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The European Debt Crisis and the Optimal Crisis Management

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Abstract

Following the 2008 financial crisis, the states in the Eurozone faced high public debts as a result of Keynesian open budget policies. This was due to the failure to establish the coordination of monetary policy, directed single-handedly by European Central Bank (ECB), with fiscal policy, implemented by the fiscal policy-makers of the countries. This study aims to reveal the basic dynamics of the European debt crisis and assess the optimal crisis management in overcoming the crisis. In this regard, the optimal dimension of crisis management recommends that national efforts be reinforced with the steps to be taken by EU and the EU funds be used in a way to increase growth and employment, encourage competition and strengthen the financial stability within the predetermined boundaries. Furthermore, public discipline should be designed in conformity with both national and international rules.

Key Words: Financial Discipline, Debt Crisis, Eurozone, Monetary Union

1.0. Introduction

The 2008 financial crisis broke out in the USA and spread rapidly all over the world. Thus, Europe also suffered severely from the effects of the crisis in 2010. The basic characteristic that separates the two crises from one another is that the 2008 crisis that originated in the USA was a banking- and loan-based crisis whereas the European crisis was a public debt crisis. Particularly the states in the Eurozone implemented Keynesian open budget policies beyond their purpose and preferred financing budget deficits via borrowing. This preference dragged the debts into an uncontrollable level.

Lack of audit in fiscal system determined the uncontrollability of the debt crisis remarkably and this situation was due to the crisis. As a result of lack of audit, an economic problem that any of 17 states in the Eurozone suffered from would inevitably affect the other states. Thus, a budget policy of a state may probably spread to other states via foreign trade, interest rates and exchange rates. Thus, the large part of Greece's public debt belonged to foreign creditors and this strengthens the effects of spread (Köse & Karabacak, 2011:305). In this respect, the quality and adequacy of the supervisory and regulatory bodies in the Eurozone were questioned. Furthermore, the opinion that single-currency system was the primary determinant of the crisis gained widespread acceptance. Since the crises in Greece, Portugal, Italy and Ireland affected other countries, the issue of crisis became a common problem in the EU and the EU aimed to find joint solutions.

Keeping crisis management at the optimal level is also critical for removing the adverse effects of the crisis. Thus, solution efforts were more problem-based than solution-based in the countries that suffered severely from the crisis and these efforts were necessarily revised (The European Competitiveness Pact was put into action instead of the Competitiveness Pact). In other words, several optimal solution-based mechanisms introduced a series of precautions to reduce public expenditures that are non-productive but enhance the income of working class, extend social rights and increase military expenditures.

One of the applications is the Balance of Payments Facility and it is followed by Pooled Loans. Furthermore, the European Financial Stability Mechanism was established as a temporary facility that would be replaced with the European Stability Mechanism in 2013. The European Financial Stability Facility was established as a temporary fund that would also be replaced with the European Stability Mechanism. With the recent regulations, the Euro Competitiveness Pact has been established to increase the competitiveness of the states in the Eurozone. Accordingly, the member states of the EU had to take some precautions that include a series of financial audits in an effort to find a solution to the existing crisis and avoid possible similar crises.

These precautions comprise reforms that are expected to strengthen European economic governance, coordinate the budget and improve auditing mechanisms (Dagdelen, 2011:3). Despite lack of a permanent and an effective structuring that will solve the crisis, the existing crisis management efforts aim to increase the competitiveness of the EU and perform the economic management of the EU in accord with monetary and fiscal policies. The facilities that were established by this objective aim to support the solvency of the member states.

This study deals the process of the European debt crisis and the optimal crisis management. First, we mention the general framework of the financial crisis. Second, the optimal crisis management to overcome the crisis is given. Finally, a general assessment and recommendations are given in the Conclusion section.

2.0. The Process of the European Debt Crisis

With the acceleration of globalization, countries have today become more inclined to financial crisis. Thus, states have recently aimed to take precautions to strengthen their economic structures and avoid the possible effects of financial crises. The establishment of monetary and financial discipline is highly important so that economic stability and monetary and fiscal policies in use can yield more effective results. Accordingly, the states in the Eurozone managed to establish monetary discipline as a result of monetary union. However, these states took some precautions to minimize the adverse effects of lack of a well-established financial structure and create the optimal crisis management.

