The view from the European periphery

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Debating Austerity

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Scoil na Polaitíochta agus Gnóthaí Idirnáisiúnta agus Institiúd Geary do Pholasaí Poiblí Coláiste na hOllscoile, Baile Átha Cliath

Overview

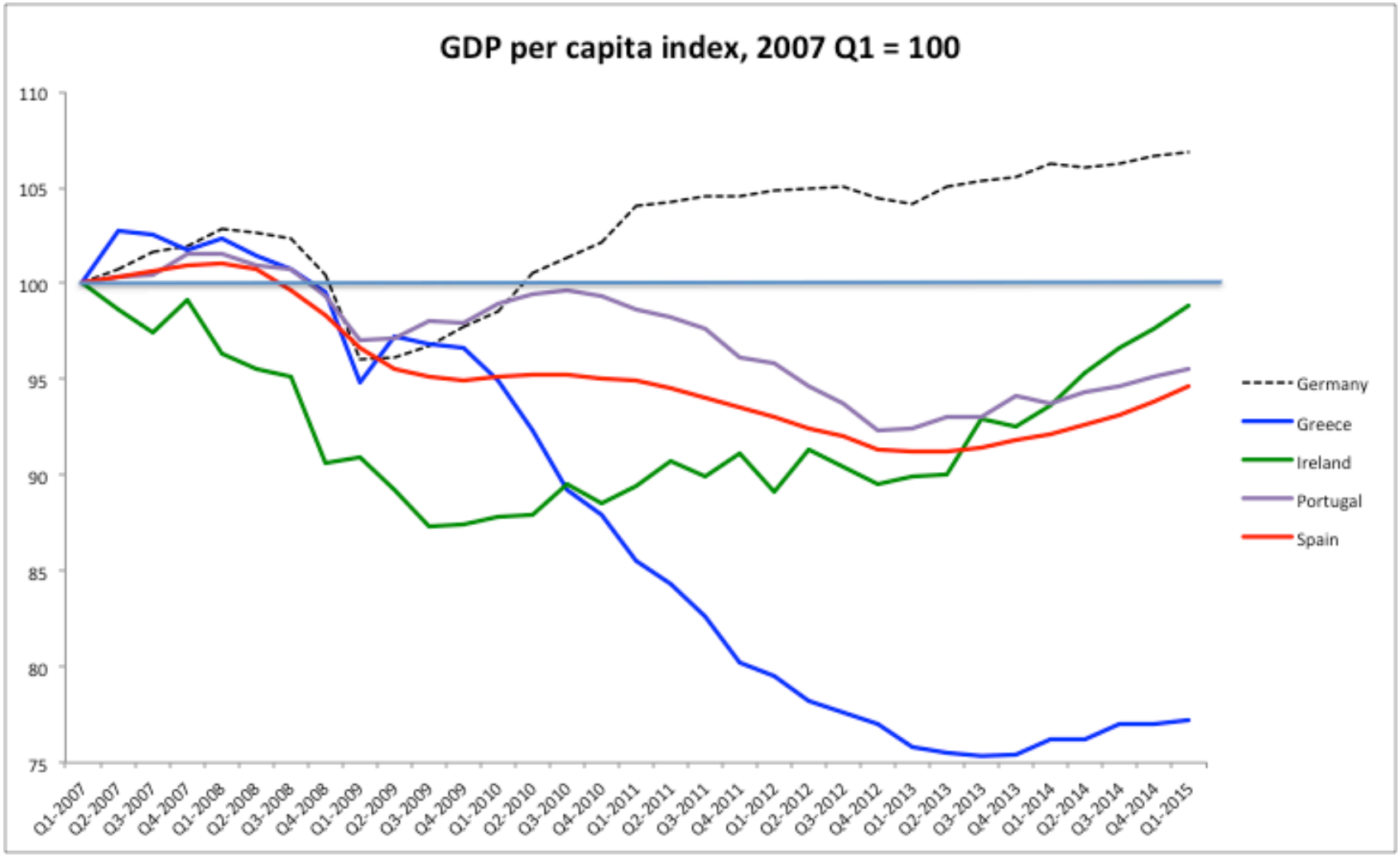
1. Markets versus politics
   i. Constrained economic choice
   ii. Democratic legitimacy (Greece, Portugal…)
2. European context of domestic austerity
   i. External pressures
   ii. Asymmetric adjustment
3. Domestic mediation of adjustment
   i. Previous ‘pathways’ shape choices
   ii. Growth models
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

