

## CONTEMPORARY TENDENCIES AND ASYMMETRIES IN THE E.U. UNEVEN ECONOMIC GROWTH AND GLOBAL GROWTH DIFFERENCES

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*Being in the phase of searching for the best socio-economic recipe, Europe is facing two tendencies: economic revival and global growth differences. Both processes require subsequent management at a local, national and European level in order to reduce the socio-economic risks.*

*Facts, arrangements and decisions with European consequences are unreeling, currently, heavy and slow due to the lack of cohesion between the European and the national interest. Economic politics form a European level, on currently relevant economic crisis, have an impact on social changes exacerbated by the resources crisis and the environment's critical state.*

*The economic crisis's domino outcome overshadows the Europe's social and economic future, and will suffer. Currently, the conflict between national and community interest (trade and financial protectionism) generates tensions between European countries, creating "asymmetries regarding economic relaunch".*

*Economic performance implications on the social ones are the basis for "operating trilemma" of the European economy. Balancing the budget, reducing the economic inequalities, the increase in the employment level, initially formulated in the Lisbon treaty, remain, further on, in actuality regarding the relaunching the European economy.*

*Key terms: globalization, economic growth, financial protectionism, unequal development, economic relaunch.*

### 1. - Uneven economic relaunch

The beginning of the year 2011 has been marked by the German and French efforts in obtaining the support from other Eurozone countries regarding the setting up of a pact to strengthen the economy's Eurozone<sup>1</sup>. The project established a series of measures regarding the improvement of competitiveness in the euro market to help fight the debt crisis. It is noted the special interest for restoring the functionality of the financial markets as an engine for economic relaunching. The proposed measures refer to objectives from the fiscal policies field, from the employment field and demographic policies<sup>2</sup>.

The two countries wish that the pact should be included in a complete ***package that should also include changes made to the European Financial Stability Fund***. The aim

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<sup>1</sup> EurActiv: 4<sup>th</sup> February 2011

<sup>2</sup> Specifically it is about new limits on debt levels written by national laws, higher retirement age based on demographics, the elimination of wages indexed to inflation, a minimum income tax rate. Proposals have been rejected as devoid of attractiveness and interest for countries like Belgium, Austria, Ireland, Spain, Portugal and Poland who were against the new measures proposed by Germany and France characterizing them as difficult to accept.

should be twofold: the increase in the funding capacity and increase in flexibility for the use of money.

In an exploratory period on policies for ending the crisis and economic relaunching, already uneven from a country to another, this test may exacerbate even more the internal tensions of the E.U. countries.

“**Competitiveness Pact**” proposed by Germany and France has been criticized, not being the right solution for economic crisis Eurozone<sup>3</sup> because, in addition to the labor market issues and the correction of some difficulties at the money market level, there are other imbalances that affect the European market<sup>4</sup>.

In its original form, the Competitiveness Pact can be linked to a crisis program. Having in mind all these considerations, economists believe that the current *crisis is not a currency crisis but rather a crisis caused by the economic instability in certain parts of Europe*. We bring back to discussion the problem regarding the notable differences on development and growth, and also on the different ways of coping with the crisis, through national eco-social policies.

In order to reduce differences and create an economic upturn, the competitiveness pact proposes restoring confidence within the financial markets, by increasing the 440 billion euro allocated to the *rescue fund* destined to the Eurozone countries, with large external debts.

The “Pan-European” solution proposed by Germany seeks to make European Central Bank to focus exclusively on the monetary policy, acting with caution in regards of fiscal policy and launching sovereign bonds.

The question is asked: *Global economy governance may decide Europe’s future?*

The grounds and the continuity of the welfare state, have serious problems. The golden age of “welfare states” ended as unemployment, inflation, and globalization, lack of social protection measures were accumulated and put to test the European social model.

If the observed correlation, the European social model, economic prosperity, when the indicator GDP per capita is eloquent evidence that support the high economic performance and social performance standards of living.

A **regulatory** approach puts the analysis within the parameters of the Lisbon Treaty, while the positive approach encounters difficulties as jobs lead to market development, and therefore to economic growth. Emphasizing competition generates, yet, the social justice. So, how can it be ensured the compatibility between economic growth and social justice? Of course, thesis according to which, where there is equality there is no competitiveness has its degree of truth, and the businesses that are seeking economic growth, often, have to sacrifice the equality through economic policies that support competition. The reverse: where economic performance is missing there is poverty.

