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Do economic crises ever end?

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As the first month of the New Year 2013 will be over soon, the question is: would the two crises, recession and the euro crisis, end soon?

The answer is no.

No war ended quickly. So are the economic crises. The World War II was from 1939-1945. It consisted of many battles, including the Battle of Britain, El Alamein, Arnhem, the Battle of the Bulge and so on.

Similar to war, a crisis is never over until it ends. Each crisis has its own episodes: one followed by another.

Last week, we noted that the United States (US) recession crisis continued from one episode of the so-called fiscal cliff to another. The latter is the debt ceiling of US$ 16.4 trillion, laid down by the US legislature to be in February. If America hits the ceiling, the salary payments to government servants would be stopped.

Following the inauguration of Democrat President Obama's second term on Tuesday, January 21, the Republican party-dominated lower House of Congress decided on Wednesday to suspend the ceiling law for three months, requiring a new budget blueprint by April 15.

The Republicans, who failed in their attempt to derail President Obama's re-election, are keen not to alienate the electorate any more.

In the next two months, the US Congress has to pass a budget and clear the way for negotiations on long-term deficit and debt reduction. In all likelihood, the Republicans would insist on spending cuts-dollar to dollar- on the debt ceiling.

The IMF's latest world report on growth prospects released on January 23 cautions America should avoid "excessive fiscal consolidation in the short term, promptly raise the debt ceiling, and agree on a credible medium-term fiscal consolidation plan, focused on entitlement and tax reform."

Independent studies call for US$1.4 trillion in deficit reduction, approximately the same amount proposed by Obama. The Republicans are not satisfied. They want more.

The next episode has begun.

The euro crisis

The euro crisis was temporarily patched up in December, when Greece, the member country of the 17-member Eurozone in the 27-member European Union was assured another €50 billion with stringent conditionalities of more austerity, deregulation and reforms including closure of public enterprises or privatisation.

The other members are not yet free from their ailments: Ireland is in the sixth year of recession, Portugal on the edge of economic contraction and Spain with a deteriorating economy.

The remedy again is austerity.

Since September, when the European Central Bank decided to buy the debt of the member countries in distress, the spreads on Italian and Spanish debt have fallen by 2.5 percentage points. Further, the launch of the European Stability Mechanism with additional €500 billion also contributed to the market calm.

Simmering discontent

The discontent is based on the perception that Germany is not sharing its gains from its Eurozone membership.

Germany's inflation was lower than the eurozone inflation target. Further, its worker's discipline and wage restraint contributed to the competitiveness of its exports, not only to Eurozone, but to the rest of the world. Booming exports contributed to Germany's trade surplus. Depreciation of the euro too helped Germany's rising exports to the rest of the world.

Why then could not Germany share the prosperity with the rest of the Eurozone?

If an independent country is in dire straits, it can devalue its currency to promote growth through exports. The members of the Eurozone cannot do it.

If an independent country builds up export surplus, its currency appreciates. That did not happen in the case of Germany, being a member of the Eurozone with a single currency.

Germany is against fiscal union. It is against a banking union. Its tax payers are against using their moneys to help others.

In America, California is part of dollar zone. It has no independent currency and has no exchange rate of its own. So it is the fiscal transfers from Washington D.C. which come to the rescue.

Eurozone is not like America. It is not a political union.

The IMF’s latest forecast says the Eurozone will remain in recession.

In the meanwhile, British Prime Minister Cameron has contributed to the next episode of the euro crisis by a decision to hold referendum on British membership of the European Union.

Cameron says the EU was heading in a direction that British voters had never approved. He wants a referendum sooner rather than later, before it became more likely people would want to leave.