

Economic and Political Challenges to the European Union: Financial Crises, Political Implosion, Debt, and the Future of the Eurozone

Instructor: Dr. Andreas Andrianopoulos

Specific topics

Why the Crisis: American Housing Turmoil and the Shake Up of European Banks

Vision of Ownership Society by Presidents Bill Clinton and George Bush Jr. read to legislation that eventually cause grave current financial crisis.

Historical crises emanated from heavy state intervention in the economy. Contrary to perceived views it was the violation of market rules that resulted in economic hardship.

Current economic difficulties started with subprime loans crisis in the USA. Despite criticisms there were in place numerous regulatory checks in place by the Administration in Washington. The system malfunctioned, there were millions of loans given without collateral resulting in burst of housing bubble. Consequently, all financial products (bonds etc) produced on the basis of these loans were unserviced resulting to the issuing banks becoming insolvent. From the USA the crisis was transported to Europe whose many Banks had been contaminated with subprime loan bonds.

Ref:

Harold Cole και Lee Ohanian, "The New Deal Policies and the Persistence of the Great Depression," *Journal of Political Economy* 112, no. 4, σελ. 779-816, 2004

Jim Powell, "Not-So-Great-Depression", *National Review*, 7 January 2009

Joseph Stiglitz και, "Implications of the New Fannie Mae and Freddie Mac Risk-Based Capital Standard", *Fannie Mae Papers*, τ. 1, vo. 2, Μάρτιος 2002

Paul Krugman, "Fanny, Freddie and You", *New York Times*, 14 Ιουλίου 2008

James Galbraith, *The Predator State*, σελ. 110, 2008

Veronique de Rugy και Melinda Warren, "Regulatory Agency Spending Reaches New Height". *2009 Annual Report*, σελ. 5-6

Andrew Bernstein, *Capitalism Unbound: The Incontestable Moral Case for Individual Rights*. 2011

Arthur C. Brooks, *The Battle: The New American Culture War*. 2011

Anatole Kaletsky, *Capitalism 4.: The Birth of a New Economy*. 2011

Thomas Sowell, *The Housing Boom and Bust*. 2009

Richard Posner, *A Failure of Capitalism: The Crisis of '08 and the Descent into Depression*. 200\11

Johan Norberg, *Financial Fiasco: How America's Infatuation with Homeownership and Easy Money Created the Economic Crisis*. 2012

Leszek Balcerowicz, "This has not been a pure failure of markets", *The Financial Times*, May 13, 2009

Banking Debt Turns to Public Debt: The Involvement of the Public Sector

Many states decided to take it upon themselves to intervene in the market and supply funds to the Banks drawn from the public budget. Private debt thus turned public. The taxpayers carried the burden and were drawn into a crisis not of their making. Many countries became insolvent because of the loop they submerged into because they had to carry the problems of the Banks. Ireland, Spain, Portugal, Italy, UK and Iceland basic examples. Iceland finally refused to salvage its Banks with public money and was thus catapulted into a crisis that destroyed its Banking sector without grave repercussions for its public finance.

Ref:

Andrew Ross Sorkin, *Too Big to Fail: Inside the Battle to Save Wall Street*. 2010

Michael Lewis, *The Big Short: Inside the Doomsday Machine*. 2011

Henry M Paulson, *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System*. 2013

Julian LeGrand, "Is inequality to blame for all social ills?". *Prospect*, May4, 2009

John B. Taylor. *Getting Off Track: How Government Actions and Interventions Caused, Prolonged, and Worsened the Financial Crisis*. Hoover Institution Press, 2009

The Greek Debt Crisis and the Emergence of the IMF: Agony to Save the European Banks

Greek sovereign bonds collapsed due to international crisis and spreads skyrocketed. Greek Banks unable to borrow internationally (ECB and other Banks) because of mutual suspicion. Public finance in perilous condition. Options, either collapse/bankruptcy or bailout agreement. IMF, ECB and Commission (troika) agreed to a huge loan, while monitoring economic policy. Terms almost unbearable for Greek society while agony in Berlin and Paris for salvation of their Banks - gravely exposed in Greece.