	1999 to 2007 (% of own GDP)		Bank assets (% of GDP)		%	
	Cumulative current account balance	Cumulative budget deficit	2000 to 2008 increase (p.p.)	Bank assets, 2008	Debt-GDP ratio, 2008	Excess inflation (1999-2007)
Portugal	-96	-36	44%	262%	72	7.5
Greece	-84	-47	36%	173%	109	9.9
Spain	-60	2	121%	296%	39	9.2
Ireland	-21	14	464%	783%	43	11.6
Italy	-8	-26	85%	235%	102	1.8
EZ	-2	-17	94%	335%	69	0.0
France	6	-23	180%	395%	68	-2.9
Austria	16	-19	305%	379%	69	-3.2
Germany	27	-19	18%	316%	65	-4.8
Belgium	47	-5	83%	392%	92	-1.1
Netherlands	48	-5	-9%	375%	55	2.8
Finland	61	33	101%	197%	33	-4.9
Luxembourg	98	23	-577%	2367%	14	5.5

Cheap loans:

public sector (Greece, Portugal)

private sector (banks) (Ireland, Spain, also Portugal)

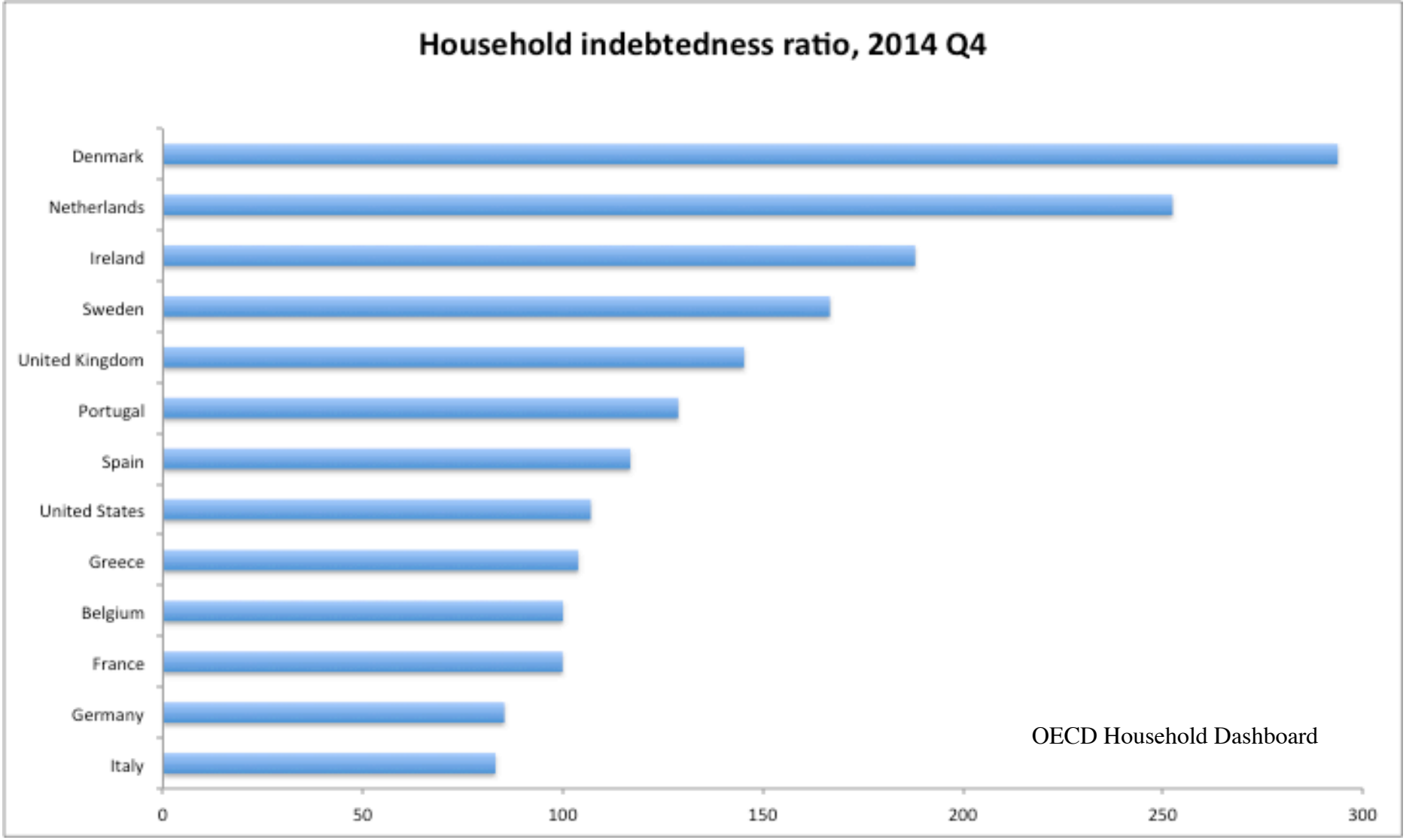
unproductive sectors

Cheap money and debt creation meant inflationary pressures

