

EEA General Assembly 2013 – Session 2 – Europe’s Economic and Political Crisis

1. Europe in Crisis

This morning we introduced the issue of crisis in Europe. We saw that we are faced with a polycrisis, a crisis in five dimensions where crisis in one dimension gives rise to crisis in other dimensions. We looked at European history and saw that crisis has been the normal context for the church over the past 700 years and the peace and prosperity of the last sixty years is the anomaly not the current crisis. And we have also observed that the churches of Europe have not only survived but thrived in this context of crisis in generations past. And our generation will be no different. The Lord himself has promised that.

But to read “the times and the seasons” we would do well to engage in an in-depth analysis of our current state so we can live today and prepare for tomorrow. And I am going to do this in two parts. This afternoon we will look at the economic and political crises in Europe and tomorrow morning we will take the other three dimensions, the social crisis, the environmental crisis and the religious crisis. So here we go....

2. The Economic Crisis in Europe

When I accepted the challenge of preparing this paper I knew that in the area of economics I was going to need some help. Jamie Brady is a Christian macroeconomic researcher specialized in Europe and what follows leans heavily on his analysis of the current economic crisis.

It seems a lot longer, but it was less than five years ago that in the summer of 2008 when with the Lehman Brothers collapse we all suddenly became aware that “all was not well” in the world economy. The consequences of the economic crisis are well known to all of us, failed banks and business, an economic recession across Europe, the Euro being called into question, and a sovereign debt crisis that has provoked austerity measures and devastating unemployment in some parts of Europe.

But it is the human stories of lives blighted by the economic crisis that most clearly illustrate our current predicament. Take a look at this. It is a graphic from Eurostat from less than a week ago with the latest Youth unemployment

figures across the EU. These are statistics but they correspond to real young people. Anyone here have a young person in their family who is unemployed? Many of these young people have good education, many are university educated but their future is bleak. This so called “lost generation” is perhaps the most painful reality of Europe’s economic crisis.

How is the patient?

Basic situation has not changed since May – fundamentals are no different and no significant structural changes have been made.

The level of indebtedness of non-financials (financial service sector) are getting worse not better.

Biggest fear is a real blow-up in Spain and Portugal. EBITDA (measure of non-financial services debt relative to ability to pay) is above 10 in Spain and 12-15 in Portugal where above 5 is seen as problematic and above 8 really bad. In fact these figures are worse than any seen in Europe before.

There has been no real rebalancing of EU economies since the introduction of the Euro. The strong ones are still strong, the weak ones are still weak. Global Economy has two big issues right now

1. US Economy in danger – shutdown of government is measured to negatively impact GDP growth by 0.6-0.9% per week. Three week closedown could wipe out most if not all this years’ growth, with all the impact this has on the world economy.
2. Slowdown in China – not the 7-8% headline rate, closer to 5% and one quarter recently actually had negative numbers. The slowdown in Germany will have massive implications for Germany as this is its principal export market right now. Germany cannot rely on consumer driven recovery since Germans are cautious about future.

German election result has meant Angela Merkel will need to form a coalition to govern. This is likely to need 4-6 weeks, causing a halt in negotiations on EU banking reform, most likely impossible to achieve now before Dec, and ratification before Apr 2014. We are then in the runup to the next European Elections so in all likelihood further steps towards banking union will not be possible until 2015.

Club-Med and Ireland – Italy, Spain, Portugal and Greece are all in severe supply-side collapse, with a massive overvaluation within the euro and/or paralyzing levels of debt. Debt in non financials in Portugal and Spain getting worse not better. Greece and Cyprus are particularly vulnerable, measures imposed by the ECB on Cyprus have saved the banks but at the price of capital controls. They have all the pain but none of the benefits of a devaluation. Unemployment is at frighteningly high levels (Greece and Spain in the high twenties, high fifties among under 25s). Normal way out of recession is devaluation but this isn't possible in the euro so the only alternative is through savage public sector cuts.

- **Central and Eastern Europe** – grossly indebted and suffering from the collapsed export markets of Western Europe. Non-membership of the euro leaves them vulnerable but also potentially more flexible to apply self-interested economic measures. Russia is very dependent on oil to finance its debt. If the oil price is much below \$100 / barrel Russia starts to struggle, been under that level for the last 18 months.
- **North Central Europe** – Germany, Benelux, Nordic countries, Switzerland and Austria – these economies are highly competitive but suffer from a savings glut. German companies doing well due to exports to Asia but standard of living increases have been very modest, around 1%/year. In a demand-deficient world German dependence on exports has led to collapse of output and income.
- **Britain** – government debt is very high which limits freedom to borrow further to stimulate growth. Trying to reduce debt by austerity measures but running risk of economy not picking up. Double or triple dip recession. Economy has effectively stagnated.
- **France** – level of government debt very high but French banks also have very high exposure to government debt of other European economies (Italy, Spain and Greece). Populist measure of 75% on the superrich is causing an exodus of France's wealth. France is still the second biggest

economy in Europe but its industry is haemorrhaging money due to poor competitiveness. Unemployment is at a new high of 11%. Many economists think there is a real danger of France going into a deep recession.

