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Bruno Dallago & John McGowan, *Crises in Europe in the Transatlantic Context: Economic and Political Appraisals,* Routledge, 2015, 232 pp. $137 Hardcover.

By Zhikai WANG †

Book Review

Prof. Bruno Dallago and Prof. John McGowan's book studies the crisis in the European Union, particularly the Euro-zone, from the perspectives of the transatlantic relations. Their book is not a simple collection of papers or a normally edited monograph. It was the result of a series of significant transatlantic exchanges and collaborations, including two main conferences: one in Trento focused on Europe particularly the Eurozone, and the role of the US was seen fundamentally as an exogenous important factor; the second conference gave the central role to US and international organizations in dealing with the European crisis. By defining the factors leading to the European crisis, analyzing the potential risks accumulated through over-financialization and European integration, tracing the reasons why Eurozone countries cannot take counter cyclical policy measures to lift their economies out of recession. The book has provided a complex answer to the puzzling inability of the Eurozone in dealing with the crisis. The book has a lot of European experience worth the world to learn, particularly there is Enlightenment of European lessons to China.

1. The factors leading to the European economic and financial crisis

Along with the progress of globalization, the world mature and developed economies have more connections. The economies on both sides of the Atlantic have been deeply integrated both financially and productively; no one wondered that the onset of the Eurozone crisis was the outcome of transatlantic contagion (according to Bruno Dallago and John Mcgowan's Introduction Chapter). The crisis started in the US when the housing bubble burst and was exported to the Eurozone through different channels. The sub-prime securities bubbles created by financial derivatives based on housing securities further stimulated financialization, for banks went to disperse the risk by means of derivatives. European banks held the US assets of derivatives of sub-prime securities, when the housing bubbles and sub-prime bubbles burst, derivatives rapidly lost value and the banks had derivatives in their portfolio went into distress. This financial crisis contaminated by the US, quickly leading to the difficulties in real economy in Europe, particularly in the Eurozone.

† Zhejiang University, School of Economics, 38# Zheda Road, Hangzhou 310027, China.
✉. wangzhikai@zju.edu.cn

The great achievement by the end of last century was the creation of the Euro in Europe. The common currency and European integration has long been thought to give the economies of member countries greater resilience to crisis, it was mainly because the common currency could help Euro member countries resist the impact of the crisis. However, whenever the crisis being exported to European countries and contaminated the Euro countries, the reverse consequences occurred, there was no common Eurozone umbrella protected the more vulnerable economies (sovereign debts countries) (according to Steven S Rosefielde's chapter). In fact, upon the ongoing 2008 financial crisis and economic recession, the Euro member countries failed in taking effective measures combating the crises. Normally, people understood that individual country employed currency depreciation and fiscal expansion in the effort of recovering growth of economy, i.e. counter cyclical policy measures, to compensate for the loss of social investment, and regain growth. However, the institutional architecture of the Eurozone removed the opportunities for the member countries to take currency depreciation for pursuing economic recovery. In addition, Eurozone public finances have been under extreme strain, the unusual deep fiscal austerity has been imposed in member countries in attempt to protect Euro (according to Daniel Quinn Mills' chapter). Thus, member countries within the Eurozone had no chances to stimulate growth by fiscal expansion, the countries with the most vulnerable and weak economies in Europe had to cut the public expenditures for pursuing economic growth, but leading to even much serious problem of unemployment.

Certainly, in the globalizing world, the common currency in the Eurozone, plus the fiscal coordination and economic integration in European community, this gave the countries of the European Union an unprecedented financial and economic stability and resilience to external crisis. That was why when the Latin American debt crisis happened in 1980s, the "lost decade" of the Japanese economy in 1990s, Mexico monetary and financial crisis happened in 1994, the Southeast Asia financial crisis happened in 1997, Russian financial crisis in 1998, and etc., overall, the European Union was only mildly influenced by the major crises that originated in the different parts of the world, during that period. For it has long been believed that an integrated member countries union can take concrete, better and stronger policy instruments to solve the problem, the 1990s and the first part of 2000s apparently supported this growing confidence and trend. But this time the crisis started in US and contaminated Eurozone, there was no room for national countries within Euro to take effective measures (counter cyclical policy measures) dealing with the crisis.