European Commissioner responsible for Economic and Monetary Affairs, Olli Rehn, said: that he expects for the GDP from the 17 countries from the Eurozone to increase by 1.6% in 2011. Under these circumstances, an increase in domestic demand it is expected,

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<sup>3</sup> The initiative has been criticized also by former presidents of the European Commission Romano Prodi and Jacques Delors.

<sup>4</sup> In essence, these measures relate to: raising the retirement age, strict budgetary controls, the harmonization of income taxes, a ban on wage indexation arrangements.

as a result of a more sustainable growth, while exports should contribute more to support the economic upturn.<sup>5</sup>

The increase in oil prices (by 6,1% compared to 2010) related to the already existing inflationist pressure in the Eurozone could persuade the European Central Bank to abandon the very low level of the interest rate sooner than anticipated<sup>6</sup>.

In the same context, we can find Jose Manuel Barosso's opinion, according to which the biggest geopolitical event of the last decade, a true "rendez-vous" with history, is represented by the "Jasmine Revolutions" throughout the Arab world<sup>7</sup>. The socio-economic effects will be felt in the whole world, fact that requires a new political parading for the Europe's relations with the surrounding southern.

## **2.- Agreed,...but better, not!**

Formed in a landscape marked by the old order of the centralized control, the EU combines the socio-economic and political interests of nation-states in the competition with the world. The states' Europe doesn't mean the abolition of the European nations, but the different pace for development and economic growth are difficult to harmonize. The different economic dynamics has been transferred to the different political dynamics. Hence, the tension between the competing countries which have to deal with pressures from two directions. On the one hand the integration pressure and on the other the globalization pressure (through transnational organizations).

Caught between these two forces of integration- globalization, nation-states aspire further on to compliance with the national initiative law and to protecting the national interest.

Initiated as an intergovernmental forum for coordinating the national goals, the E.U. becomes presently, an area of influence of the Franc-German authorities, on the proposal package motivated by the crisis and the urgency of relaunching.

The meeting from Davos 2011<sup>8</sup>, earlier this year, has occasioned a review of the main directions which the European economic policy is concerned about. Regarded as a *global evolution indicator summit for this year*, the meeting called into question the major European concerns as well as the global ones.

The erosion of the euro, the reduced potential for sustainable growth of developing countries, the erosion of the America's role in the world, devastating global warming, led delegations attention, who expressed their concerns for the European and planetary future.

Analyzing the situation of countries all over the globe, in the globalization context, new data has emerged regarding China's evolution as an emergent country with a very strong economic potential. The effects of development and economic growth in China would probably pass and be felt on global economy in matters like overcoming U.S.'s economy in the next 20 years<sup>9</sup>. Corresponding with data provided by the World Bank, China has a

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<sup>5</sup> It is expected that the growth rates would be for Germany 2,4%, France 1,7%, Great Britain 2%, Italy 1,1%, Spain 0,8%. Regarding Romania's output during the economic collapse, there were opinions according to which the Government and IMF estimate, for this year, an economic growth of 1,5%. The national institute of statistics will present on 13<sup>th</sup> may the evolution of GDP in the first quarter of this year.

<sup>6</sup> Euractiv 4 march 2011

<sup>7</sup> Euractiv 3 March 2011

<sup>8</sup> EurActiv 31 January 2011

<sup>9</sup> Euractiv 23 March 2011

growth potential of 8% annually, being the 2<sup>nd</sup> biggest economic power of the world. In the past 10 years, China's economic growth was on average of 10% each year, with a GDP that exceeds the GDP of France, Germany, Great Britain and Japan.

If India and China exploit the comparative advantages by entering in force on the European and U.S. market, we find it necessary to update David Ricardo's theory on comparative advantage under the new conditions of globalization. However, the inflationist increase in energy price in India has become complicated with a potential food crisis. As a palliative measure, India could reduce custom duties<sup>10</sup> by encouraging food imports.

Emerging countries (India and China, the biggest emerging economies in the world)<sup>11</sup> have been the focus of Davos summit due to the exception of economic growth recorded even with the highest global recession in recent history.

Interpreting the measures of economic policy in time of crisis, China has managed to keep national currency constant against the US dollar. This wise decision helped China to counteract the competitive depreciation in the East Asia area, measure that contributed to the efficient economic upturn of the financial markets in the area.

