CURRENT SOCIAL AND ECONOMIC PROBLEMS IN THE EURO ZONE

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Abstract: The crisis in the Euro area as well as the global crisis deepens global problem of polarization of wealth. The narrow richest group concentrates capital and does not find a real-earning space. This is the reason, why speculative financial products arise that do not create any real effect. The global financial sector has broken away from the real economy. The biggest banks have embarked on illegal cartels. If the state is unable to guarantee security for economic market operators these are forced to create their own measures. A paper discusses new opportunities in this difficult situation for businesses in the Slovak Republic after accession to the EU, and assesses the pros and cons of adoption of the new currency Euro. It does not avoid either economic performance in the coming years in the global economy. The analysis show that top international institutions influence events on the planet and therefore they are largely responsible for the global crisis. Under this influence also a redistribution of economic and political power occurs.

Key words: Crisis, banking sector, financial products, global economy, analysis.

Introduction

The German banks will pay roughly EUR 1.9 billion per year in the new European fund for restructuring banks. In comparison with the current contributions to the national fund this represents more than three times. The daily Handelsblatt has informed about it, referred to government resources. German banks must now pay to the national fund not more than 20% of their annual profit. Limit, which banks only in 2011 saved roughly EUR 1.3 billion, after the transition to the new system will not be applied. A common fund for dealing with crisis situations is included in the banking union in the EU. The fund
should be gradually fulfilled by the banks in the Member States during the next eight years until the target amount 55 billion euro. Currently small German banks with assets up to 300 million euro do not pay contributions to the national fund.1

The European Banking Association /EBA/ has revealed contours so far toughest tests of banks in the European Union. They will have to grapple with the collapse in power scenario in prices of houses or actions of the order of a fifth, sharp deterioration of some currencies and also escalation in cases of mortgages. Further increase of unemployment and negative development across the economy has been planned. EBA will test quite 124 banks from 28 member countries of the European Union in order to determine whether they have sufficient capital for the start of the crisis. The results of these tests are to be under the current plan published in October 2014. Among the tested banks there are, inter alia, parent companies of some of the Slovak financial institutions. EBA has already indicated that for the successful graduation tests the banks in the framework of a three-year crisis scenario will have to keep variable capital adequacy above 5.5 percent. This indicator expresses the ratio of the volume of quality capital as a proportion of total bank assets. In previous load tests in 2011 the minimum was established to five percent. The banks in the European Union will have to confirm in the new scenario stress tests under EBA that they will withstand conditions of 21.2 % decrease in home prices, the fall in share prices by 19.2 % in three years, 14.7 % of the decrease in prices for commercial real estate or increasing unemployment on the horizon of years 2014 and 2016 above the 13 % failing goal, set by the European Commission, in the cumulated growth of the European economy by 7 % in the years 2014 and 2016. The banks will have to show within the framework of the new three-year scenario stress

tests that it would not have managed to deal with inherited economic decline of 2.1%. In earlier scenarios it was economic downturn only 0.4%. In cases of the Polish zloty and Hungarian forint load scenario is working with local currency collapse in value by a quarter. Some European banks have tried to seek the ways how to strengthen their capital, in order to avoid any problems associated with potential failure in load tests. The banks, which will fail in the test, shall be determined a time limit by EBA for completion necessary capital.

New headquarters for management of the ECB in Frankfurt am Main

The European Central Bank will take over from November this year supervision of approximately 130 banks in the euro area, which could be considered as “systemically important”. Also in the context of the step up to now it is the most stringent test of banks, when tests, in particular in 2011, have been severely criticized for failure or not detecting real problems and instability of banks.²

If a particular country will exhaust all options, then of course starts to play by the rules, in order to have access to an official means of rescue. But as it has been demonstrated in a case of Greece, this does not always go as it has been planned. Greece financial remediation, which has been jointly financed by EU and international monetary fund, started disastrously, because of postponing much-needed restructuring debt and requested severe austerity measures. As a result, there are strong impact extremist political forces, and on the horizon, a looming public health tragedy. Nevertheless Schäuble in seemingly never

ending desire for other energy saving measures considers Greece a model for still hopeless Ukraine.

Europe finds itself in confusion. At a time when the debt restructuring is in fact excluded and when there is not sufficiently large and politically consecrated Central budget, which would re-invigorate states in difficulty, Europeans have sanctified Germany, just like their predictive hegemon. Germany takes this role, but is unable to play it. Quite simply, Germany is not willing to spend their taxpayers’ money to support Europe. The robust German economy today, is practically just a memory. Annual GDP grew in the years 2010 and 2011 by more than 3%, because still well prosperous China’s economy has maintained high demand for German machines and cars. However, at the moment, when GDP growth in China slowed, slowed also growth of a German one, the less than 1% per year. This result is likely to be a little better, but, in view of an aging population the German economy will face in the long term, there will be low potential growth. Germany is thus lacking economic dynamics so it could not support Europe financially; and its representatives are not willing to undergo any political risks. Two main political parties in the country, Christian and social democrats, after the elections in September 2013, when their ruling coalition originated, avoided public dialog about Europe.

The EU is inspiring political structure, which is seeking to form stable nation state from the nineteenth century. A progress toward this idealistic vision, however, cannot continue to be dependent on dirty symbols. The euro was most ambitious of these symbols – construct of dubious economic value with well-proven weak points. Its introduction has been the act of an economic conceit, which required a tax far beyond the borders of Europe.

European leaders today give a free pass to triumphalism and a current economic relief they consider a validation of failed transnational governance structures. Depth and permanence of the current crisis, however, revealed fundamental weaknesses of euro and should serve as a warning, that today’s technocratic patches do not have to hold in
a case of a future shock. Unfortunately, it seems that bold steps to address these weaknesses cannot be seen on the horizon for anything more than ever. Disclaimer of some control over national budgets in order to achieve fiscal integration appears to be politically dead and a talk of treaty changes, even if they were based on mouth German finance minister, practically are nothing more than an empty rhetorical exercise.

