

Effects of the Global Financial Crisis in Europe

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Abstract: The overall aim of the paper is to ascertain the extent of which the financial crisis affected Europe position and the implications to this changing status quo if there is any. From this background, this research seeks to answer the following questions: Has the financial crisis made EU weaker or stronger? Has the financial crisis affected EU position in the world? If yes, to what extent has it affected the EU position on world politics? In search for answers to these questions, we employ secondary data such as policy papers on the global financial crisis, academic articles, EU response papers and World Bank and International Monetary Fund (IMF) policy documents etc.

Keywords: Financial Crisis, the EU, Financial Market.

Causes and impact of financial crisis on eu member states: a brief literature review

After a great depression in the 1930s, the world economy underwent profound structural and monetary reforms that boosted economic growth and market competitiveness. However, this strong market economy came to a standstill in late 2007 with the financial crisis which started in America and later went viral global financial crisis. The devastation of this financial crisis was not only damaging to the leading economics but also developing and underdeveloped states around the world as well.

As many policymakers and scholars argue that poor fiscal policy in EU countries is among many reasons for financial crisis. The years between 2002 and 2007 were considered by many commentators as stable (economy) coupled with boom in economic growth. This has since rise in growth rates in leading developing economics such as Singapore, Turkey and South Africa. However, Verick and Islam [1], noted that contrary to widely-held perceptions during the boom years before the crisis, the global economy was by no means as stable as suggested, while at the same time the majority of the world's poor had benefited insufficiently from stronger economic growth. They went further to argue that, there were complex and interlinked factors behind the emergence of the crisis in 2007, namely loose monetary policy, global imbalances, misperception of risk and lax financial regulation [1]. What has seemingly started as turbulence in the US housing institutions in late 2007 soon went viral to be global crisis. This lead to a couple of questions: Firstly, if the crisis indeed started in US, how then the EU and other developing countries were affected. Secondly, if this is a model test for the so-called US capitalist system, one may begin to question whether capitalism works. As Verick and Islam [1] highlight in their discussion paper that, the old proverbial truth that the rest of the world sneezes when the US catches a cold appeared to be vindicated as systemically important economies in the

European Union and Japan went collectively into recession by mid-2008 [1]. Besides, world economics are interdependence coupled with the model copied by the rest of EU member states from US, which has further worsened the crisis in Europe.

Young [2] argues that the financial crisis could be attributed to structural problem. Rajan also [3] argues that the main problem was worsening incomes that led American government to open the gates of mortgage credit which in return caused a housing bubble and the financial crisis. In a similar way, Fitoussi [4] claims that the financial crisis was caused by the dramatic increase in incomes and wealth inequality in the last three decades, which he names it as 'reverse redistribution of income' in advanced economies. Those who benefitted from high investment return from gross inequality led to the bubble of economy. The bursting economy lead to poverty, high unemployment in Europe, demise of local businesses and industries, just to mention few.

Another cause of the crisis was the macroeconomic imbalance among economics. This disparity is responsible for the dramatic expansion of financial institutions to enabling the funding of huge current account deficits, low interest rates that led to

riskier, higher-yielding assets and financial innovation that gave rise to excess [1, 2, 5].

The common monetary policy is a factor behind the crisis. This is because all EU countries were affected but the intensity of the crisis differs from country to country. Governments had a space to devalue their currencies to make adjustment for constant inflation and continue their economic competitiveness. However, after Euro became effective, it was not possible to make such adjustments. The only alternative is either a strong structural reform or a withdrawal from the common monetary policies [4].

In addition, there is also human element to the crisis that is too often overlooked, but is potentially more important than the financial elements. The statistics show us that current levels of unemployment not only weakens the economy, but also affects positive opinion of European citizens on future of the EU [5]. The situation would have been worst had it that EU governments and supranational bodies not responded swiftly. To sum up, low interest rates, risk regulations and global imbalances, short-term fiscal policies were factors behind the global financial crisis.