The global financial crisis that broke out in 2008 affected the EU economies deeply especially between 2008 and 2010. These effects were reflected particularly in increasing public debts and budget deficits. The relevant bodies of the EU developed central policies to establish strict financial discipline in all member states in consequence of the latest crisis. Particularly, the crisis that smashed the Greek economy was influential in developing such central policies. Germany, the biggest economy of the EU and of the Eurozone, was reluctant to provide funds for such 'extravagant members' as Greece that failed to stick to budget discipline. This was because if the EU had rescued Greece from the crisis, the other countries such as Ireland, Portugal and Spain that had been suffering from several economic problems would necessarily have been incorporated into the rescue operation. Thus, the incorporation of these states into the operation would have doubled the cost of rescue. However, the German and French banks that granted loans to Greece, Ireland, Portugal and Spain would possibly go bankrupt if the crisis became deeper in these countries. Thus, more and more efforts were made in order to prevent the crisis. The EU brought the issue of the optimal crisis management to agenda on 13 December 2011 to ameliorate monetary and fiscal policies and increase the supervision of the members' economies. The optimal crisis management aimed to establish the financial discipline of the EU, audit the countries' budgets and implement macroeconomic policies and structural reforms more comprehensively.

In fact, there were two regulations for this purpose: One was the Maastricht Treaty that was signed in 1992 and put into practice on 1 November 1993 and the other was the fiscal rule that imposed restrictions on budget deficit. The Treaty includes financial discipline for the members of the Economic and Monetary Union (EMU) (Kalkan, 2007:4). In other words, the European Monetary Union based financial discipline implementations on this treaty. The Maastricht Convergence Criteria imposed restrictions on burden of public debt and stipulated that the total debt-GDP ratio of a member state *be* below 60%. The budget deficit-GDP ratio of a member state must be below 3%. Such other indicators as inflation rate, long-term interest rates, exchange rate and devaluation are considerably important in economic stability of the members of the monetary union. Thus, the criteria for devaluing national currency via inflation and long-term interest rates aim to establish monetary stability in the Eurozone whereas those for budget deficit and public debt concentrate on protecting the Union from inflation threat that may stem from governments' budget deficits (Afxentiou, 2000:249). However, the EU failed to establish a political union proposed by European Constitute although it was supported by the Maastricht Criteria. This failure brought the mistakes in designing Euro into question. Especially, in the states in the Eurozone fiscal policies were implemented by the policy-makers of the states whereas monetary policies were implemented single-handedly by European Central Bank (ECB). This led to instability depending on the disparity between monetary and fiscal policies.

In the environment of trust that was established by monetary union, politicians of the states that borrowed at low interests preferred postponing structural reforms that their countries needed immediately. Thus, with the effect of global slowdown that was due to the financial crisis in USA, macroeconomic indicators of the states whose politicians postponed structural reforms dropped rapidly. This lowered the credit ratings of the states with poor financial indicators and led to the acceleration of the costs of borrowing (Dilekli & Yesilkaya, 2012).

The second regulation before the debt crisis was the Stability and Growth Pact (SGP). SGP was accepted voluntarily by independent governments that aimed to establish and sustain strong public finance. Established to provide budget discipline against excessive budget deficits, SGP was regulated in the 1997 Amsterdam Summit and put into action in 1999 (Köse & Karabacak, 2011;294). A two-legged strategy consisting of 'Early Warning System' and 'Excessive Deficit Procedure' was developed to meet excessive budget deficits (Akgül, 2008;271).

The Maastricht Criteria and original rules of SGP yielded a positive result: The EU's budget deficit was 5,1% in 1995 and dropped to 0,8% in 1999. However, many states were proposed to sustain financial discipline to reach balanced budget or budget surplus. Financial discipline continued throughout 1999 and in the next period and budget balances made good progress in 2000. However, 6 countries in the Eurozone (Germany, France, Netherlands, Portugal, Greece and Italy) suffered from excessive budget deficits between 2001 and 2004 (Morris, Ongena & Schuknecht, 2006:47). As a result, the rules of SGP were proved to be insufficient and necessarily revised in 2005 (Akgül, 2008:271).

New regulations stipulated that budget deficit *be* below 3% of GDP and public debt stock *be* below 60% of GDP; target states *do* have balanced budgets in the medium-term; debt levels, public investments and potential growth rates of target states *be* taken into consideration, medium-term targets *be* revised once every four years to accord with the changes in economic conditions; and states decrease their structural budget deficits at the rate of 0,5% of GDP every year (ECFIN, 2009). SGP reforms aimed at long-term financial sustainability and elasticity. Basically, SGP has two dimensions: Preventive and deterrent.