2. Financialization accelerated the European integration but also accumulated potential risks

Under the banner of globalization, the developed economies were deeply changing, and developing countries were also deeply influenced. One of the most important and visible trans-formations took place in production and trade. Industrial sectors were de-structured and the production of finished goods was replaced by the design, production and the assembly of components. This was made possible, among other things, by the microelectronic revolution that took place in the 1980s and the reorganization of the production process. Complex industrial products were the final result of the assembly of numerous components that were produced in different parts of the world, and the deeply development of financialization created this production mode of globalization. According to Ken Ash's chapter, the main aspect of this production mode of globalization was/is Global Value Chains (GVCs). GVCs have become a dominant feature of world trade and production, and investment banking business of import and export has been developing very fast, creating more derivatives of finance, creating huge risks.

As a consequence, most countries' productions have been engaged in the GVCs, significantly increasing the scale of globalization. The developed countries were certainly occupying the high ends of GVCs (Global Valve Chains), and developing countries had to stop at the lower end of GVCs or value chain links. Developed countries held financial advantages and technical progress, this contributed to the revival of western economies but not enough, for developing countries could also take advantage of technical progress, while benefiting from lower labor costs and less stringent labor and environmental standards. The real advantage the Western economies still possessed was in the financial field. The strong and rapid financialization of Western economies (Palley 2013) was the outcome of both the greater availability of financial wealth that could not find proper use in financing the real economy and the outcome of purposeful policies(according to Ken Ash's chapter). Since most production process has been relocated in other places of developing countries in the world through assembly of component production system, besides some amount of financial wealth has been invested in developing countries aiding the GVCs production, the rest rich financial wealth makes a lot of financial innovation in developed countries through assets securitization. Over financialization in European society has become normal, and this has also seeded potential risks to the European economy, leading to today's more severe Eurozone crisis.

3. The reasons for in-effects of the Eurozone dealing with crises

For some time, the euro area seemed to be safe from the 2008 crisis. However, after the crisis contaminated the Eurozone, it soon had the effect of revealing the structural weaknesses of the Eurozone construction. Particularly the contradicts of the weak EU common political strategy and common currency were the main reasons for why in-effects Eurozone dealing with the crisis.

Common currency but no political unification in the Eurozone: While the EU member countries outside the Euro- zone could use the standard approach to recovery, including the depreciation of their currencies and bolder budget deficits, the Eurozone countries had to find a way to recovery. Maintaining a stable common currency was the top object in Eurozone, meanwhile the political unification in Eurozone or EU was not a concrete EU Government, it was unable to take a real European level policy action to against crisis. The weak political structure and common currency did not allow Eurozone take normal action for recovery, i.e. no chance for depreciation of currency and fiscal expansion in troubled countries (according to Simona Piattoni' chapter). The common currency blocked the windows for Eurozone countries to use the exchange rate adjustment to lift the economy out of crisis. In the Eurozone, the only tendency was to tighten government budgets in difficult countries, and Brussels imposed strict rules for member countries to take measures cutting fiscal deficits, this would be of no helpful for those countries in crisis getting economic recovery.

EU or Eurozone as a region of integration, it had done the job of weakening national sentiments and the opposition of national governments, and more or less created the European political system though it was not mature. Indeed, the not smooth way for the birth of EU Charter and its modifications, revealed that the nations of European Union did not really get any closer to a political unification. In this case, EU as an integration of nations, the regional integration strategy was to pursue the economic equilibrium both externally and internally. However, EU obtained a relatively external balance of economy, including a more or less balance of payment and trade, but obvious intra-European imbalance. A situation similar to that between the United States on the one hand and China-Japan on the other has long been created in the Euro area, with Germany strongly in surplus and Spain-Ireland-Italy and France in deficit. Exchange rate adjustment was impossible since the common currency in Eurozone, the preferred course was to cut the public expenditure so as to reduce the external deficits in rainy countries. This made the employment situations be even worse in those rainy countries, exacerbated the financial crises and economic recessions in Europe.

The rapidly spreading crisis required comprehensive policy action from Brussels. However, the weak political unification of EU was unable to response to the crisis quickly. Not like US employed the depreciation of dollar to restore its economic strength, the traditionally external depreciation of Euro was not used, for EU government did not have a national government authority to take action. While the US administration was fast and rather bold in acting, the Eurozone was caught in a near trance. There were alternatives, and in particular a common support of the ailing economies through either a lender of last resort—such as the European Central Bank (ECB)—or the mutualization of sovereign debt through Eurobonds (according to Paul Blokker's chapter). However, the former was impossible because it was not part of the mandate of the ECB and economically stronger countries refused even to consider the possibility. For as the Euro member countries or EU member countries, individual country has her own claims, interests, and demands, it is difficult to reach a common policy anti crisis in some troubled nations, though it is much possible to reach a common wealth policy. The latter was adamantly refused by economically stronger countries resistant to being called to pay the bill of imprudent financial behavior in the vulnerable countries.