Although, there was rapid policy response from world governments, the impact of financial crisis is still felt. On the social front, it has led to high rate of unemployment, poverty, influx of migration around the EU zones, and massive decrease in government spending on social issues such as education, and health. Economically, it led to demise of local businesses and industries, brain drain, little investment in the economy which leads to unemployment and confidence between customers and businesses fell low. Politically, the effects did not only hinder trade policy but even cooperation among NATO members. It also leads to distrust in governments. This crisis has affected EU's position in world politics which shall be further elaborated in the next segment of this paper.

Implications of financial crisis for the eu' position in the world

The issue of whether the financial crisis has affect Europe position in the world remains contentious among scholars, policy-makers and commentators. This has led to two schools of thoughts, those who believe that EU is weak because of the crisis and those with the opinion that EU is much stronger than ever before. It is vital to note that these two schools can best their cases. This section of the paper seeks to explore the repercussion of the crisis on Europe's position in the work. Therefore, we aim to find an answer to this question: Has the EU crisis affect its position in the world?

On their paper 'Global European Banks and Financial Crisis', Noeth and Sengupta [6] argue that a significant economic slowdown currently plagues the

world economy, especially countries in Europe. The slowdown came in the aftermath of what has been widely regarded as the ongoing global financial turmoil that spanned the past half-decade [7]. The economic woes are especially severe in the euro zone where countries not only battle with economic recession, but also asset price deflation and a burgeoning debt crisis [6]. They went further to question worthiness of some EU banks which they believe contributed to the crisis. Their proposition is that EU is weak due to the crisis and warned for better banking regulations to avert future crisis.

Arguably, the crisis has affected EU position in the world as some member countries still suffer on the economic front as shown in IMF and World Bank reports. Further growing poverty, high unemployment, low growth rate coupled with high influx of refugees are limiting EU in meeting its potentials to overhaul the ongoing crisis. As many economists argue, the crisis is still going on at a low pace [10]. The Brexit is another manifestation of EU weakness in world stage. Britain is one of the leaders of EU and its importance to the body cannot be overemphasized. This is evident from the visit of President Obama to UK and his request from the British not to leave EU. Losing one of its leading members is a sign of weakness as some commentators believed. Further, the financial crisis has led to massive humanitarian crisis in the world. European Union has always played a leading role in financing most of humanitarian projects. However, the crisis has led to donor fatigue in Europe as another weakness.

Despite all the tumultuous period, some policy-makers believe that Europe is strong as ever before. As argued by Janse [8], 'Europe is back in the game'. Having suffered the worst financial crisis of the last 80 years, Europe took decisive action to improve its public finances, push through deep reforms and establish new institutions to manage and prevent crises better. The changes are structural, long-lasting and make Europe more competitive [9]. Europe is stronger, better equipped and in the midst of ambitious new financial and economic initiatives.

This paper contributes to the literature by proposing that despite the economic downturn and the later recovery in most EU member states, there is still an alarming danger (Terrorism, migration, refugee crisis, and unemployment) which could affect Europe position in near distance future [11]. The first point is Europe's aging population which is worrisome to economics as it will seriously hamper growth and employment. Secondly, if Britain finally overturns its economy woes to rapid growth, there will be serious concern and doubt about EU credibility. This may fuel further break up from countries such as Germany, France, and most especially the Scandinavian countries that were sceptical about the sustainability of EU since its inception. And finally, we opine that EU need

massive structural and systemic reforms and should be willing in administering countries with economic potentials like Turkey, if they are to continue enjoying the status quo of leading world most successful supranational body ever [12].

CONCLUSION

Ever since the world economy burst, America and European Union has been and still on a series of reforms in the economic sector. This is necessary and quite important because the burden was not only felt by the advance economics but developing countries as well. Unemployment rose dramatically as a result. The general consensus is that the crisis is the worst since the Great Depression. The EU should further strengthen banking regulations. Another recommendation is that IMF and the World Bank should prevent global imbalance. This imbalance is among the causes of the crisis. The Asian and African are neglected in IMF governance processes. These two continents have too much to offer the world than the Bretton woods institutions can imagine. One fundamental question that keeps lingering after the Brexit is: Can European countries really afford not to be financially and economically interconnected and integrated?

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