Preventive: The states in the Eurozone with stability programs and the members of the EU that are *not* in the Eurozone with adjustment programs are supposed to submit their plans as to how they will maintain financial stability in the medium-term to the European Council and Commission by 1 December every year.

Deterrent: The excessive budget deficit procedure is implemented. In other words, concluding that a state suffers from excessive budget deficit, the Council recommends the state meet the deficit. The recommendations must *not* be made public. However, if the member state makes no move to follow the recommendations, the Council may declare the recommendations to the public. If the member state abstains insistently from following the recommendations, the Council may warn the state. If the member state subject to the excessive budget deficit procedure refuses to take necessary precautions despite warnings, the state may be exposed to various sanctions (such as imposing a reasonable amount of fine, asking the European Investment Bank to revise its policy to grant loan to the relevant state and asking the relevant state to pay a reasonable amount as interest-free guarantee in the presence of the EU) (Yigit, 2012:144).

However, no sanctions were imposed on Germany and France despite the Council's recommendations and this showed that there were some problems in the operability of SGP. Thus, the prime ministers of the states in the Eurozone tried to make new policies on the reinterpretation of the fiscal criteria in September of 2010 (Sanlioglu & Bilginoglu, 2010:168).

3.0. The Debt Crisis and the Optimal Crisis Management

The crisis that broke out in Greece in 2010 is the first leg of the European debt crisis. Then, the worries of Germany and France, the two largest economies of the European

Monetary Union, came true and Portugal and Ireland also drifted into the debt crisis (Odabas & Bahtiyar, 2011:103-104). The expectations that Greece, Ireland, Italy, Portugal and Spain could discharge their debts went from bad to worse and interest rates ascended much enough to increase the cost of borrowing (Dadus et al., 2010:1).

Providing the coordination of monetary and fiscal policies is very important for economic instability. Furthermore, whether these policies are rule-based or arbitrary is also important. However, in the Eurozone, whether rule-based or arbitrary policies to be implemented is a highly controversial issue. A rule-based central monetary policy (price-stability-based policy implemented by ECB) was being implemented in the Eurozone until the outbreak of the crisis whereas, as for fiscal policy, policy makers of each country had authority to choose which fiscal policy to follow. Although the Maastricht Convergence Criteria and SGP aimed to impose some restrictions on fiscal policy, they failed to establish a rule-based fiscal policy. Thus, Greece and other states that suffered severely from the debt crisis had no chance to devalue currency and lower interest rates to decrease the debt burden because no state could change interest rates since monetary policy was implemented single-handedly by ECB.

This led to a disparity between rule-based monetary policies and arbitrary fiscal policies in these countries. As a part of the optimal crisis management, the EU still struggles to remove this situation with some regulations that aim at a stabilized financial structure. Table 1 shows that the results of financial indiscipline are highly remarkable. These results indicate actualization of new regulations that will establish financial discipline is very important for financial stability.

Table:1 The Effects of the Crisis on EU, Eurozone, USA and Turkey

	Public Debt/GDP (%)				**Budget Deficit/GDP (%)**			
	2008	2009	2010	2011	2008	2009	2010	2011
EU–27	62,5	74,7	80,2	82,5	-2,4	-6,9	-6,6	-4,5
EZ–17 [1]	70,1	79,8	85,4	87,2	-2,1	-6,4	-6,2	-4,1
USA	71,6	85,2	94,4	100	-6,5	9,6	-12,8	-10,3
TURKEY	39,5	45,5	41,6	39,8	-1,8	-5,5	-3,6	-2,8

Source: Ministry of EU Affairs, 2011, 1

[1] 17 countries included in the Eurozone

The Eurozone economy, led by the poor economies of Greece, Ireland and Portugal, showed a poor outlook with the public debt-GDP ratio above 80% and the budget deficit-GDP ratio above 6%. Moreover, Papandreou’s government that came to power in 2009 denied the statistical data on budget realization and declared the data on budget deficit was above 12%. Damaging the reliability of the statistical institutes in Greece, Papandreou worsened the expectations and increased risk perception (Dagdelen, 2011:2). In this regard, the optimal crisis management aims to provide the controllability of poor economy and establish a structure that can be supervised with transparent and highly functional rules (Ministry of EU Affairs, 2011, 2). This study summarizes the optimal crisis management in 6 steps.