2.1 What treatment is necessary?

Put quite simply the simplest solution to the current economic crisis in Europe is for the indebted nations to leave the Euro. The only other alternative is full monetary union which would require a full political union – a Federal State of Europe. So what are the possible scenarios?

Four scenarios

- i. **Maintain status quo** – try to muddle through with the current Euro members, continuing to bail out the debts of Greece, Italy, Portugal and Spain indefinitely. This would in effect turn the current crisis into a new normal – making 10-20 years of stagflation (low or even negative economic growth coupled with moderate to high inflation) almost inevitable. Recent events such as the deal struck in Cyprus and the extra time given to certain countries to reduce their debt levels indicates this is the current modus operandi. Banking reform.
- ii. **Disorderly breakup of the Euro** – internal or external economic pressures cause a sudden exit of certain countries from the Euro. The Club Med countries would be very badly hit, leading to the nationalization of the banks, hyperinflation and a devastating drop in the standard of living in those countries. After a couple of years things would begin to stabilize in the rest of the Eurozone, but the political fallout of this would be huge. Once again recent events, namely the capital controls and closure of Laiki bank by the ECB, indicate that this is unlikely and make more likely the third option.
- iii. **Structured breakup of the Euro** – certain countries are invited to leave the Euro and supported through the transition. Greece, Cyprus and Portugal are the most likely candidates though Italy and Spain

might follow. Even in this structured scenario the knock-on effect of a country leaving the euro would be the failure of all its banks, causing their nationalization. IMF loans would help these countries to rebuild their economies outside the Eurozone but in the short term there would be 2-5 years of real hardship in those countries. Hyperinflation would be a real prospect though devaluation would reactivate the service sector, especially tourism on which many of these economies is based.

- iv. **Full fiscal union** – the least likely option. This would give ECB full control over fiscal policy (taxation and spending) across the Eurozone, but would centralize economic power to such a degree that it is unlikely that it would be accepted. It would only be workable, and acceptable to the German electorate if they assumed presidency, and this would not be acceptable to the other major partners within the EU.

3. Political Crisis

The Political Storm in Europe is the result of high pressure over Europe, pressure from within the EU, pressure from political extremism and pressure from the regions.

3.1 Pressure within the EU

Here is not the place to rehearse the history of the European Union. We should not forget however, that in its various guises it has overseen the longest period of stability in modern European history. As such it has largely fulfilled the purpose of its founders in avoiding conflicts between its members by pooling industry and commerce to ensure peace.

However, the Economic crisis and more to the point the strict economic measures applied by the ECB on the Eurozone countries have generated significant political unrest. This political pressure at the margins has already led to riots in Greece and Spain but perhaps more significantly in a change in attitudes to the EU.

The imposition of a strict regime of austerity on the periphery is causing great human suffering. What is clear is that the political objectives of the EU are being subordinated to the economic objectives. This pressure if it continues to build may lead to a fracturing not only of the Euro but of the political structures of Europe. Euroscepticism used to be only a British phenomenon. It can now be heard in many places across Europe.

A recent Eurobarometer poll in Europe's largest countries found popular levels of trust in the EU had reached a record low. The devastating levels of unemployment in Spain are translating into anti-European and particularly anti-German feeling which I witnessed myself only last week. Angela Merkel is seen as the one to blame for the painful measures she has insisted on as a condition of financial support. Similar sentiments were evident in Greece and Cyprus during their recent troubles.

Even in Germany support for the European project is on the wane. Over recent months a new political party has emerged Alternative for Germany which has the backing of some prominent German economists. Alternative for Germany calls for a break-up of the eurozone and a return either to national currencies or a smaller eurozone area.

And of course in the UK momentum is building for a referendum on Britain's EU membership especially since the UK Independence Party took 23% of the vote in last week's local elections. Prime Minister David Cameron's pledge to hold an in/out referendum on UK membership in 2017 seems to have had little popular effect. Some Conservatives are now suggesting he should hold a referendum to renegotiate the terms of UK membership on certain issues at the same time as the European Elections in May 2014.