High bank debt in 'core': mirror-image

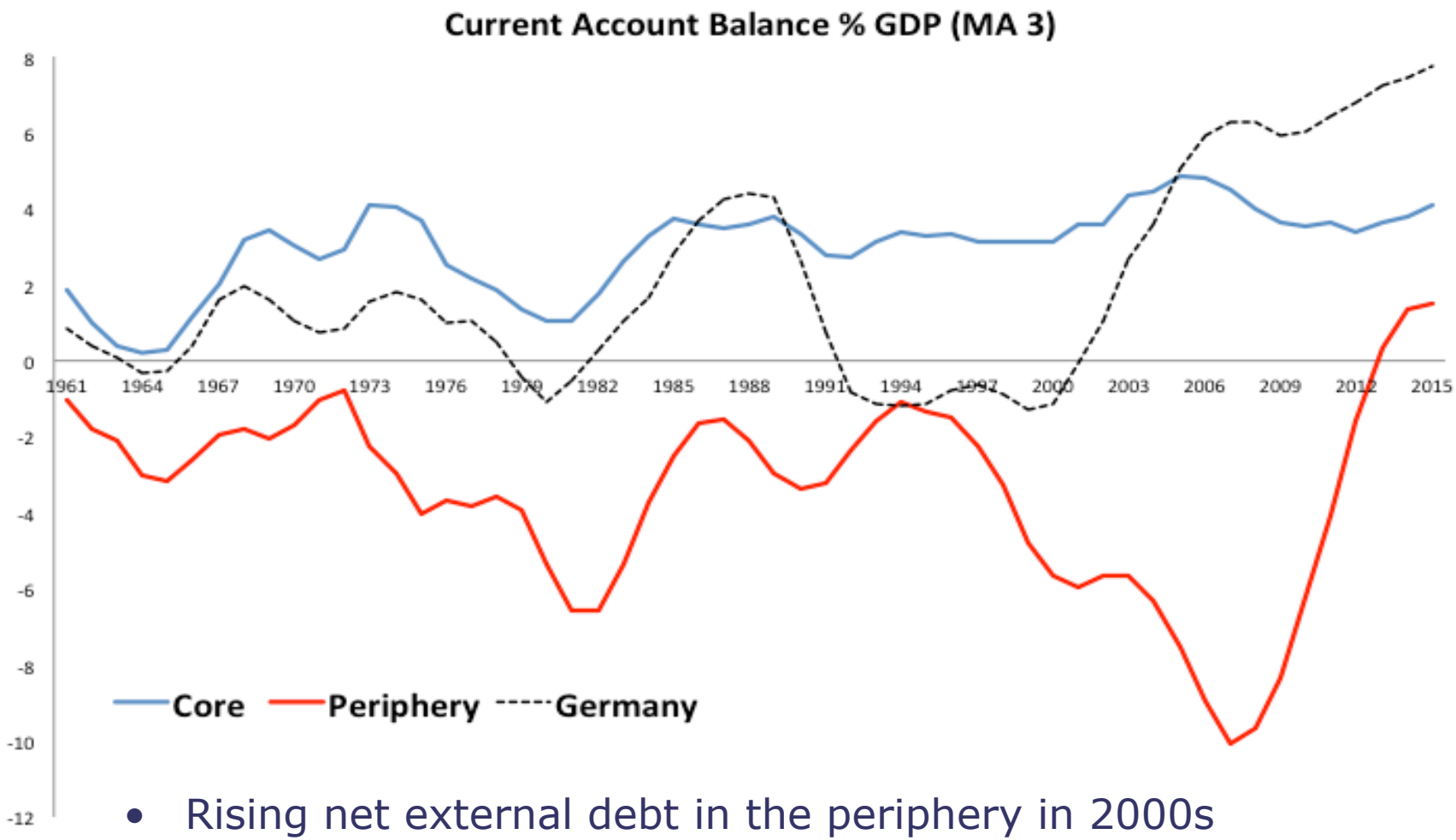
Trade imbalances: mirror images

Baldwin and Giavazzi, 7.9.2015. http://www.voxeu.org/article/towards-consensus-causes-ez-crisis



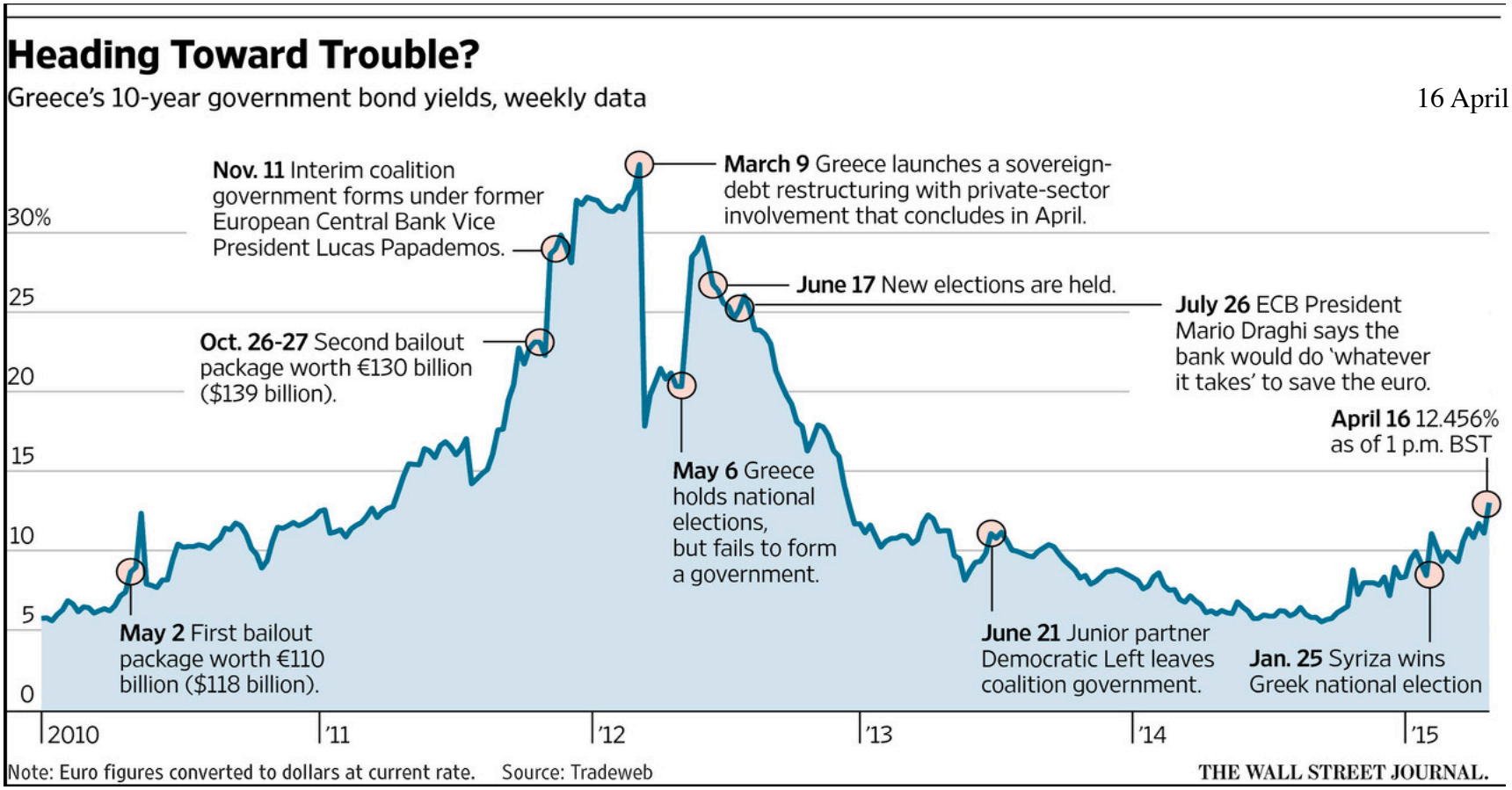
- Household debt is not highest in Ireland or Spain
- But the capacity to cope with it is more constrained in the periphery because of….