On the contrary, Eurozone institutions were condemned to impotence and countries in difficulty had to go through austerity policies and internal devaluation. However, these policies made things even worse, since they could at best slow down the increase of the public debt, which in a period of crisis tends to increase due to the higher expenditures from automatic stabilizers at the same time that public revenue decreases. Austerity policies, and other attempts to lower public debt, have caused sizeable damages to the economy and caused major and prolonged falls in GDPs of the affected nations (according to Layna Mosley's chapter). As a consequence, the Eurozone ratio of public debt over GDP could only worsen. This was the fundamental reason why it was in effects for Eurozone dealing with the crises.

Fortunately, Jan.22, 2015, ECB's Monetary Plicy Conference made the decision to introduce QE policy as a common action from EU level. ECB (European Central Bank) decided to buy 60 billion Euro bonds issued by Euro member countries per month, say from Mar. 2015 to Sept. 2016, raising inflation expectations and depreciating Euro, this is a counter cyclical policy measure, will undoubtedly lift the troubled countries of Euro members out of financial crisis and economic recession.

4. The enlightenment of European lessons to China

Compared to the Western societies fundamentally affected by 2008 financial crisis and economic recession, China's financial sector had not been troubled directly during the difficult season. However, China's real economy related sectors including the foreign trade production and social consumption had been severely hit. The tricks of this situation was that the Chinese financial market remained relatively closed and opaque, it also failed in making full use of global resources or claiming rights of asset pricing in the world market. In some sense the conservative and less developed financial market in China did block or delay the direct impacts of the world financial crisis on China's economy.

We are aware that without the support of innovative financial tools and instruments, China's export-oriented economy and local economic entities will be hard to move to the high end of GVCs. In order to enrich financial ecology and improve health of financialization, the authorities have to impose financial sector supervision and market regulation so as to guard against the financial risks. In the other hand, it also needs the support of good performance of real economy in return for improving financialization in China.

The first point China should bear in the mind is to enhance the opening up development of China's financial industries. Over the past more than 30 years, China has attained rapid economic growth and has also made great achievement in financial sector. But in general, the Chinese financial market is in its initial stage of development, the scale of financial market is small, the structure of financial market is irrational. China is lacking of financial instruments and financial means, its financial market is still relatively closed. China's economy has been integrated into the globalization; it is the inevitably for Chinese financial industry to take the strategy of opening up development. The world financial crisis and economic recession will lead to the new international division of labor and the establishment of the new international order of economy and finance, so as to support the global investment and economic development of integration. The Chinese motivations of establishing Asian Infrastructure Investment Bank, building the Silk Road economic belt and building maritime silk route, this would be certainly a great global development and governance. This measure would stimulate world economic growth and Asian integration, but will also create opportunities for the booming of Chinese finance, raise our voice in the world currency market and increase Chinese participation in the global pricing.

What we should mention here is that China has to be aware of her booming of stock market during this special season with slow down of economic growth. The booming of security market and revitalizing real estate market will create more financial and economic bubbles, whenever the bubbles burst, it would be disaster of China’s economy and society far beyond China’s affordability.

The second point China should bear in the mind is to improve China's financial supervision and financial legislation. Financial innovation is closely linked with the financial supervision; financial innovation is the key measure to promote the standards of financial services and efficiency of financial operation. Financial innovation in the past few decades in the west world, has greatly enhanced the market efficiency of the world's financial industries and promoted global financial reforms; but it has also brought about lots of troubles to the international financial market, challenging financial supervision, increasing the potential risks of finance and weakening the financial regulation, making the loss of efficiency of financial supervision. Drawing lessons from the Eurozone, China's financial industry should learn from the regulatory experience of the West, and standardize the structure of financial governance, enhance the risk control instead of strengthening the direct control. We should make efforts to stimulate financial innovation also greatly reduce financial risks, so as to support the long term sustained economic growth in China.

Fortunately, European lessons mention that China has to bear in mind; the potential risks will be seeded in the process of financial innovation and over financialization. China has to impose concrete and strict financial supervision and improve financial legislation.