Ref:

Yannis Varoufakis, *Adults in the Room*, 2017

Stathis Calyvas. *Modern Greece*, 2017

Arthur B. Laffer, Stephen Moore, Peter Tanous. *The End of Prosperity: How Higher Taxes Will Doom the Economy - If We Let It Happen*. 2008

Benn Steil and Dinah Walker, "Greece Fallout: Italy and Spain Have Funded a Massive Backdoor Bailout of French Banks". *Council of Foreign Relations*, July 2, 2015 <https://www.cfr.org/blog-post/greece-fallout-italy-and-spain-have-funded-massive-backdoor-bailout-french-banks>

The Debt Burden: Collapse of Public Finance and Rising Social Tensions – Violation of EU Rules and Practices

Greece in turmoil while lenders on a game of lending without effectual monitoring. When European Banks salvaged by ECB and third parties (Cypriot Banks) monitoring more effective. Few essential reforms in public finance - primarily measures centred in heavy taxation, cuts in spending and salaries. Collapse of private sector with minimal prospects for revival. Political repercussions with rise of Left and

anti-european front. Capital controls contrary to essential European foundation principle, of free movement of capital.

Ref:

Kathleen R. McNamara, "A Less Perfect Union: Europe After the Greek Debt Crisis". *Foreign Affairs*. July 19, 2015

Tom Holland, "Greeks will never be free until we sack the clowns who rule us". *The Times*, July 19, 2015

<https://www.thetimes.co.uk/article/greeks-will-never-be-free-until-we-sack-the-clowns-who-rule-us-j3z969smp66>

Wolfgang Munchau, "A Failure to Tell the Truth Imperils Greece and Europe", *The Financial Times*, February 12, 2017 <https://www.ft.com/content/87501830-ef85-11e6-930f-061b01e23655>

Wolfgang Munchau, "The IMF and calling Berlin's bluff over Greece", *The Financial Times*, May 22, 2016

<https://www.ft.com/content/c5a7e9fe-201a-11e6-aa98-db1e01fab0c>

Tony Barber, "Greece is as sick as ever and its agony goes on and on", *The Financial Times*, February 14, 2017

<https://www.ft.com/content/d78f73a0-f1d2-11e6-95ee-f14e55513608>

Wolfgang Munchau, "The road to Grexit and beyond", *The Financial Times*, June 28, 2015

<https://www.ft.com/content/c9c5de02-1d90-11e5-aa5a-398b2169cf79>

Wolfgang Munchau, "Greece's brutal creditors have demolished the Eurozone project", *The Financial Times*, July 13, 2015

<https://www.ft.com/content/e38a452e-26f2-11e5-bd83-71cb60e8f08c>

Wolfgang Munchau, "Greece has nothing to lose by saying no to creditors", *The Financial Times*, June 14, 2015

<https://www.ft.com/content/5e38f1be-1116-11e5-9bf8-00144feabdc0>

Gideon Rachman, "Europe should welcome Greece's vote", *The Financial Times*, July 6, 2015

<https://www.ft.com/content/501f9a62-23c0-11e5-9c4e-a775d2b173ca>

Gideon Rachman, "Europe's dream is dying in Greece", *The Financial Times*, June 29 2015

<https://www.ft.com/content/e965eca6-1e45-11e5-ab0f-6bb9974f25d0>

Gideon Rachman, "Grexit may be the best end for a bad marriage", *The Financial Times*, May 4, 2015

<https://www.ft.com/content/5330b2a8-f00e-11e4-bb88-00144feab7de>

Edward Luce, "Year in a Word: Alt-right", *The Financial Times*, December 16, 2016