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

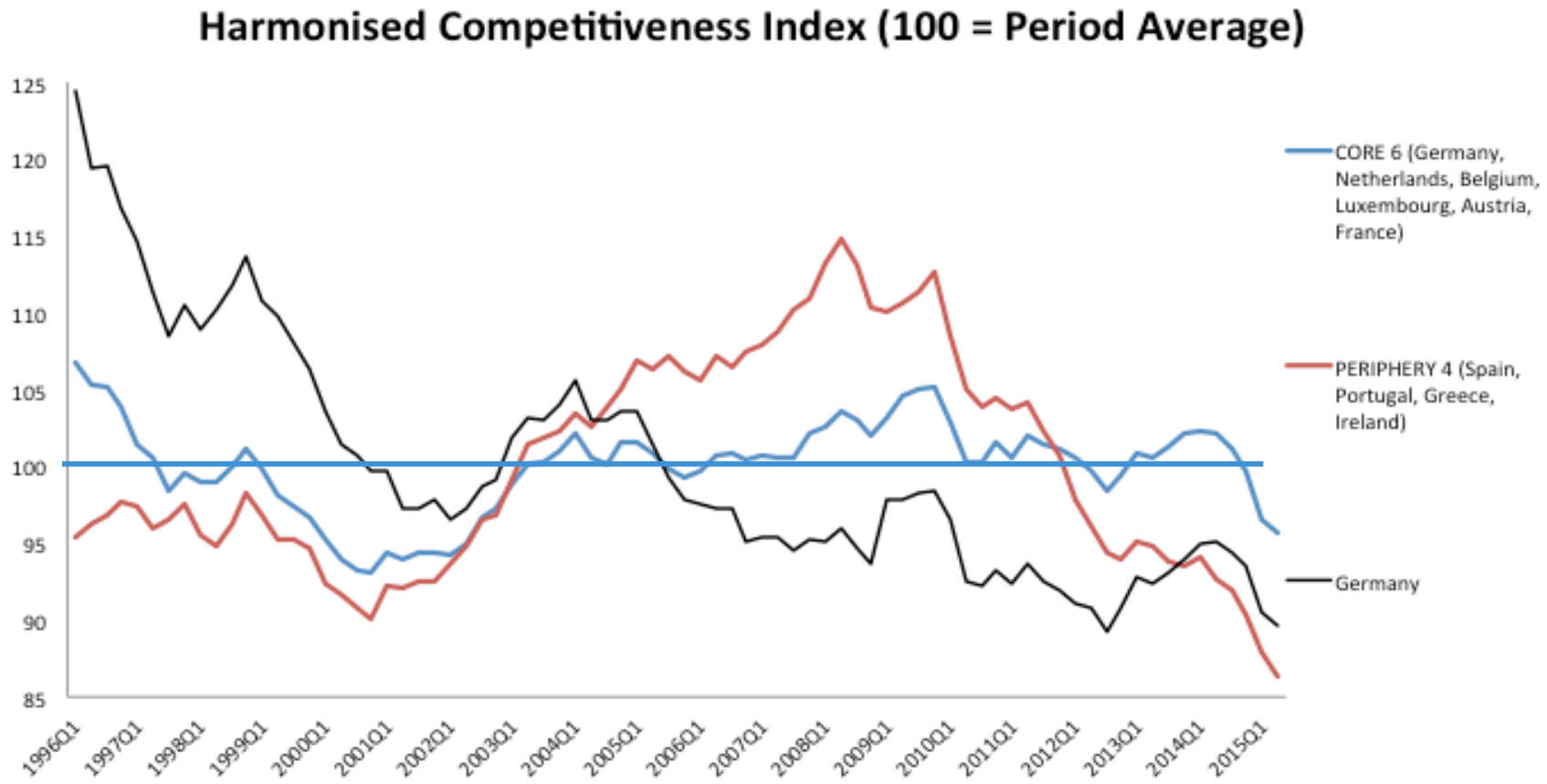
Greece in the eye of the storm



