The view from the European periphery

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Debating Austerity
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Overview

1. Markets versus politics
   i. Constrained economic choice
   ii. Democratic legitimacy (Greece, Portugal...)

2. European context of domestic austerity
   i. External pressures
   ii. Asymmetric adjustment

3. Domestic mediation of adjustment
   i. Previous ‘pathways’ shape choices
   ii. Growth models

4. Political implications of constrained choice
   i. National party politics
   ii. Public opinion and European integration
1. Politics and markets

- Politics in very hard times
  - EZ ‘periphery’ is particularly interesting
    - Hardest-hit: loan programmes in Greece, Ireland, Portugal, and for banks in Spain
    - Variation in effects
    - Variations in recovery

- Polanyi
  - Market-driven hardship generates counter-movement of social resistance, self-protection
  - How much is different with mass suffrage, welfare states?

- Political consequences of austerity depend on
  - Situation vis-à-vis European compliance demands
  - Political economy of national adaptation capacity
2. European austerity: asymmetries

- This was a financial, not a fiscal crisis: ‘sudden stop’

- European context and constraints
  - No macro-European overview
  - No crisis absorption mechanisms
  - Asymmetrical trade and finance dynamics, before and after 2008

- EU stress on fiscal controls and supply-side reform
  - Stalled/ reversed convergence
• Ireland, Spain, Greece grew rapidly to 2007, Portugal less so
• European fiscal stimulus 2008/9
• Turn to austerity policies 2010+
• Periphery flatlining; Ireland growing a bit, Greece tanking
### Pre-crisis imbalances

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<tbody>
<tr>
<td>Portugal</td>
<td>-96</td>
<td>-36</td>
<td>44%</td>
<td>262%</td>
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<tr>
<td>Greece</td>
<td>-84</td>
<td>-47</td>
<td>36%</td>
<td>173%</td>
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<tr>
<td>Spain</td>
<td>-60</td>
<td>2</td>
<td>121%</td>
<td>296%</td>
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<tr>
<td>Ireland</td>
<td>-21</td>
<td>14</td>
<td>464%</td>
<td>783%</td>
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<tr>
<td>Italy</td>
<td>-8</td>
<td>-26</td>
<td>85%</td>
<td>235%</td>
</tr>
<tr>
<td>EZ</td>
<td>-2</td>
<td>-17</td>
<td>94%</td>
<td>335%</td>
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<tr>
<td>France</td>
<td>6</td>
<td>-23</td>
<td>180%</td>
<td>395%</td>
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<tr>
<td>Austria</td>
<td>16</td>
<td>-19</td>
<td>305%</td>
<td>379%</td>
</tr>
<tr>
<td>Germany</td>
<td>27</td>
<td>-19</td>
<td>18%</td>
<td>316%</td>
</tr>
<tr>
<td>Belgium</td>
<td>47</td>
<td>-5</td>
<td>83%</td>
<td>392%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>48</td>
<td>-5</td>
<td>-9%</td>
<td>375%</td>
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<tr>
<td>Finland</td>
<td>61</td>
<td>33</td>
<td>101%</td>
<td>197%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>98</td>
<td>23</td>
<td>-577%</td>
<td>2367%</td>
</tr>
</tbody>
</table>

**Cheap loans:**
- Public sector (Greece, Portugal)
- Private sector (banks) (Ireland, Spain, also Portugal)
- Unproductive sectors

**Cheap money and debt creation meant inflationary pressures**

**High bank debt in ‘core’: mirror-image**

**Trade imbalances:**
- Mirror images
• Household debt is not highest in Ireland or Spain
• But the capacity to cope with it is more constrained in the periphery because of....
a. Asymmetries in trade

- Rising net external debt in the periphery in 2000s
- Adjustment after 2008 not due to improved exports in most of the periphery, but to falling imports
- While Germany pursued yet higher surpluses
Greek crisis May 2010: EU resist Europe-wide bank debt resolution

New stress on fiscal and supply-side controls, incl Fiscal Compact

Sovereign debt/ banking system doom loop

QE protects EZ from market risk, but turns debt public
b. Relative competitiveness
This is not a problem in a ‘true’ economic and monetary union.

