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"Fearful" Eurozone Crisis on the Verge of Recovery

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Abstract: The European Union's most meaningful step in the direction of full integration was the instigation of the monetary union. This achievement in a sense epitomizes the commencement of a fully-connected, uniform, cohesive ideal of Europe. Indeed; good results followed in terms of mutual economic gains. Problematic issues which occurred on the way are of passing nature, the worst of which is the ensued notorious financial crisis starting in 2008. But; it involves some perceptional features based on extraordinary fearful reactions, rather than sheer actual happenings. Time will serve as an ointment for the affected injuries. The healing is already in process.
Keywords: EZ (Eurozone); EMU (Economic and Monetary Union); integration; crisis; fear; panic.

INTRODUCTION

The EU in general and the EZ in specific is now suffering from the lack of a determined and unified purpose, following the notorious 2008-financial crisis. One wing of wise men and scholars is in favor of differentiation and looser cohesion, claiming it to be the democratic way of politics. The other wing (as well-represented by Daniel Cohn Bendit and his supporters) is in favor of "more Europe", culminating in a tangible federation. The two contrasting ideas are represented in a cartoon in Figure 1; as far as the involved budgets are concerned.

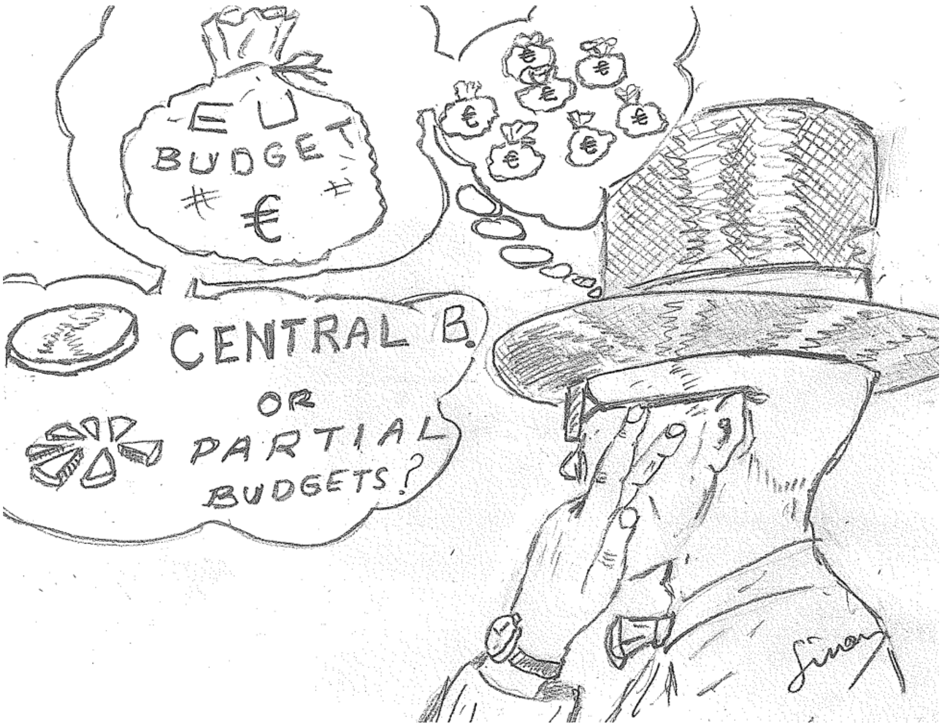

Fig-1: A scholar contemplating about the European budget issues. (illustration by the author—S:Ç:).

Regarding the latter viewpoint, monetary union is a very important aspect of getting closer. It is said to be a vertical form of integration. As such, the idea should only be defended more vigorously.

The political dimension as a conspicuous ingredient of the allegiance, is also included in various related viewpoins. As *Savaş* (2006: 221)[1] puts it; of course, *the mere membership in a common currency partnership necessitates concessions from national sovereignty*.

After all, seigniorage is a right as well as an indicator of sovereignty. It has always been that, historically. But; blindly clinging to now-archaic symbols of sovereignity in the world of today, would not mean much, compared to tangible gains, for the people of that honorable-country in question.

"At its core the euro area crisis is about national sovereignty. What euro area policy-makers face today is enough to prompt them to transfer deep national sovereignty to new institutions" (Bergsten & Kirkegaard 2012: 1-2) [2].

