
Responsibilities and Reactions: Europe's Role in the Recent Financial Meltdown

Mark R. Brawley
Dept. of Political Science
McGill University



The Premise: European Vulnerability

- Single market with varied national regulations
–several large banks, often from small states, operating across Europe
 - *The Economist* (Sept. 27th): “The American authorities were able to assemble their bail-out plans fast. In Europe, it could likely take longer, as supervision is largely national and the role of the ECB in dealing with a troubled cross-border bank remains fuzzy.”
-

As the Crisis Begins

- Mid-September: crisis breaks
 - Germany's Finance Minister Peer Steinbrück: America is “the source... and the focus of the crisis”
 - Gov. of the Bank of France Christian Noyer: “there is no drama in front of us”
-

The Crisis Reaches Europe

- European bailouts in September:
 - Hypo Real Estate – Germany + private firms
 - Dexia – Belgium, France, Luxembourg
 - Fortis – Netherlands, Belgium, Luxembourg
 - Bradford & Bingley – Britain
-

European Reactions

- Coordinated action by *some* national governments
 - Sarkozy calls leaders of Germany, Italy and Britain to Paris to organize a European rescue fund
 - Germans balk; Steinbrück: “We as Germans do not want to pay into a big pot where we do not have control and do not know where German money might be used”
-

European Reactions

- *The Economist* (Oct. 11th): “The meltdown – and the speed of the reaction required – cruelly exposed the institutional and political limits of the European project.”
 - But on Oct. 8th coordinated interest rate cuts
 - Britain announced aggressive response
-

European Reactions

- Oct. 12th – another try
 - Pledges made by France, Netherlands, Germany
 - Not met by Spain, Italy
 - Reasons: diverse exposure
 - Coordinated stimulus package urged by EC in November – also met with lackluster and varied responses
-

Responsibilities

- Regulation failures
- Scope of crisis due to chain
- Summers: More than enough blame to go around

Concluding Thoughts

- Global economic contraction underway
 - Requires coordinated stimulus – that adds to government debts
 - Second wave of problems as other countries' economies contract (European financial actors may be *more* vulnerable in this phase)
-