‘One for All and All for One’: The Global Financial Crisis and the European Integration Project

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Introduction

When the global financial crisis hit the shores of Europe, after crossing the Atlantic, the eurozone was considered a safe haven (Jones, 2009; Wyplosz, 2009). Although there were concerns about how the euro would face up to its first major crisis (Feldstein, 2008; Münchau, 2009), the European Union’s (EU’s) single currency was generally viewed as a protective force against the financial storm shaking the world. For instance, *The Economist* concluded that ‘the Euro has proved a haven in the economic crisis – so much so that no country seriously wants to leave it and plenty want to join’ (*The Economist*, 2009). Such a view was also shared by sovereign bond investors since, according to Attinasi *et al.* (2010a, p. 35), there was a ‘flight to safety’ towards the eurozone between September 2008 (when Lehman Brothers failed) and March 2009 (when financial markets began to stabilize). During that period, most eurozone countries saw their sovereign bond yields decline.

By the spring of 2010, when the Greek debt crisis reached its (first) apex, the discourse had changed completely. The euro was now blamed for the debt crisis propagating itself through the so-called ‘PIIGS’ (Portugal, Ireland, Italy, Greece and Spain) and requiring the financial intervention of the EU and the International Monetary Fund (IMF). It was the euro’s same protective shield that was now declared at fault because it allowed member states such as Greece to indulge in a feast of fiscal deficits. Increasingly, the eurozone came to be seen as something unsustainable, which is exemplified by *Financial Times* columnist Gideon Rachman’s conclusion: ‘Increasingly the Euro looks less like an indissoluble union, and more and more like an unhappy marriage
between incompatible partners’ (Rachman, 2010). Presumably, the end of the eurozone and the EU would unfold like this: the domino effect that has already hit Greece, Ireland and Portugal would reach Italy and Spain; some member states would eventually be forced to default; ultimately Germany and its northern neighbours would dump their southern EU partners and form a new, more stable and prosperous union.

More than one year after the first Greek bailout, the EU and the eurozone are still intact. In fact, there is now more integration of fiscal affairs in the EU and the eurozone than there was back in the spring of 2010. For instance, the eurozone has now created what is to all intents and purposes a European monetary fund, something that was considered impossible only a few years back. In fact, those who saw the eurozone as a safe haven at the beginning of the global financial crisis were right to do so. Things would surely have been worse for countries like Greece, Ireland and Portugal if they had been outside the eurozone when dealing with their plight. Furthermore, the major complaint so far amongst pundits is that eurozone leaders have not done enough to quell the crisis, meaning that there should be more Europe, not less. The two most common solutions invoked are a common Eurobond and more money for the European Financial Stability Facility (EFSF) and its future replacement, the European Stability Mechanism (ESM).

So, how do we explain the eurozone’s (and the EU’s) resilience? Why have the doomsayers been proved wrong? Given that at the time of writing, the European debt crisis was still in full swing, pessimists might say that it was still only a question of time before the euro falls into the abyss. However, nothing indicates that any eurozone member state has the intention to give up the integrity of the euro. On the contrary, with every new instance of financial market pressure (or panic), eurozone leaders come together to calm things down, even if they often only manage to do so for a while. The process might not be pretty but politics rarely is. Nevertheless, the end result has always been to find a European solution and push integration forward.

This chapter argues that there are two reasons why the eurozone did not implode as a result of the debt crisis. First, although economically and politically painful, bailing out Greece, Ireland and Portugal (and maybe even Italy and Spain), putting in place a temporary EFSF that will be replaced by a permanent ESM in 2013, cutting down fiscal deficits and public debts, undertaking market-liberalizing reforms as well as reforming the Stability and Growth Pact (SGP) all represent a better policy option than the alternative of a euro (and EU) failure. Secondly,