The 2008 Financial Crisis brought about by the US subprime crisis and Lehman Brothers bankruptcy led the US government to bailout its financial industry and export the idea that to preserve the interlinked global economy from a credit crunch that could dive it into another economic depression, world governments needed to support financial institutions with public money. The US bailout mania prompted EU states to go as far as subsidizing debt-ridden states like Greece, Portugal and Spain with the help of a European Financial Stability Facility (EFSF) authorized to lend up to EURO 440 billion, and the European Financial Stabilization Mechanism (EFSM) that collects funds from financial markets guaranteed by the EU Commission's budget. Support for Eurozone troubled economies was also provided by the European Central Bank whose continued intervention on bond markets helped maintain yields to financially viable levels. But the European debt crisis would not have occurred, if the subprime crisis, itself caused by extensive deregulation in the US real-estate market, had not happened, and if the financial crisis that followed had not been solved with borrowing requirements from states in America and Europe to finance their bailout mania. As the US took advantage of its safe haven status in troubled times to draw capitals at cheaper cost, even if economically worse off than many of its peers in Europe, borrowing requirements raised yields inevitably in Europe.

To solve this crisis, Globwatch proposes the following measures:

1. Force EU States to take austerity measures with the objective to balance public budgets and drastically reduce public debt to easily manageable levels (max. 40 percent of GDP).
2. Allow a flexible opt-out/opt-in of the European Monetary System (EMS) that allows heavily indebted countries to drop out of the Euro, renegotiate their sovereign debt and stimulate economic growth.
3. Continue with European economic and political integration that provides more power to the European Commission to supervise member-state public budgets, and allows for tighter fiscal discipline.
4. Introduce higher taxes on high wages and bonuses.
5. Introduce a European tax on financial transactions of at least 0.1 percent.
6. Revenues generated from a tax on financial transaction should be dedicated to a Social Refund System that helps raise the share of the European middle class, a long-term economic stability factor.
7. Reduce bureaucracy or the share of people employed by the State.
8. Support credit-rating agencies for their advisory function in valuing sovereign debt quality and respect their decisions.

The above-mentioned measures mean that:

1. As austerity measures take effect, Europe may fall into another recession which may well cause lower revenues from taxes and lead to more austerity measures in a vicious cycle.
2. Austerity measures are understood as less public spending. While social acquisitions in areas like unemployment benefits, pensions or the age of retirement must be maintained, public investments on, for example, infrastructure must be abandoned.

For a Europe of progress and opportunities, member states must continue to integrate politically and economically. They must insist on austerity measures, whatever their costs, now, taking advantage of a growing world economy. Finally, they must raise taxes on higher wages and bonuses, imposing a financial transaction tax to support a strong European middle class whilst creating a more flexible, market-oriented economy.

Jerry Lee - January 2012 - Source: www.globwatch.com