3.2 Political Pressure from Extremist Parties

More generally the economic crisis in the Eurozone has led to an increase in nationalist, populist and xenophobic movements across Europe: Jobbik in Hungary, Golden Dawn in Greece, the True Finns in Finland, Front National in France, and the Freedom Parties in Austria and the Netherlands, the list could go on, What is clear is that the popularity of nationalists is on the rise as extreme right-wing politicians such as Geert Wilders are able to tap into

popular malcontent at soaring unemployment and point the finger at migrants as the ones to blame.

As one Dutch commentator¹ put it, "It is now only a matter of time before one of these parties gets into power and tries to pull the rug out from under the euro. If it doesn't happen in the Netherlands, it will happen somewhere else in Europe. I am sure of it."

3.3 Political Pressure from the Regions

The history of this very stadium is linked to the Irish fight for self-determination from Britain and this same pressure is still present in the Europe today. The EU faces unprecedented attempts by two regions to form new independent states within the EU. The Scottish Government intends to hold a referendum on the issue of independence from the UK in the autumn of 2014 and in Spain the Catalan nationalists agreed their new minority government will slate a referendum for the independence of Catalonia for the same year.

This creates a real headache for the EU. In Flanders, the Basque Country, Corsica, Lombardy and the Hungarian language regions of Romania and Slovakia, nationalist movements akin to the Irish Republicans of a hundred years ago are dreaming of self-determination. The fear is that if Scotland and Catalonia are successful in gaining independence, it would lead to many others causing the disintegration of many states and potentially threatening the EU itself. The last time anything like this happened was in Yugoslavia and we know how that ended.

4. The Future of Europe

So what is the hope for Europe? In the midst of the crisis, or as I have argued, crises that beset Europe today Europeans hope for a return to economic growth.

If you listen to the politicians, the press, or any economist or businessman, the message that you hear over and over again is that if only we can return to economic growth we can get back on the road to peace, progress and prosperity. This is the Dominant Ideology of today's Europe. An Ideology of

¹ Seattle Times, 30/4/2012, http://seattletimes.com/html/nationworld/2018110177_dutchright01.html
Accessed 28/12/12

Economic Growth as our guarantee of existential security in the present and eschatological hope for the future.

So we hope for the return, not of the Lord Jesus, but the return of economic growth. Economic growth is generally measured by means of the Gross Domestic Product, the sum of all the goods and services that are produced by an economy. If only we can see a nice steady growth in GDP then all will be well. But of course all of this is built on a huge fallacy – that perpetual economic growth is possible. And even if it was possible is that a good thing.

4.1 Europe's Economic Future (Dumas and Brady)

- Europe faces long period of European economic stagnation
- Much reduced Eurozone – North Central European states only
- Second tier of European countries – East and South; providing migrant workers for the countries of the Neu-Euro

4.2 Europe's Political Future (Dumas, Randers and Ferguson)

- EU expansion continues but also suffers some losses
- Schengen no longer covers all of current EU but may have “zones”
- Countries in Eastern Europe may begin to look to Russia once more as the hope of prosperity in the EU recedes into the distance.
- UK (or what is left of it) will either exit the EU or renegotiate its status
- Independence of new states (Scotland, Catalunya and others) slows EU decision-making even further and may lead to civil unrest and possibly civil wars.

5. Mission in Tomorrow's Europe

What is the difference between a problem and a predicament? A problem has a solution. A predicament does not. It is a state or condition which defies easy solution.

Rather than a Crisis perhaps we should see this as the early stages of a new phase in European history, a new normality. The post-war cycle of peace and prosperity in Europe may have come to an end. Perhaps a paradigm shift is upon us that will require us to shed the ideology of progress that has even taken root in many churches and blunted our eschatological hope in Christ as the *telos* of history.

So how should Christian communities and individual Christians respond to the stormy times that lie ahead? Well

5.1 Mission in Europe's Economic Tomorrow

- Economic stagnation poses real problems for resource dependent churches and mission agencies
- Chronic unemployment means “business as mission” becomes one of the primary avenues for bringing Christian hope to tomorrow’s Europeans.
- Communal living/New Christian Communities/New Monastic Movements will emerge
- Social justice, simplicity and sustainability will become key values of Christian mission.

5.2 Mission in Europe's Political Tomorrow

- Emergence of new political structures will threaten existing international mission arrangements
- Possibility of conflicts within and between countries may make mission to refugees once again a necessity.
- Need for Christians to engage in politics to influence in this process – a new generation of Bonhoeffers.

Jim Memory

Redcliffe College