

European crisis

[Parts of the World](#), [European Union](#)



Meanwhile, it has greatly magnified its intensity as well as its scale; Italian, Portugal, and Spain have recently come its next victims after Greece and Ireland. An apt and practical remedy is what we desperately need at this time of harshness. In the scope of this essay, the three most commonly accepted solutions to the Crisis will be presented and discussed. Germany, the only European country having a growth in economy during the previous year, plays the central role in two of them. Greece, on the other hand, might also have the chance to resolve its shameful 'legacy.

Despite the diversity of routes and methods, all these strategy have the same objectives: save the Rezone from a possible break-up and bring prosperity back to the Continent. . Seeking for the cure Since the collapse of Greek economy in 2009, two bailout loan packages for this country, which valued ?→110 billion and ?→130 billion, respectively, have been signed off by European leaders. In addition, a ?→85 billion loan to Ireland and another ?→78 billion to Portugal were made shortly afterward.

While these loans' expected effects are still miles away, its counter effect has been so obvious to Europe: the enormous burden borne by other members will pull even financially healthy countries back into crisis. Governments is on its way down. In the worst scenario, if Italian goes defaulted, the added bailout loan for the fourth largest economy in Europe is estimated to cost more than ?→1, 000 billion, a terribly huge number which surpasses many countries' GAP and amounts to over a half of French GAP in 2011.

Bailout now appears to be only a temporarily fire-fighting solution, because if things keep going on this way, the Rezone will, sooner or later, find it getting trapped in the vicious circle of crisis- bailout-more crisis. An ultimate rescue plan for the Rezone is now more desirable than ever before. One of the most concerned and most controversial proposals was about the 'Rebound' - a bond issued by the whole Rezone countries as an effort to share debts among members in a more comprehensive way.

If exist, that new bond would be guaranteed by the confidence in the powerful economic engine of Germany. The risk premium on that bond would reduce significantly, which could translate into a lower interest rate and a more acceptable burden, whereas it would also be more attractive to investors than separate governmental bonds of Greece, Italian or Spain. In case the bonds grow to maturity, the peripheral countries would not have to bear the obligation of payment alone, as the whole region's economies would share that indebtedness.

In brief, 'Rebound' is a way of transferring the abundant wealth from rich countries to troubled countries which are in need of that money, and simultaneously, sharing the burden among Rezone members more equally. Of course, this requires a high level of solidarity and mutual trust within Europe, since it may turn the Rezone into the most fiscally and politically cohesive union in the human history. The idea of 'Rebound' was immediately in favor of new French President, François Hollande, and MIFF President, Christine Lagarde.

These two French people know that, although always being considered the second largest economy in Europe, France is now at the edge of recession, due to its closely financial relationship with Greece and other peripheral countries (before the Crisis, France was Greece's largest creditor, holding nearly \$60 billion Greek direct debts). 'Rebound' appears to be the best solution for France to avoid the destructive orbit of crisis. However, Angela Merkel and Germany did not find this idea interesting. From the very beginning, German people have blamed other countries' profligacy for the Crisis.

They argued that they had always worked diligently, and paid one of the highest tax levels in the world, with the belief that these taxes would better off their social welfare, as it actually did. They were tired of watching their tax money dedicated to hopeless bailout loans to countries, which had pursued reckless expenditure policies. They simply did not want to take another chance with that so-called 'Rebound', since it directly targeted at them as the main player, so they would, eventually, have to work and pay for most of the living of the whole region.

The profound disagreement only exist on paper. Gary Silverman of Swordfish Research says Germany would only budge 'at one minute to midnight if the alternative was a complete collapse of the system'. 3. The 'Credit' plan On November 2011, Lord Wolfs, chief executive of retailer Next, launched a competition and offered a prize of £100,000 for the best idea to get Europe out of the current situation. Many proposals had been submitted from all

over the world, and the winning one was the entry of Roger Bottle and his team at Capital Economics.

Their plan suggested that Greece and other countries which are currently at the edge of default should leave the Eurozone and introduce a new currency. A 'Credit'-a combination of 'Greece' and 'exit' implying the escape of Greece from the Eurozone-is believed to be vital for the restructuring of Greek economy as well as for the stability of other countries' financial systems. According to this plan, the transformation process has to be prepared thoroughly and secretly, and the action must be carried out promptly and straightly without prior public announcement.

Right after the introduction of the new currency, called the 'drachma', the Greek government has to reclaim the conversion rate between Euro and drachma. An initial one-for-one rate would be appropriate and widely acceptable. For example, a book which used to cost €2 would now simply cost 2 drachmas. This would be helpful in avoiding confusion among the public, as well as reducing the 'menu costs' in business transactions. In addition, people would probably want to withdraw their Euro holdings in banks because they have little confidence in the new drachma.