<https://www.ft.com/content/75f554f0-c394-11e6-9bca-2b93a6856354>

Edward Luce, "Donald Trump's win is a mandate to blow up Washington", *The Financial Times*, November 9, 2016

<https://www.ft.com/content/1fafbcf4-a5e2-11e6-8898-79a99e2a4de6>

Edward Luce, "The war for America's conservative soul", *The Financial Times*, October 23, 2016

<https://www.ft.com/content/b4c307b6-97b8-11e6-a1dc-bdf38d484582>

Political Repercussions 1: Doubts about Survival of Welfare State, Taxation and Heavy Regulation

The middle class in the west is facing an existential crisis. Financial strains endanger benefits hitherto considered as given. Rising taxes coupled with diminished benefits and rising unemployment is casting

doubts on the systems' longevity. Taxes are burdening developmental prospects while worsening public finances are clouding prospects for the future. The center-left in particular is facing difficult days ahead, since it is left without a plausible political narrative. Need for reform but away from traditional concepts of a large public sector able to provide benefits for everyone without burdening incomes. Downward spin of doubt and insecurity,

Ref.:

Wolfgang Munchau, "Perplexing Failure of Europe's centre-left". *The Financial Times*, September 20, 2015
<https://www.ft.com/content/40c1903a-5dee-11e5-9846-de406ccb37f2>

Gideon Rachman, "Existential crisis for west's centre-left escalates in France", *The Financial Times*, December 1, 2016
<https://www.ft.com/content/9bc01caa-b80a-11e6-ba85-95d1533d9a62>

Gideon Rachman, "Marine Le Pen looms over a Trumpian world", *The Financial Times*, November 21, 2016
<https://www.ft.com/content/141beb44-ad83-11e6-ba7d-76378e4fef24>

Gideon Rachman, "If Europe cannot bend it will break", *The Financial Times*, June 8 2015
<https://www.ft.com/content/a2183a4c-0dc5-11e5-aa7b-00144feabdc0>

Political Repercussions 2: Immigration without Assimilation

Heavy immigration from Islamic Middle East and Africa is flooding Europe imposing strains upon a system already burdened with insecurity and financial difficulties. Disagreements among European countries expose internal strains in the EU and promulgates difficulties in designing a coherent immigration policy. Multiculturalism, pluralism and nativism compete for the soul of European society. Is assimilation possible, integration a feasible alternative, or all out war and persecution the destiny of Europe and of its 'intruders'.

Will the clash of civilizations prophesy come to fruition and the West will wrestle with the convictions of the East? This migration however coincides with internal turmoil that shimmers in the hearts of the societies of Europe and the USA as well. Migration hits harder at the societies (Greece and Italy primarily) suffering from the economic crises and other internal upsets. Old friends become foes and allies turn to hostile entities. The Middle East is in turmoil carrying with it fears of western repercussions upon Muslims everywhere.

Ref.:

Gideon Rachman, "Trump, Islam and the clash of civilisations", *The Financial Times*, February 13, 2017
<https://www.ft.com/content/18eb6c9e-eee2-11e6-930f-061b01e23655>

Gideon Rachman, "Donald Trump, Victor Orban and the west's great walls", *The Financial Times*, February 29, 2016
<https://www.ft.com/content/d5b74e78-dedb-11e5-b67f-a61732c1d025>

Gideon Rachman, "Mass migration into Europe is unstoppable", *The Financial Times*, January 11, 2016
<https://www.ft.com/content/64d058c4-b84f-11e5-b151-8e15c9a029fb>

Gideon Rachman, "Greek debt is the key to the refugee crisis", *The Financial Times*, January 15, 2016
<https://www.ft.com/content/afefff32-c347-11e5-808f-8231cd71622e>

Gideon Rachman, "Why the west's view of the Saudis is shifting", *The Financial Times*, December 7, 2015
<https://www.ft.com/content/a33c5e6c-9ccc-11e5-8ce1-f6219b685d74>