The first step: The Balance of Payments Facility. The Facility was established to help the 10 states that are *not* included in the Eurozone if they have problems in balance of payments and external financing. The Facility was established by the Council Regulation, on 18 February 2002, of the Treaty of Rome that regulates how to provide help for the states that have difficulties in balance of payments. The objective of the Facility is to maintain the financial stability and balance of the EU single market. Financial mechanism of the Facility functions as follow: First, the bonds guaranteed by the EU budget and 27 member states will be issued to provide loans for the states that have difficulties in balance of payments. Second, the states that capitalize on the Facility pursuant to the relevant regulation are supposed to take necessary economy measures to make balance of payments healthy and sustainable. Finally, the Commission and member states will sign a memorandum of understanding that is based on the conditions determined by the Council and the memorandum will be submitted to the European Parliament and the Council of Ministers of the EU. Currently, Hungary has drawn 6.5 billion €, Latvia 3.1 billion € and Romania 5 billion € from the Balance of Payments Facility that has a 50-billion € budget (European Commission, 2012a).

The second step: Pooled Loans. The Pool was established to provide a one-time loan for Greece. The Pool has a 110-billion € budget, 80 of which was provided by the European Commission and 30 by IMF. With the decision of 10 May 2010, the Council determined the precautions that Greece was supposed to take in return for the financial aid. However, Greek economy worsened and the country was on the verge of bankruptcy. The Committee of Ministers of the Eurozone made a new decision on 14 March 2012 that proposed a 130-billion € aid package that would comprise the 2012-2014 period (European Commission, 2012b).

The third step: The European Financial Stability Mechanism (EFSM). EFSM was established to provide financial aid for all member states of the EU that may face financial difficulties. EFSF was established by the Council Regulation on 11 May 2010. The objective of the Mechanism is to provide aid for states with serious financial problems. The Commission evaluates the financial needs of the state that has asked for aid and determines a financial adjustment policy to establish financial stability. After making a commitment that the aid-demanding state will meet the determined economic and financial conditions, the state and the Commission will sign a memorandum of understanding. Then, the Commission provides loans from markets on behalf of the EU for the aid-demanding state (European Commission, 2012c). EFSF was a temporary facility that would be replaced with European Stability Mechanism as from mid-2013 (IKV, 2012a). EFSM has a 60-billion € budget to be used for aid-demanding states with damaged financial structures. Currently, EFSM will provide a 22,5-billion € fund for Ireland and 26 billion € for Portugal (European Commission, 2012d).

The fourth step: The European Financial Stability Facility (EFSF). EFSF, also known as rescue fund, was established as a limited company subject to the laws of Luxembourg by the decision of ECOFIN held with the participation of 16 member states in the Eurozone on 9 May 2010 (European Financial Stability Facility, 2012a:1). EFSF is a special mechanism that aims to combat debt crisis. The objective of the Facility is to provide temporary financial aid for states in the Eurozone that face financial difficulties (Euronews Turkce, 2011). The most significant difference between EFSF and EFSM is that EFSF is available in the Eurozone only. The Facility aims to provide loans for the states in the Eurozone by introducing the 440-billion € bonds into the market (European Financial Stability Facility, 2012a, 1). Germany made the biggest contribution with 120 billion € to the 440-billion source. The Facility has a 750-billion budget in total– 60 of which is available in the EU budget and 250 from IMF (Euronews Turkce, 2011). EFSF has enabled member states to borrow at lower costs (IKV, 2012b). EFSF was rated with AAA by the three biggest credit rating agencies, Standard and Poor’s, Moody’s and Fitch. However, the credit rate of the Facility was lowered to AA in early 2012 (CNN Turk, 17.01.2012a). EFSF was a temporary mechanism and would be replaced with the European Stability Mechanism as from mid-2013.

Table 2. Credit Usages in EFSF

States	Already paid (Euro)	Pending payments (Euro)	Total maximum payments to be made (Euro)
Ireland	12.0	5.7	17.7
Portugal	17.4	8.6	26
Greece	73.9	70.7	144.6

Source: European Financial Stability Facility, Lending Operations, adapted from 03.08.2012

The fifth step: The European Stability Mechanism (ESM). The Ministers of Economy and Finance of the EU decided to establish ESM to provide financial stability in the Eurozone in the Economic and Financial Affairs Council held on 28-29 November 2010 (IKV, 2012c). The Mechanism entered into force with the treaty signed on 2 February 2012. ESM aims to establish new financing instruments, more elastic pricing, a compact structure and new emergent decision-making procedures. The Mechanism is also to adjust capitalization schedule and provide the coordination with IMF (European Commission, 2012e). ESM plans to collect the 700-billion € capital base through bond sales (IKV, 2012c; CNN Turk, 09.10.2012c).