Adoption of the euro was a mistake. Damages, however, already have been committed and hasty exit from the common currency situation would only be detrimental. Because the states do not show willingness to abandon sovereignty, the only option for Europe remains to discard appearances centralised coordination and leave it to states and banks, in order to cope with its creditors. And let them to be punished. A step back to this more stable solution can be is the only way forward.3

Due to the uncertainty that prevails in the euro area, according to the Governor of the central bank, Poland should not rush to adopt the single European currency. The country should improve its competitiveness before the introduction of the euro. Poland is very competitive on an international scale, but only with its low costs and low wages. Poland is sometimes called “Small China of Europe” and, to a certain extent, they are right. They lack the so-called structural competitive advantage, which typical example we see for example in Switzerland.

The Polish prime minister declared this month that his country will adopt the euro in the future, because this will strengthen its position among western countries and will increase its security. He added, however, that the next few years Warsaw will not be focused on its entry to the euro area. Neither the Czech Republic will plan to adopt the single European currency in the near future.4

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It seems that the European economy has already defeated the debt crisis, which has threatened with collapse in euro during recent years. But these were precisely those strict measures for management of the crisis which have created a fertile ground for an even more serious problem for economic and political disaster. The Euro Zone after three years of crisis, in which there bankruptcy common currency and call new world crisis, is finally out of the worst. The Brussels line, French, German, Italian and Spanish Government, the European Central Bank (ECB) and the International Monetary Fund may declare that efforts to address the crisis, as it was declared by the President of the ECB in the summer of 2012, that the European Central Bank is prepared to protect euro by all possible means, was finally successful.

Development in the markets in recent weeks has made clear that things went back to normal. The problem is “only” in a fact that after it has been possible to overcome financial problems, now a real European economic and political hell is starting to spread. Investors in the market have not destroyed the euro area, but longer-term social conflict can do so.

Over the last few weeks clear signs of fiscal consolidation have appeared. Five-year yields Italian and Spanish bonds decreased to a level similar to maturity of American securities. Ireland has broken out intensive financial care and Greek government has issued bonds again. IMF states that in central banks there is a growing share of foreign currency reserves in euro, which is a clear indication of return confidence in the European currency. In the last quarter of 2013, this index increased from previous 24.1 % to 24.4 %. When looking at strong euro in the first three months of this year, we can expect to see continue purchase of it.

To prevent financial crisis, it had to be something to sacrifice. And that something should be of a terrible socio-economic dimension. The average unemployment rate in the euro area is 11.9 %, which means that 19 million people are unemployed. In Italy and Spain this number is even higher – 13 %, in Greece even shocking, more than
25%. Among young people unemployment reached 23.5%, but in the countries that are the worst, up to half of young are unable to find a job. On the contrary, in the United States and in Great Britain in recent years they succeed in reducing unemployment that central banks are now thinking about increasing interest rates.

A whole generation of Spanish and Italians has “chance”, they will never get to work. Surveys show that those who will not find a job until they are 25 years old will not be able to find the job in their life.

For the euro area recovery a significant economic growth would be needed. If we want to see the economy in recent years powdered again on its feet and to reduce unemployment, we need a growth of three or four per cent. But such a reversal cannot be expected. Europe is getting into the trap, which ended in 1930, when it stuck compulsively on the gold standard. At that time, the national currencies can only move in a narrow range between the upper and lower limit, exchange rates were stable. But the zero growth has condemned this system to destruction. The result was the deep political crisis, structural depression, massive unemployment, emigration due to cuts and restrictions, which only polarised a society. Common Europe may be in place until its citizens will agree with this. The question is, how long.5

Income inequality in recent times receives considerable attention, and in particular, on two fronts, where it hasn’t missed a beat before; in the American public debate and in the International Monetary Fund. An important reason is the concern in the United States that income inequality has returned to extremes. However, inequality has increased in many other parts of the world, too. Perhaps the most interesting in the current debate is the fact that in a large extent it is focused on consequences of inequality beyond adverse effects on poor. There are 4 directions:

1. Inequality is bad for the overall economic growth,
2. inequality leads to volatility and instability,
3. inequality translates in envy and feel unhappiness – rivalry the status,
4. thanks to the tremendous amount of money in politics, rich people succeed.

While the first three sources of concern are at least in a democracy accessible to self-corrections, concentration of economic and political power in oligarchy increases itself. The recent US Supreme Court decision relating to contributions to an election campaign indicate that impact money in politics will only increase.

Enforcement of arguments against oligarchy, however, is not the best way how to reduce inequality. Rather, we should work on the assumption that inequality in general and especially poverty are simply undesirable.

Arguments against oligarchy claim that the rich have too much money and buy for them politicians, who will introduce laws favouring their interests. However, it would seem that a better approach is to argue for best policies that will improve effective distribution of proceeds, and to highlight those elected officials who support them.

An alternative to this approach is a very protracted strategy that would achieve enlightened politicians that would undermine the ability of wealthy people to buy votes. However this can be an important objective, its achievement requires a reduction in proportion of wealthy people of total revenue by correcting the problem inequalities, which again requires implementation of policies aimed at equality.6

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Conclusion

Lastly, it should be thought about the overall development and it is necessary to take action finally. It is necessary to analyse particular status and to base on the assumption that, in the 21st century inequality and poverty are generally clearly undesirable. But for this, we need economic growth. The longer term social conflict will certainly not contribute to economic growth. In case of a conflict it is the devastating factor, which nobody wants. What is the real way out of this situation?