Shabnam Assadollahi, "Recipe for Disaster: Immigration without Assimilation", June 29, 2017 <http://conspiracy-cafe.blogspot.gr/2017/07/recipe-for-disaster-immigration-without.html>

Elliot Friedland, "Islamist Lobby Resorts to Desperate Smears To Silence Critics", *Clarion Project*, June 28, 2017
<https://clarionproject.org/islamist-lobby-smear-critics/>

Political Repercussions 3: The Rise of Populism and Challenges to Liberal Democracy

Strains upon the welfare state and the incomes of the middle class in the north and immigration along with the hardships of the crisis in the south gives rise to waves of populism. Right wing populism in the North; Left wing in the South. Simple solutions to complex problems cause dysfunction of traditional political discourse and produces outlets of violence, overall doubting of democratic expression and demands for abandoning of 'political correctness' and greater regard for popular demands. Liberal values are in retreat as well as respect for traditional civil rights. Resort to referendums to overcome adherence to principles of liberal democracy. Nevertheless, the power of populism rests on the disillusionment of the western populace with the prospects of their societies. Disappointment breeds reaction and discontent. Restoration of faith to the future may crash the prospects of populism

Ref:

Ernesto Laclau. *On Populist Reason*, 2007

Cas Mudde and Cristobal Kaltwasser. *Populism*, 2017

Ernesto Laclau and Chantal Mouffe. *The Return of the Political*, 2006

John B. Judis. *The Populist Explosion*, 2016

Chantal Mouffe. Podemos: *In the Name of the People*. 2016

Wolfgang Munchau, "Centrist populists are by no means risk-free", *The Financial Times*, February 26, 2017
<https://www.ft.com/content/a86cf928-fa86-11e6-9516-2d969e0d3b65>

Gideon Rachman, "Is the American Century Over? By Joseph Nye", *The Financial Times*, March 27, 2015
<https://www.ft.com/content/aafcf088-d23a-11e4-a225-00144feab7de>

Edward Luce. *The Retreat of Western Liberalism*. 2017

Edward Luce, "The Democratic journey to the populist left", *The Financial Times*, June 21, 2017
<https://www.ft.com/content/f69b4b68-55d0-11e7-9fed-c19e2700005f>

Edward Luce, "Populism: The Anglo-American democracy problem", *The Financial Times*, June 14, 2017
<https://www.ft.com/content/58bf0c00-5052-11e7-bfb8-997009366969>

Gideon Rachman, "Xi positions China as the protector of globalization at Davos", *The Financial Times*, January 17, 2017
<https://www.ft.com/content/efdb297e-dcae-11e6-86ac-f253db7791c6>

Gideon Rachman, "Trump, Putin, Xi and the rise of nostalgic nationalism", *The Financial Times*, January 2, 2017
<https://www.ft.com/content/198efe76-ce8b-11e6-b8ce-b9c03770f8b> HYPERLINK "<https://www.ft.com/content/198efe76-ce8b-11e6-b8ce-b9c03770f8b1>"1

Gideon Rachman, "Donald Trump shakes postwar liberal order", *The Financial Times*, November 9, 2016
<https://www.ft.com/content/bc3bc99c-a654-11e6-8898-79a99e2a4de6>

Gideon Rachman, "The crisis in Anglo-American democracy", *The Financial Times*, August 22, 2016
<https://www.ft.com/content/0c2fc5b2-6630-11e6-8310-ecf0bddad227>

Gideon Rachman, "The global democratic recession", *The Financial Times*, August 8, 2016
<https://www.ft.com/content/43ea5f04-5d4c-11e6-bb77-a121aa8abd95>

Gideon Rachman, "Trump, Sanders and American rage", *The Financial Times*, February 8, 2016 <https://www.ft.com/content/9a42636c-cc22-11e5-a8ef-ea66e967dd44>

