Globalization and the European Crisis

Topic: Global Value Chain Analysis
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The European Economy is currently in a slump, the worst since the 1930s. It is the aim of this paper to investigate the causal factors behind this crisis. Although the European crisis is often seen as a consequence of the financial crisis that hit the capitalist world in 2007-8, this paper, which particularly focuses on the period leading up the crisis, argues that many of the problems that Europe faces today have long term roots and have to do with the fact that Europe consists of countries with quite different dynamics and capacities for adapting to changes in the global (and European) economic environment. We start by comparing Europe's growth performance to that of other parts of the world, and then consider some popular but arguably erroneous explanations of the present crisis. Subsequently, we delve into the development of the external balances of various European countries. This leads to the identification of three European "archetypes", characterized by different adaptability and performance, i.e., the North, the South and the East. We then proceed to explore the consequences of globalization and European economic integration for the economic performance of these archetypes. For this, we employ an input/output methodology aimed at decomposing the growth of GDP and the development of the trade balance in Europe and its global partners. It is demonstrated that the effects of globalization have been quite asymmetric between European countries, and that in particular the Southern countries have benefited very little if at all. Finally, we sum up the lessons from the analysis and consider the implications for policy. It is argued that what is needed is a European growth policy, properly adapted to the different capacities across Europe, and that places the welfare of the European population as a whole at the center.