Therefore, governmental controls are necessary to prevent a capital flight, which could instantly cause a devastating collapse in Greek ailing bank industry. Until withdrawals in Euro and in drachma could be told apart, the whole withdrawing system, including banks and ATM, need to be shut down. In the next step, the Greek government could negotiate the redefinition of its Euro-denominated debts right after the transformation. Although the

conversion rate appears to be understandable for the creditors, they would surely claim a substantial extra payment from Greece as the compensation for changing the terms of debt contracts.

The strategic aim of this whole meticulous plan would only take its toll hourly later. As being issued by such a weak state as Greece, drachma would soon experience a devaluation compared to Euro, followed up by a high inflation rate. Inflation is exactly what Greece currently needs. First, debts now denominated in drachma would significantly reduce in value, making them more likely to be repaid at a more acceptable cost for Greece. Additionally, a high inflation rate means a lower real interest rate, which would stimulate borrowings and spending.

Devaluation would also make Greek exports more competitive in the global market, which greatly contributes to the national income. Finally, according to macroeconomic theory, inflation could reduce the unemployment, and create more jobs for a quarter of Greek labor force. Conundrums Greece is faced with, but will also assuage the burden to the rest of Europe. The regional stability will partly recover, and concerns about the health of Euro will probably be replaced by a slight increase in creditworthiness of Italian, Spain or Portugal.

On its side, Germany can be relieved from the bad effects of the Crisis, as well as the duty of sharing Greece's debts. It can focus more on internal affairs and other peripheral countries. However, such a risky plan with perfect timing requirements would not happen without the nod and the intervention of Germany, Greek current main creditor. 4. The return of

Deutsche Mark Another newly raised proposal suggests Germany exit the Rezone and reintroduce the Deutsche Mark (DAM). At the first glance, it seems to be inconceivable, as Germany is now considered the only power left which can save the Rezone from a complete collapse.

However, there is a potential opportunity of reform lying beneath the contradiction. This plan states that Germany's exit would immediately weaken the Euro, and that event would create the crucial breathing space needed for other countries' self-renoate plans. The depreciation in Euro would have similar consequences as a 'Credit'. It would make the real value of debts in Euro reduce, while increase Rezone countries' competitiveness in exporting, including France's and the Netherlands'.

Despite of Germany's withdrawal these states would be more likely to stay, and their manufacturing industries would benefit a lot from a weaker Euro. This stimulation would become the main inspiration for an uprising of the hole monetary union and each of its members. As the regional economies foster, there would have a great demand of labor force, which would ultimately solve the issue of unemployment in troubled countries. Also, Spanish lower priced real estate would become a bargain for foreign investors, provided the Euros devaluation.

That inflow of capital would be a precious resource for Spain to take necessary steps out of the Crisis. As opposed to the 'Credit', supporters of this plan claims that Greek exit could surely result in uncontrollable panic for peripheral countries, which is followed by bank nuns, failures and a tremendous trend of escaping. Meanwhile, a strong nation like Germany

could 'execute a swift exit that would be over before anyone could panic'. Additional, if Germany exits, it would not have to act as secretly as Greece would do.

It would simply start the process by issuing government bonds denominated in DAM, while still live up to all previous assets, liabilities or contracts in Euro. A transition period would be necessary for Germany to get rid of the old Euro currency, but it would be less shocking and less risky than a Greek redefinition. Although Germany would initially suffer a considerable decrease in exports, since the DAM, which is much stronger than the Euro, would make German goods more expensive, the German powerful economy could promptly revive shortly after the exit.

This action might appear to be agonizing, but people believe that it would completely end the lingering pain of the Crisis. Polls conducted recently have pointed out that many German people will be happy if they can return to the old currency. Like Britain, although Germany would not be in the Rezone anymore, its important position in the soundness of European economy would not diminish. He region, Germany is currently the only nation that can use its exclusive prosperity to save the rest of Europe from the haunt of crisis.

Alternatively, it may choose to abandon the Euro, return to its Deutsche Mark, and leave an adequately necessary space for the reform of other countries. Or it may even do nothing but watch Greek people get out of the union and take their chance with the drachma. The time left is not much. Spain is on the edge. Italian may be the next one. George Sorbs, the

legendary investor, says that Germany has only three month to save both the Rezone and 'a lost decade'. Whatever the decision of Germany is going to be, it must be made promptly and wisely enough.