At the same summit in Davos, there were mentioned the sovereign debts of developed countries. The opinion expressed was that they represent "***a time bomb for the global economy***" (especially in the E.U. and the U.S.). Chinese representatives have emphasized on this occasion, that Dagong Credit Rating warns on the danger of loss of the U.S. dollar stability as a global reserve currency, in the future<sup>12</sup>.

Regarding the economic recovery efforts, crediting some economies that are in a prolonged crisis (emergency funding for Ireland and Greece) raised the issue on reducing the interest rate. This will affect, however in a negative way, the European budget and the pace of economic recovery of the E.U.

### 3. Economic recovery in the Eurozone

The summit in Brussels on 24-25 March the current year brought into discussion the economic governance package. On this occasion it was decided to create ***the Europlus Pact***, which by then was known as the Pact for Competitiveness.<sup>13</sup> European Stability mechanism will be implemented from January 1st 2013, will become operational in June 2013 and will have as a goal ensuring the financial stability of the euro zone, replacing the current mechanism and supporting the Member States from the Eurozone which manifest severe funding problems.

Concerned about strengthening the security mechanism of the European single currency, EU pledged to ratify the amendment of the Treaty by the end of 2012. The total fund at the disposal of the mechanism will be of 700 billion euro, collected in five years from the entry into service of the mechanism. The main mechanisms to strengthen the protection

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<sup>10</sup> In January, the current year, food price inflation reached 15,575 in India, due to some large agricultural problems caused by climate change:

<sup>11</sup> Thomas L.Friedman-„***The Earth is flat***”,Polirom publishing house 2007

<sup>12</sup> The emerging countries which hold large amount of U.S. government bonds are advised to reduce their purchases to avoid losses at the expense of their national interests. China is currently the largest holder of U.S. government bonds.

<sup>13</sup> Romania was among the six states that have joined the Europlus Pact, arguing that imposing the tax level remains a national right

package community currency envisage creating a permanent crisis fund ( for emergency crediting) and measures to penalize nations that causes deficits exceeding the agreed limits, contributing to an increase in the economic European imbalance.

Appreciated as the main instrument in relaunching the European economy, the E.U. Budget for next year will focus on employment, economic governance and economic growth. E.U. Budget considered as being an investment budget includes a research projects carried out over several years and infrastructure works<sup>14</sup>. Other prospective goals in the E.U. 2020 strategy relate to employment, innovation, research and development, climate change and energy, education and social integration.

Of course, the socio political events (in the Arab world, from the beginning of this year) and the need for assistance and support for these countries may jeopardize the ability of the European budget for underfunding. Reduction of some budget funds intended for cohesion, citizenship and foreign affairs could jeopardize the effectiveness of actions and current programs in progress at a European level.

Prospects for Romania's exit from the economic collapse period, have resulted in views of the Government and IMF that have estimated a growth of 1, 5% this year<sup>15</sup>

Concerned about the debt problem, the recent summit in Brussels has given rise to the formulation of a comprehensive system of protection against debt crisis, including increased financial support fund for the euro zone. Portugal, Greece and Ireland require a temporary addition to the support fund (fund established last year).

Discussions on how to extend the fund were postponed until June this year, because this decision constitutes a huge effort for the European Community. Real lending capacity would have to be expanded from 250 million euros to 440 billion euros. In addition, establishing a permanent fund (permanent mechanism for stability) to support economies that are in economic trouble is to be established by mid-2013. New lending capacity will reach 500 billion euros, if the countries from the area will contribute with approximately 80 billion euro starting with mid-2013.

In addition to this assistance measure for the countries with recovery deficits, strengthening the budgetary policy at a European level seeks also other directions oriented toward operating "European pact" on promoting and supporting economic reforms and a fiscal policy convergence.

The process began as proposals from France and Germany, which were mentioned in the "**Compatibility pact**" (though, unsupported by the E.U. countries) and replaced by the "**Europlus Pact**" which reflects the efforts and searches from an E.U. perspective, so that the appropriate measures and strategies would reflect and contribute to overcome the crisis and to development.

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<sup>14</sup> Year 2012 being the sixth year in the current "financial perspectives" (2007-2013), the Commission will present its formal proposal for the 2012 EU budget , on 20th April.

<sup>15</sup> The National Statistics Institute of statistics will present on May 13 the evolution of the GDP in the first quarter of this year.