WHO IS RESCUING WHOM AND WHY?

The Euro, the banks and the debt crisis

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SYNOPSIS

"Who is rescuing whom and why?" is a short animation about the current efforts by the eurozone states to stabilize their economies and the European internal market in the wake of the global financial crisis in 2009.
The film shows how the economic and employment crises which succeeded the financial turmoil have had an impact on the budgets of the eurozone states; how as a result of various stabilization measures public debt has soared in all of the eurozone states; and what this indebtedness means for the common currency.
With this animation the Europe Programme of the Bertelsmann Stiftung would like to make a contribution to the debate about the need for common EU economic policymaking.
Above all we would like to remind you of "The story so far..." The film and the spoken text may be downloaded free of charge. If you find "Who is rescuing whom and why?" interesting and useful, please tell other people about it.
Comments and queries should be sent to info@fortunatelyunified.eu.

A. ANIMATION TEXT

WHO IS RESCUING WHOM AND WHY?
The Euro, the banks and the debt crisis.

1. Intro: selected headlines about the Euro

Helping Greece. The Euro is on fire
Süddeutsche Zeitung (DE), 25.4.2010

Euro wins fight against speculators
Die Zeit (DE), 04.08.10

Fixing Europe´s single currency
The Economist (UK), 23.09.2010

Hysteria and the Euro crisis. Europe´s magic money beats the prophets of doom
Der Spiegel (DE), 20.12.10

Eurozone tensions rise amid bailouts
The Guardian (UK), 19.01.11

Euro, curse of the 17 Sysiphus
La Tribune (FR), 24.3.2011

2. The story so far

Autumn 2008. America's real estate market has collapsed, Lehman Brothers has gone bankrupt, banks all over the world are teetering on the brink, and are being stabilized by nation-states and multinational confederations, who cough up billions of dollars. Despite this the financial markets grind to a halt, economic production goes into a tailspin, people are made redundant, and the welfare systems find it difficult to deal with the onslaught. The economies need support and that costs money. Public money rescues the banks, reflates the market, saves jobs, and helps the unemployed. And since most of the states concerned do not actually have the money they need, they are forced to borrow. They put the banks back on their feet, and the banks can finance investment in the real economy. It keeps production afloat, on which jobs (directly) depend.
The result: public debt begins to soar and national budgets start to go into the red. All European countries are highly indepted. But only a few of them run into danger to collapse under their public debt burden. What is the reason for that?
It is currently possible to divide the countries of the eurozone into two rough categories. There are those who are in deep debt, and it is believed that they can cope with it, and there are those who have a high level of debt, and it is believed that they either cannot cope with it, or can sustain it only to a limited extent.

For example, Greece and Portugal, which are battling with structural problems and high levels of public debt. Or Spain and Ireland, where private debts, overheated property markets and a far too generous banking sector have entered into an unholy alliance and are now a heavy burden on the public exchequer.

Is it really that bad? And what have the Finns, the French and the Germans got to do with Irish and Greek public debt? Well, there is one thing we should not forget. There are not only debtors. There are also creditors. And as a rule these creditors are the European banks, which ever since the financial crisis have been weak and vulnerable. In other words, it may seem that we are helping Greece and Ireland, but in point of fact we are once again helping our banks, since they are the ones who have lent money to the Greeks and the Irish.

But it is not only the banks. We are interlinked in all sorts of ways, and many jobs and our standard of living depend on this cooperation. We have a common internal market, we have common outer but no internal borders, and we have a common currency. After all, most of what the Europeans earn they earn with and among each other.

Altogether, intra-european trade is worth more than 2.5 Trillion euros in 2010. More than 60% of German exports are - for example - destined for other EU member states.

This interdependence brings us prosperity and variety, and is a very resilient thing. However, sometimes our differences get out of hand, and as a result our economic and monetary area becomes a target for speculators. As happened in 2010. One currency, different states, debt problems, and no common economic policy. Suddenly all that mattered was our differences, and the bets on when our cohesion would break apart were overheating.

3. What would happen if the Eurozone broke

But breaking up is not as simple as it seems. If the eurozone broke apart, the internal market would come under pressure and that would be expensive. Yet let us assume that the euro is abolished.

Some national currencies would decline in value, and others, including, one presumes, the German mark, the French franc and the Dutch Gulden, would rise.

That means trade goods from some countries would become more expensive and would be more difficult to sell. Not only because they would suddenly be more expensive, but because the purchasing power of many customers would be much smaller. Their currencies would of course be just as weak as their economies. On top of this there would be sizeable transfer costs on account of fluctuating exchange rates and other imponderables. These are no good prospects, especially for those who depend on producing and selling things, and hence on the prosperity of their customers.

4. Financial assistance package and safety net

For this reason the European heads of state and government have adopted three measures designed to bring EU economies into line and to end the speculation against the euro.

In the short term. Help for Greece amounting to 110 billion euros spread over three years. The eurozone states and the IMF have agreed to support Greece and to ward off insolvency.

In the medium term. Until 2013 the present crisis fund will have 440 billion euros at its disposal in case another eurozone country runs into financial difficulties. Ireland is the first country to use this facility.

In the long term. The eurozone countries have reached agreement on the rules and regulations governing an ongoing euro crisis fund, the European Stability Mechanism. 500 billion euros will be made available to underpin European loans. Moreover, the IMF is adding 250 billion euros to the total amount.
Financial assistance will not of course come with no strings attached. Countries who make use of this support must first of all explain in a credible manner to the eurozone countries, the European Commission, the ECB and the IMF how and where they intend to reduce expenditure.
A common currency, but no common economic policy. Something that exists nowhere else in the world, and in the crisis it let Europe’s credibility sink. That is the reason why the governments of the eurozone countries are now planning to improve the coordination of their economies.

5. The European internal market in the global economy

The European economies are intertwined and interlinked. Our common economic activities constitute the strength of our economy and that of the euro as we confront other economies and currencies in the world. To put it in a nutshell: “fortunately, we europeans are unified“.

B. SOURCES

European Central Bank:	www.ecb.int
International Monetary Fund:	www.imf.org
Bank for International Settlements:	www.bis.org
German Federal Statistical Office:	www.destatis.de
European Commission (Eurostat):	epp.eurostat.ec.europa.eu
Federal Chancellery of Germany:	www.bundeskanzlerin.de

C. LINKS

Bertelsmann Stiftung - Europas Zukunft
http://www.bertelsmann-stiftung.de/cps/rde/xchg/SID-FD5F1FDF-9A145391/bst_engl/hs.xsl/284.htm

Euractiv
http://www.euractiv.com/en

Europa.eu
http://www.europa.eu

D. IMPRESSUM

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