There are strict conditions for making use of ESM: A demanding state is supposed to obey the economic adjustment programs that the Commission, IMF and demanding state have agreed on. The financial aid that ESM will provide for demanding states will be in the form of direct credits. Furthermore, ESM may, if necessary, purchase the bonds of member states that suffer from financial difficulties to lower the cost of borrowing (General Secretariat of the European Union, 2011: 16-17). Table 3 shows the rates of contributions that the member states will make to ESM budget.

Table 3 The Members of ESM and Their Contributions (Euro)

Members of ESM	Capital Contribution	Members of ESM	Capital Contribution
Germany	190 024 800 000	Finland	12 581 800 000
France	142 701 300 000	Ireland	11 145 400 000
Italy	125 395 900 000	Slovakia	5 768 000 000
Spain	83 325 900 000	Slovenia	2 993 200 000
Netherlands	40 019 000 000	Luxemburg	1 752 800 000
Belgium	24 339 700 000	Cyprus	1 373 400 000
Greece	19 716 900 000	Estonia	1 302 000 000
Austria	19 483 800 000	Malta	511 700 000
Portugal	17 564 400 000		
Total			700 000 000 000

Source: European Council, 2012

In terms of contribution, Germany is ranked as the first with 190 billion €, France the second with 142 billion € and Italy the third with 125 billion €. Malta makes the smallest contribution with 511 million €.

The Sixth Step: The Competitiveness Pact and the Euro-Plus Pact. The Competitiveness Pact was projected to prevent the adverse affects of the crises that broke out both in the EU and world on the member states of the EU. In response to the weakened competitiveness, the optimal crisis management in the EU is based on the Europe 2020 Strategy that targets a sustainable and inclusive growth. This strategy was accepted on 3 May 2010 and has three priorities: *Smart growth* including knowledge- and innovation-based economy; *Sustainable growth* including green and competitive economy that uses sources more productively; and *Inclusive growth* including high employment economy that will establish economic, social and marginal integration (Akbas & Apar, 2010, 3). In fact, the Pact aimed to improve the economic structures of the member states and establish the biggest uniformity possible in the structures of these states. Furthermore, it aimed to increase the competitiveness of the real economies of member statesi.

Another important novelty by the Strategy 2020 proposes that each member state will coordinate with the European Commission in macroeconomic issues to determine the next year's national budget. In this sense, the Europe 2020 Integrated Guidelinesii establish a framework for the reforms that member states will make. These guidelines aim to maximize the competitiveness of the entire Europe via employment and economy policies. Based on the guidelines, member states will adjust the priorities and targets of the Strategy 2020 to their national reform programs. The EU Council will be responsible for the management of the Strategy. The EU Commission will evaluate the advancements in targets and provide exchange of ideas on the policies to be implemented (Akbas & Apar, 2010, 7).

The Euro-Plus Pact was established after the southern states with relatively weaker economies criticized the strictly binding terms of the Competitiveness Pact that had been developed by Germany and France. These states claimed that the restrictions to be imposed on their fiscal policies would make their economies more fragile. Thus, the EU leaders rejected the original version of the Competitiveness Pact and decided to soften some terms to constitute a new document that would later be called the Euro-Plus Pact. The document was accepted on 11 March 2001 and the member states in the Eurozone, Denmark, Poland, Latvia, Lithuania, Bulgaria and Romania, put their signatures to the document (General Secretariat of the European Union, 2011:23). With the establishment of Euro-Plus Pact, the member states decided to act coordinately in competitiveness (price policy and productivity), tax policy, public finance and financial stability. This decision is regarded as an important step to solve the problems in the region.

However, determination to implement the decision strictly is critical to removing the structural differentiation between the states (Barlas et al., 2011:9). The Pact aims to provide the sustainability of public finance and establish a healthy financial system (General Secretariat of the European Union, 2011:24). The Euro-Plus Pact focuses on national regulations that are important in increasing competitiveness and removing the imbalances damaging the integration of the EU.