Cheap money fuelled relative cost increases in periphery, 2001-7
German wage repression over time
Internal devaluation after 2008 = reduced living standards
3. Implementation of austerity policies

• National austerity depends on
  – Institutional framework
  – Previous pathways
  – Consistency with national growth model
Social costs

- Huge social costs – cf unemployment, esp youth unemployment
- Differential experiences of unemployment after 2008 depend on prior growth model, plus institutional arrangements
Fiscal cuts softened by welfare transfers – except in Greece

**Fiscal adjustment vs. social expenditures during fiscal consolidations**

![Graph showing fiscal adjustment vs. social expenditures during fiscal consolidations.](image)

**Source:** Bruegel using data from Eurostat and European Commission (2013). Note: for each country, we checked the start date of fiscal consolidation and calculated the change in the indicators from that date till 2013. Social expenditures in the sum of ‘Social benefits other than social transfers in kind: general government’ and ‘Social transfers in kind supplied to households via market producers: general government’. Fiscal consolidation is measured by the discretionary fiscal effort (DFE) indicator of European Commission (2013).
• Development of export-intensive growth (though distorted by housing boom)
• High-tech product and services exports are quite price-insensitive
• Repressed ratio of public to private consumption/investment
• But most jobs not in exporting sectors
• Internal devaluation via job losses in construction, retail, SME sector
**Implications**

- ‘Austerity’ measures were plausible to key decision-makers
  - Fiscal stabilization, credibility, FDI
  - Control over public finances, public sector pay deals
- Continuity from FF/Green to FG-Labour
  - With modifications
- Austerity ‘losers’ turn to alternative parties/ reps
Spain

- Higher reliance on consumption-led growth
- Bigger role of government/public consumption
- Export pick-up in 1990s stalled by housing boom and credit-led GFCF
Implications

• Contested economic governance

  – Build-up of welfare expansion, public investment
  – Preference for stimulus in crisis
  – And tax-led fiscal adjustment
  – Derailed by banking exposure – and Greece

• PP 2011
  – More sympathetic to spending cuts, debt limits
Portugal

- Consumption-led rather than export-led growth; low-wage exports
- Slow growth during EMU, no financial or credit boom
- Low levels of GFCF, slow to increase skill-intensity
- Long-term low-level educational investment
Implications

• Fiscal retrenchment problematic
  – Contestation between governments of centre-left (Socialists, 2005-2011) and centre-right (Social Democrats, 2011-2015)
  – Socialists lost massively in 2011 after forced cuts
  – Constitutional challenge to cuts in welfare entitlements introduced by PM Passos Coelho (centre-right SD), June 2014

• Recovery strategy is problematic
  – Without scope for large investments in skills and productive capacity
**Greece**

- Small role of tradeable goods & services
- Declining gross capital formation
- Bias toward consumption
- Rising ratio of public to private consumption
- Emergence of debt-fuelled, demand & consumption-led growth

*Source: European Commission (2015)*
Implications

- EU tolerated unreliable Greek data
- Both main parties supported growth built on public spending and private consumption
- Strong clientelism; episodes of reform (1990s)

- Little attention paid to growth generation, export capabilities, institutional quality
4. Political implications

- Hypotheses
  - Crisis damages EU identity, legitimacy
    Scharpf and ‘output legitimacy’ in the EU
  - Voter behaviour and public opinion after recession
    Lindvall 2012: voters initially move right, then left
  - Credibility of political parties
    Mair: decline of parties, rise of technocracy
  - Legitimacy of European integration
    Kriesi, Mudde: populist and nationalist right
We see a fall-off in net trust in all major political institutions since the crisis – both national and European.
National politics

- Ongoing erosion of vote share of long-established large parties

- Party system fragmentation
  - Rise of leftist, anti-austerity parties
  - But they are not Eurosceptic or advocating EZ exit

- Expectations of rise of Eurosceptic extreme right
  - Less in evidence in EZ south/west peripheries
Ireland

Decline of Fianna Fáil
Fine Gael and Labour struggling
Sinn Féin and assorted leftist and independent candidates—
but doubts over policy coherence
Spain

Zapatero’s policy shift, May 2010

Deep spending cuts in budget, April 2012

Greek crisis in May 2010 up-ended PSOE
Austerity shattered PP support
Spain

Fall of PP and PSOE vote share

Emergence of protest parties

Podemos (Left)

Ciudadanos (Right)

Overt Catalan separatism

http://politica.elpais.com/politica/2015/10/10/actualidad/1444486932_044305.html
Portugal

Governing centre-right (PSE/CDS-PP) won a plurality of seats
Smaller vote share than in 2011
But – ‘austerity can win elections’???
Portugal

**Contested outcome**

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Alexandre Afonso
Portugal

Boco de Esquerda is much smaller than Podemos or SYRIZA though – Not new but longer-established; CP siphons off protest
Implosion of Greek party system
To 2009: bipolar competition
Rise of leftist SYRIZA
Extreme right Golden Dawn and right-wing nationalists ANEL do well, but much less dramatic
SYRIZA’s challenge to Eurozone governance failed, summer 2015. But it still retained the ability to form a new coalition, September 2015.
After the third loan programme, July/August 2015, and national legislative elections, September 2015: Leftist SYRIZA again the largest party though no majority Re-formed government with nationalist Right, Independent Greeks ANEL
Further implications of an increasingly ‘German’ EU?
Thank you

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