

Forum

[History](#)



The global financial crisis and the debt problem of Europe are the worst economic challenges ever to face the world since the recession of 1929-30. These two challenges are real and require a pragmatic approach to solve them. The global financial crisis was triggered in the United States when investors lost confidence in the worth of mortgages (Scott 14). Prior to the crisis, banks in the U. S. were lending to customers without considering their credit worthiness. The crisis resulted in the borrowers not meeting their repayment obligations. The banks were faced with non-performing loans, which had lost value. The stock markets became unstable leading to the crash. Consumers reacted by exercising austerity measures due to the uncertainties. The end result was the collapse of major financial institutions like Lehmann brothers and the need for bail outs by the government (Scott 85).

The European debt crisis is the inability of governments within the Euro zone to finance their national debt without aid from the outside. This problem developed when investors got alarmed by the soaring debts of governments around the world coupled with the devaluation of government debts within European Union member states (Scott 26). Some of the countries that were severely affected are Greece, Ireland and Portugal, and most recently Italy and Spain are showing signs of joining them. The first measure to control this crisis was issuing of a rescue package in 2010 to restore stability in the region.

According to an article titled " The fiscal solution" that appeared in the Economist on 29th Nov 2011 by Buttonwood, the long term solutions to this problem require the assumption of debts of states facing problems by the bloc. The federalism that is required to achieve this is faced with the <https://assignbuster.com/forum-article-samples-2/>

challenge of individual states convincing their citizens to support economic federalism in a referendum. The other two solutions offered by the author are submitting national budgets to the European Court of Justice for approval to determine if they comply with federal laws. The final solution is by issuance of Euro bonds that will facilitate borrowing by national governments, but under regulation.

Work cited

Scott, Hal. The global financial crisis. New York: WEST PUB, 2009. Print.