

» Europe and the United States facing the Great Depression: bailing out the Welfare State

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In a few months it will be nine years since the beginning of the greatest financial crisis that the Western world had to face since WWII. It is necessary to recognize that, when it started in summer 2007, some experts already foresaw that it would take at least ten years to recover from it. However, others considered the aforementioned prediction to be excessive. The reality has been that at the early 2016, western economies still need to overcome the financial crisis.

The analysis of such an impressive and disruptive phenomenon should first focus on the causes behind it; second on the political reaction that it has entailed and, third, on its impact on the social sphere, since its wounds are healing really slowly.

The analysis of this threefold dimension and, more specifically, the answer to the underlying problems ought to guide us in order to find the way out of this socio-economical maze.

The excessive economic deregulation carried out over the last decades of the twentieth century provided the breeding ground for the crisis. This led to a greater scope for action for the financial sector at the expense of not only all the other sectors of the real economy, but also for the very owner of financial and real-estate assets. Speculative activities by particularly relevant financial institutions ultimately undermined the stability of the real economy which lacked any tools to protect the most important investment banks from collapsing and triggering a negative chain reaction.

A model based on a huge growth of both public and private debt fell apart, since it did prioritize the development of a healthy manufacturing-based economy.

In the political decision-making process, clarity and foresight are particularly important in order to deal with critical situations. They are even more essential in the current context, in which the great financial crisis has marked the economic environment for almost a decade.

Faced with this context, one must ask whether the United States and the European Union have reacted in the same way and took similar decisions to meet said challenges.

Although it is not entirely accurate to compare different economic and social models, as in the case of the U.S. and EU, if we take a closer look at the economic measures implemented in each region, it is clear that the U.S. Federal Reserve sought an expansive policy which resulted in a great economic growth and employment than in the EU and which recently even led the institution to raise the interest rates.

On the other hand, the EU is yet to solve the problem of unemployment, since growth is weak and there are no clear signs of an upward trend. The massive bond-buying carried out by the European Central Bank has not yielded the expected results either in terms of economic stimulus.

As Antoine de Saint-Exupéry once said: "Self-discovery comes when a man measures himself against an obstacle". The crisis we are facing had led to a new era. It has shown us, as members of society, a context of hardness and coldness, similar to the Ice Age, whipped up by strong winds in the shape of unemployment, poverty and inequality. Three elements that greatly challenge our Welfare State and, logically, weaken it. To this must be added the waning tax power of states as a result of tax evasion and avoidance as well as the lack of a necessary regulation of the financial system in order to prevent a new crisis.

It is essential for the European Union to establish a banking union, not only to reduce risks, but particularly to mutualize risks and for capital requirements of financial organizations to ensure their own sound state.

A productive economy should be promoted within the European Union by both the public and private sector through a strong investing policy. This will be the only possible way to move forward and achieve an era of progress and welfare for Europe.

The Ice Age: Bailing Out the Welfare State in the Era of Austerity¹ is the first book published in Spanish and English which compares the ways in which the United States and the European Union have reacted in relation to the Great Crisis of the capitalist economy in the 21st century. It aims at explaining this crisis as a phenomenon that goes beyond the economic scope and affects the very foundations of the Western democratic States. This blow has not been adequately addressed yet, particularly by the European Union, since it is the actor with political capacity to respond to this problem. This shall be our greatest challenge in the years to come.

The response to the "Ice Age" does not merely involve appropriate and timely action by the European institutions, but also a thorough review of the very institutions in order to achieve the great European objective: Political Union.

¹ *The Ice Age. Bailing Out the Welfare State in the Era of Austerity*. Diego López Garrido. London Publishing Partnership 2015. This book will be launched on January 21 at the Instituto Cervantes in London.





Diego López is Vice-President of the NATO Parliamentary Assembly. He has been the Defense Spokesperson of the Socialist Group in the Spanish Parliament during the 10th Legislative Term. He chairs the Council for European Affairs of Fundación Alternativas and is member of the FEPS Scientific Committee (Foundation for European Progressive Studies). He was the Socialist Spokesman in Parliament (2006-2008), Secretary of the State for the European Union (2008-2011) and coordinated the Spanish Presidency of the EU in 2010. He was part of the European Convention which drafted the Constitutional Treaty on behalf of the Parliament (2002-2003) and was appointed Vice-President of the Spanish Commission for Refugee Aid and the Spanish Association for Human Rights. Lastly, he is Professor of Constitutional Law and Economist and has published various books on Human Rights, Economy, Politics, History and Contemporary European Law.



José Isaías Rodríguez is Vice-President of European Affairs at LLORENTE & CUENCA Spain. Recognized expert in Europe and relations between Spanish enterprises and the European Administration, he began his professional career in the Spanish Confederation of Business Organizations (CEOE) as Deputy Director of the Department of European Communities. Since the entry of Spain into the European Union –25 years– he has been the Director of the CEOE Delegation in Brussels, a position from which he has represented the interests of Spanish companies before the European Institutions and BUSINESSEUROPE (Confederation of European Business comprised of 41 Organizations from 36 European countries). Previously he worked as Vice-Secretary General of the International Organization of Employers for two years. He graduated in Economics and Business Administration at the University of Seville, completed his Master's Degree in European Studies at the Catholic University of Leuven and completed his Diploma in European Studies at the Spanish Ministry of Foreign Affairs (Diplomatic School).

jirodriguez@llorenteycuenca.com

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