The result text of the Euro-Plus Pact published by the European Council emphasized that the existing economic governance in the EU should be strengthened and policies should be made in accordance with this principle in providing added-value. For financial stability, the text remarked the EU economies should be modernized with strengthened competitiveness since the decisions to assure financial stability may not be sufficient for rapid growth and employment. Modernization of the EU economies with strengthened competitiveness is the basis of the Europe 2020 Strategy and of the Euro-Plus Pact. Whether member states fulfill economic and financial commitments or not will be audited regularly with the participation of all bodies of the Commission. The text emphasized that Euro Group and the European Parliament play critical roles within their authorities. However, for the coordination of competitiveness, the text underlined more attention should be attached to economic and fiscal convergence policies to increase competitiveness and national efforts should be supported by the steps to taken by the EU. Furthermore, the EU funds should be transferred to growth and employment within the predetermined boundaries. The text stated the completion of single market is the primary goal. To achieve this goal, it is obligatory to encourage competitiveness and employment, strengthen financial stability and make contributions to the sustainability of public finance (European Commission, 2011, 12-20).

5.0. Conclusion and Recommendations

The focus of the European debt crisis that broke out after the 2008 global crisis is the failure to implement the financial rules regarding budget and public debt that were determined by the Maastricht Convergence Criteria. Furthermore, monetary policies were directed single-handedly by ECB whereas fiscal policies were implemented by each state's policy-makers. This situation limited the area of activity for states with instable economies. In this sense, Greece and other states that suffered severely from the crisis had no chance to devalue their currencies or change interest rates since they were subject to the Maastricht Criteria. This situation that was due to the corrupted financial system lacking of audit necessitated the optimal decision-making to minimize the cost of the crisis for the EU. Thus, the EU made six decisions on the optimal crisis management. First, the Balance of Payments Facility will protect the financial stability and balance of the EU single market. Second, Pooled Loans is a special mechanism that was established to provide one-time credit for Greece.

Third, the European Financial Stability Mechanism (EFSM) was established to provide financial aid for all member states of the EU that may face financial difficulties. Fourth, the European Financial Stability Facility was established as a special mechanism that aims to combat debt crisis. Fifth, the European Stability Mechanism was established as permanent mechanism to provide financial stability. Sixth, the Competitiveness Pact and the Euro-Plus Pact were established: The objective of the Competitiveness Pact is to increase the competitiveness of the states of the EU by providing the biggest uniformity possible in the structures of these states whereas the Euro-Plus Pact aims to assure the sustainability of public finance and establish a competitive economy and a healthy financial system.

This optimal crisis management is frequently preferred in crisis periods in that it can establish financial discipline, assure macroeconomic stability, provide the reliability of financial policy by decreasing budget deficits and reduce the effect of economic conjuncture via a sustainable fiscal policy. With the establishment of financial transparency that means a transparent financial system, budget deficits will presumably decrease and the public debt stock-GDP ratio will reach a reasonable level. It must be born in mind that the framework should be well-determined, clear and understandable, in accordance with targets and reliable enough to support structural reforms so that the decisions can solve the crisis.

In conclusion, the optimal crisis management should be based on the conditions that national efforts should be reinforced with the steps to be taken by the EU; the EU funds should be used in a way to increase growth and employment, encourage competition and strengthen the financial stability within the predetermined boundaries; and public financial discipline should be in accordance with national and international rules.

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i The targets of the Strategy 2020 to increase competitiveness are as follow: The employment rate of the population ranging from 20 to 64 years will increase up to 75%; 3% of GDP will be allocated for r&d activities. Greenhouse gas emission will be decreased at least 20%, or 30% if possible, in proportion to 1990; The share of renewable energy in the energy consumption of the EU will be 20% and energy efficiency will be provided at the same rate; The rate of those that drop out of school at early ages will be lowered to 10% and the rate of postgraduates will increase from 31% to 40 and 20 million people will be rescued from the risk of poverty (European Commission, 2010).

ii The guidelines are 1) providing the sustainability and quality of public financing, 2) dealing with macroeconomic imbalances, 3) decreasing the imbalances in the Euro-using states, 4) increasing the supports for research, development and innovation and revealing the potential of digital economy, 5) using sources more efficiently and decreasing greenhouse emission, 6) modernizing industrial infrastructure to provide the full operability of the EU domestic market, 7) improving the rights of working class and consumers, 8) increasing the participation in labor market and decreasing structural unemployment, 9) improving qualified labor that can meet the needs of market, 10) encouraging business quality and life-long learning, 11) improving the performances of educational systems at all levels and increasing the participation in higher education and 12) encouraging social inclusion and combat corruption (Ministry of Industry and Commerce of Republic of Turkey, 2011:2).