Edward Luce, "The siege of western liberalism", *The Financial Times*, May 5, 2017 <https://www.ft.com/content/c7444248-3000-11e7-9555-23ef563ecf9a>

Political Repercussions 4: Triumphs of Donald Trump and Brexit – Urban Centers vs Countryside

The Brexit vote in the UK and the election of Donald Trump in the USA are all results of thwii disillusionment with liberal democracy and the traditional patterns of western democratic procedures. Disregard of the views of ordinary people, predominance of the elites and the tyranny of 'political correctness' (translated basically to excessive concern over the wellbeing of - racial, gender and socially deprived - minorities) exploded at the ballot box. Big cities, university towns, wealthy urban centers and areas populated with minorities or dependent on external trade and interaction with foreigners split for the main body of nations as exemplified by rural areas, nativist middle class boroughs and former thriving industrial centers currently hit by globalization and cheaper imports. The strain spreads with difficult to foresee prospects.

Ref:

Shawn Donnan, "Chicago- the rise and revolt of the city state", *The Financial Times*, December 16, 2016 <https://www.ft.com/content/3ba30084-acf8-11e6-ba7d-76378e4fef24>

Edward Luce, "Why we must mind the urban gap", *The Financial Times*, June 7, 2017 <https://www.ft.com/content/60edd794-34d7-11e7-99bd-13beb0903fa3>

Richard Florida, *The New Urban Crisis: Gentrification, Housing Bubbles, Growing Inequality, and What We Can Do About It*. 2017

Joseph Stiglitz, *The Price of Inequality*. 2012

Edward Luce, "Donald Trump's epic betrayal of America's middle class", *The Financial Times*, May 24, 2017 <https://www.ft.com/content/f10fe6ca-4074-11e7-82b6-896b95f30f58>

Gaining back the Balance: Macron in France and Re-emergence of Optimism.

The triumphant election of Macron in France, the extremely positive showing of Francois Figgon at the polls, prior to his demise due to the scandal, the election results in Holland and in Austria and the polls in the Federal Republic in Germany show a decline of the anti-liberal democratic phenomena. Whether this is due to the performance of Trump and the Brexiters or whether it reflects a more permanent state of affairs remains to be seen.

The course the new government in Paris will follow along with the new German administration's handling of the EU project's crisis will determine the future. The prospects of liberal democracy cannot be underestimated based on its global financial performance and on the lessons of history.

Re:

Walter Scheidel. *The Great Leveler: Violence and the History of Equality*, 2017

Johan Norberg. *Progress: Ten reasons to Look Forward to the Future*, 2017

"Global Trade Growth Hits Seven – Year High", *The Financial Times*, March 30, 2017.

Nima Sanandaji. *Scandinavian Unexceptionalism: Culture, Markets and the Failure of third Way Socialism*, 2015

Is there a Future for the Eurozone? The Aftermath of the German General Election and its Impact on Economic Policy

The result of the German election and the Berlin government's inevitable confrontation with stark realities will measure the weight of events to come. How to deal with Trump, the USA, handle the situation with a Russia burdened with sanctions but likewise important for the economy and security of Europe. Most importantly, deal with the effects of populism, scepticism in Europe of Brussels' bureaucratic web, immigration and the economic prospects of the future.

The future hinges on several crucial points

- . The concerns of the middle class should be looked upon seriously
- . The Brussels bureaucracy should take into consideration the aspirations of the European populace. More devolution to the periphery. Less power to the Center.
- . Alertness by governments and Brussels of the pressures imposed by uncontrollable Islamic immigration.
- . Easing of levels of taxation to exert benefits for social and ethnic minorities at the expense of hard working indigenous population.
- . Radical rehauling of pension systems with more emphasis to capital formation systems instead of distributive ones.
- . Heavy emphasis on modern education processes to encourage embracing of knowledge society and expand focus of middle entrepreneurial class.