filling the gaps in the regulation of financial markets monitoring, both within the EU and within G-20. This approach is not lacking challenges, just because it concerns key legislative measures whose implementation starts in 2011.

The regulation of the financial services, viewed within the context of the good economic governance, has principally a **reformist approach**, the word suggesting the depthness of the legislative changes required to implement the mentioned concepts, bearing, nevertheless, the guilt of the financial; crisis due to their insufficient translation into rational behaviours.

The attention focuses on the agreements on the legislation of monitoring, on the legislation of the administrators of the alternative investment funds, of the rating agencies, of the derivatives and their financial markets (with a strict regulation of the sales in absence and of the credit default swaps), the introduction of systems of taxes and dues on the financial institutions, measures which will support the creation of mechanisms for the equitable securitization of the risks and which will provide stimulants against the systemic risk.

The emergency in this field is given by the fast restoration of the solidity and stability of the financial system, with its orientation

towards responsabilization; the need to ensure the resilience and transparency of the banking sector and to validate the stress tests performed by the monitoring authorities, as a permanent exercise intended to restore consumer's trust in the financial services.

In terms of institutions, the three European monitoring authorities and the European Committee for Systemic Risks are expected to start their activity in 2011.

### **Credibility of the Euro zone**

If the celebration of ten years from the establishment of the single currency unfolded in an atmosphere of full trust in the project of the single monetary policy, as all EU members with derogation will join the Euro zone, the onset of the Greek crisis of debts shattered the project of the single currency, at least as public perception.

Of course, the propagation of the idea of Euro zone unsafety prevailed in the eyes of the foreign observers – Nobel Prize winning economists, analysts and investors – as a message condemning an economic project which was forced politically, or as a theoretically anti-economic project. We may trace in this reaction a slight professional frustration, particularly of the reputed economists, but, admitting changes of paradigms even in the economic theory, we have to admit too much easiness in demonstrating the unsustainability of the European project of single currency.

We think that, under conditions of normal post economic crisis evolution in the EU, such reactions, such reactions would have stopped only at doubts on euro viability, the criticisms following a constructive path even theoretically, already having the support of the possible empirical studies on a project which turned into reality. Let us not forget that the strength and stability of the Euro cast from its introduction, doubts on the dollar – as strong currency, as backup currency, as currency representative for some large transactions – the countries exporting raw materials, energy raw materials especially, with prices denominated in dollars on the international market, expressing their desire to shift to the Euro.

At the same time, under the conditions of the vehement demands of many big actors of the global economy for another backup currency than the US dollar, we can not exclude the premeditation of finding an opportunity for rhetoric to defend indirectly the dollar. The opportunity appeared with the financial difficulties of Greece, EU

member state using the Euro.

Undoubtedly, such rhetoric supported by some outstanding economists, among whom Nouriel Rubini, made the investors and currency markets to react. The reaction was not just psychological, but is also contained basic economic factors: the large budget deficits of the main countries from the Euro zone, their increasing public debts, the saving programs developed for Greece, the slow and differentiated return to economic growth; they all eroded the trust in the single currency.

The signals coming “from the market” on the perspective of the Euro and of its actors, is a symptom which can not be missed, more so as there have been other episodes of distrust in the single currency – see the case of Italy – during better moments for the European economy, in general, and of the Euro zone, in special.

The symptom takes us again towards the basic indicators which create problems for some countries in the Euro zone: the loss in time of domestic and foreign competitiveness, after the adoption of the single currency. We notice the persistent reference to two causes: either the poor setting of the central parity at the moment of conversion with the omission of the political will to strengthen the national economy with the status of the single currency, or the different evolution of the work productivity, in the absence of the real support for the structural reforms, or a combination of the both.

A fact is increasingly obvious, particularly for the EU countries which haven't yet adopted the Euro: the achievement of the nominal convergence criteria goes hand in hand with the real convergence, if we want the sustainability of the nominal criteria and the benefits of the single currency for the broader process of development of a member state within the EU, which is the expression of an authentic process of real convergence.

We must observe that the negative signals on the single currency have been countered firmly with the EU, and the act of Estonia, confirmed both by the Commission and by the ECB, to adopt the Euro as of January 1, 2011, the message says that the **project is viable and open**. What remains debatable, is the economic relevance of Estonia for the Euro zone, the political relevance being significant in terms of the transformations taking place on the European continent.