Another author emphasizes the same vestiges of the old way of thinking in terms of national interests, which still can not be easily relinquished even though it finally should be:

*"*Before the crisis many cash-rich small banks in northern Europe were investing their surplus in southern Europe. [Now] National supervisors have to protect the interests of their home country, rather than the stability of the Eurozone's banking system*"* (Gros 2012: 51)[3].

[In short] "*The desire to protect the home turf in northern Europe has bottled up large amounts of savings there, thereby contributing to the severity of the Eurozone crisis.*" (Gros 2012: 54) [3].

Historic Perspectives: Faltering Movements Got Steady, Eventually

The will-power is very significant in any attempt to come closer. This can be depicted in the formation stage of the EMU: *"*The number of products being traded began to rise several years prior to the currency union adoption, peaking near the time of adoption*"* (Bergin & Lin 2012. 203) **[4]**.

However promising a project may seem; materializing it is a somewhat different task. The formation of a strong and committed idea on the way to EMU and resolute steps to implement it, did not come out so easily. Rather, an ebb-and-flow was to be experienced:

"*In reality considerable uncertainty about the prospects for the EMU project existed, which manifested itself by political debates on a postponement of Stage III beyond January 1, 1999*" (Wilfling 2009: 260)**[5]**.

But, the EMU at last did emerge; if only in a hesitant manner. Somehow, the three-stage-project managed to come into existence; this; moreover; was realized in a manner which appeared only irreversible **(*)** in nature.

The Initial Acceleration Imparted by the "Big Brothers"

There is no doubt that Germany is the strongest brother **(**)** of the European Union and it had a determining role for putting into practice any related project:

*"*Germany has been considered as the base country [in many studies], given its importance in the European Monetary System*"* (Kasman, Kırbaş-Kasman & Turgutlu 2008: 342) **[9]**.

Meanwhile; France, historically the next big brother of the continental Europe, is not to be underestimated, by any means. The cooperation of the two, provides immense synergy and attraction for the other "siblings".

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* Authorities had taken this irreversibility almost for granted at the time. Only nowadays, they come to realize this fact: *Today regarding questions about legal consequences of unilateral withdrawal from the Eurozone; we lawyers can only say that we do not know. This is just expected since related clauses were not included in the Lisbon treaty, which set up EMU* (DLA Piper, December 11, 2011: 1) **[6]**.

** Alkin (April 30, 2013) **[7]** in a conference expressed the view that Germany, in a sense, is responsible for the financial crisis. Reminding the *clauses inserted into the German and Japan constitutions after World War II about restricting armement activities*, the scholar regarded the entire EU project as *Germany's proof of his coming of age vis-à-vis the U.S. (whereas the center of gravity in world economy is shifting eastward and it would only be wise for the two sides of the Atlantic to cooperate instead of rivalising, he added). The timing of the EU*, he claimed, *was immature and accepting Greece and similar countries into EZ was even more ill-timed*. Verdun (2010: 330) **[8]** also connects *the political determination of the German Chancellor, Helmut Kohl, to secure EMU* with his eagerness to move ahead quickly *with German unification*.

As a matter of fact; along the course of the development of the EZ, whenever France sided with Germany; actual realization of certain essential steps came out faster and easier. Authors like *Kalaycı* name the league of these two most important members of the allegiance *the long-aged Franco-German locomotive engine*.

The Success Went on for Quite a Long Period

Once established, the new economic (in fact; being more than sheer economic, it involves a unique / *sui generis*, more-of-a-practical-than-theoretical formation) "being" proved to be a robust and successful entity along the early course of its early development; causing increase in growth rates as well as a more evenly distribution and reduction of inflation percentages, throughout the continent.

One might as well assert that EMU caused the states to help themselves, rather than providing "readily-made" aid. As a Chinese proverb specifies, *teaching one how to fish is far superior than providing him with already-caught fish.* EMU seems to have reduced differences among countries, let alone among states within a single federal country! EMU appears to have affected that merely by bringing about change in economic behavior.

The Crisis; an Unlucky, Untimely Occurrence

As Rodrik puts it (2011: 4) [10], *"*Europe's bad luck was to be hit with the worst financial crisis since the 1930s, while still only halfway through its integration process*"*.

"The anxiety felt by markets about the debts of [Greece, Ireland, Portugal], which spread to Italy and Spain amongst others [(*)] sent the yields on their sovereign bonds soaring, making it even harder for them to borrow [further]" (Ferré 2012: 661) [11].

The crisis, besides being an *ominous* event in all possible senses of the adjective; happened at a time when the integration was not mature enough to cope with it properly and effectively.

The Incredible Fears and the Final Panic as a Climax

In any crisis whatsoever, much of the problem originates from psychological factors like losing the cold-blooded attitudes during the process of taking measures:

"Members of a monetary union issue government debt in a currency they do not control. The absence of a guarantee that the cash will always be available, [may cause] a liquidity crisis. The fear of insolvency creates conditions that make insolvency even more likely" (De Grauwe & Ji 2012: 877) [12].

"A monetary union creates collective problems. When one government faces a debt crisis; this is likely to lead to repercussions in other members" (De Grauve 2011: 18) [13].

A bank run, for instance, happens due to the unconquerable feelings of clients, who are too afraid to let their savings continue to be lying in the vault of the "jeopardized" bank. Once the first particular bank run gets to be known; this awareness only triggers further runs, like an avalanche getting bigger and bigger. If the first panic can be conquered and the the down-tendency somehow can be contained, then; the good old *invisible hand of* Adam Smith shall reset the appropriate balance, no doubt. But this is easier said than done.

In February 2015, the new finance minister of the bankrupted-Greece —and this bankruptcy went on despite two successive enormous rescue operations by the union — visited the finance minister of Britain. The event was shown on television news. A speaker commented that if a loan is small, the debtor feels uneasy in an encounter with the creditor. But, if the loan is much too big, in that case it is the creditor who displays anxiety.

Now; on the screen one could see that the Greek counterpart was relaxed and nearly smiling. Even his clothing reflected his relaxed attitude: a leather jacket and no necktie! His *interlocuteur* certainly looked more serious in his suit and tie. A Turkish proverb asserts that a dead donkey is not afraid of wolves.

The Still-Lingering-Aftermath

In some real-life situations which people encounter; while many factors cooperate and converge in their prospective net effects; some others oppose with one another. Here is where the concept of optimization comes into play. While repairing one aspect of our lives, we may jeopardize another; as it is the case with an effective medicament entailing strong undesirable side-effects.

In coping with the repurcussions of the infamous crisis, also, some bitter consequences must absolutely be taken as inavoidable. Austerity may not at all be easy for any western society who got used to consumption smoothing for so many years. However; in order to get rid of the detrimental effects of the crisis, some sacrifice is simply indispensable. Each single individual should feel his / her own share of the onus of

[*] Those five countries came to be called "PIIGS" in a blunt manner with negative connotations. Later the term got replaced with "GIIPS" in a tactful manner, with more euphumistic associations.

the gigantic work, to be accomplished. Patience, perseverence, resolotuness are the concepts to be employed rather than frivolus or irresponsible attitudes.

Common Currency can only be Helpful

The Eurozone is not even the instigator of the financial crisis, which had indeed began in the US. The US sub-prime mortgage was in bad shape by 2007, the situation worsening through 2008 until the US government let down Lehman Brothers in mid-September. Contagion followed fast and spread out to Europe's banking system. (The worst year as far as growth goes, happens to be 2009 —shrinkage instead of growth— both for the U.S. and the EU).

Was the idea of common currency inappropriate, after all? On the contrary! As Verdun (2010: 325) [8] puts it; "*the currency turmoil made adopting the euro a more attractive policy. Even a country like Iceland has become attracted to the EU idea*[for the sake of] *joining the euro*".

Indeed; in a decade (1999-2009) the number of euro-countries rose to 16 from 11. Verdun [8] thinks that *EU member states, such as Denmark and Sweden, may want to join the euro area in the near future, as will a number of Central and East Europan countries.*

CONCLUSION

The Eurozone was accomplished with sweat, energy, good luck and above all good will. It did work well, until the unlucky crisis. The crisis was aggravated by unnecessary fears. This phase is only temporary and will eventually be left behind. The caravan will somehow walk on.

Whenever problems occur, remedies are also thought up, applied and evaluated by making much of feedbacks. If and when necessary, further measures will be devised and put into practice. After all, there is no end to learning.

Indeed; along the course of developments leading to the EMU; during the passing phase called the European Monetary System (EMS); *the first four years (1979-83) were learning-years with numerous exchange rate fluctuations and parity adjustments; while the participating currencies were becoming more stable [and promising-for-integration] in the interim period (1983-87)* [8].

For the near and medium future times; also; at least the age-old trial-and-error method is there, at hand, waiting to be employed and evaluated from the point of view of the results coming out.

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