- 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

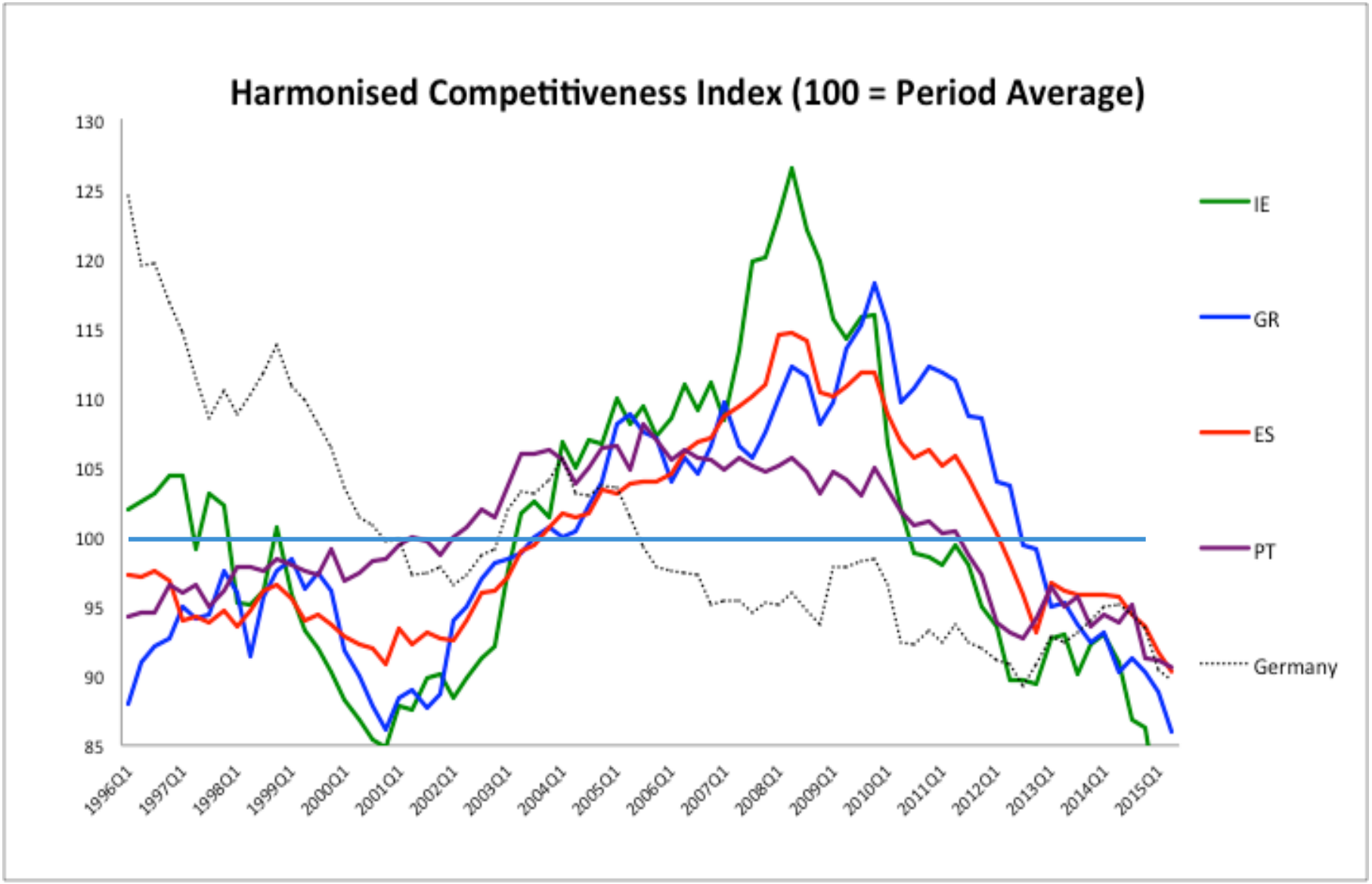


ECB Databank

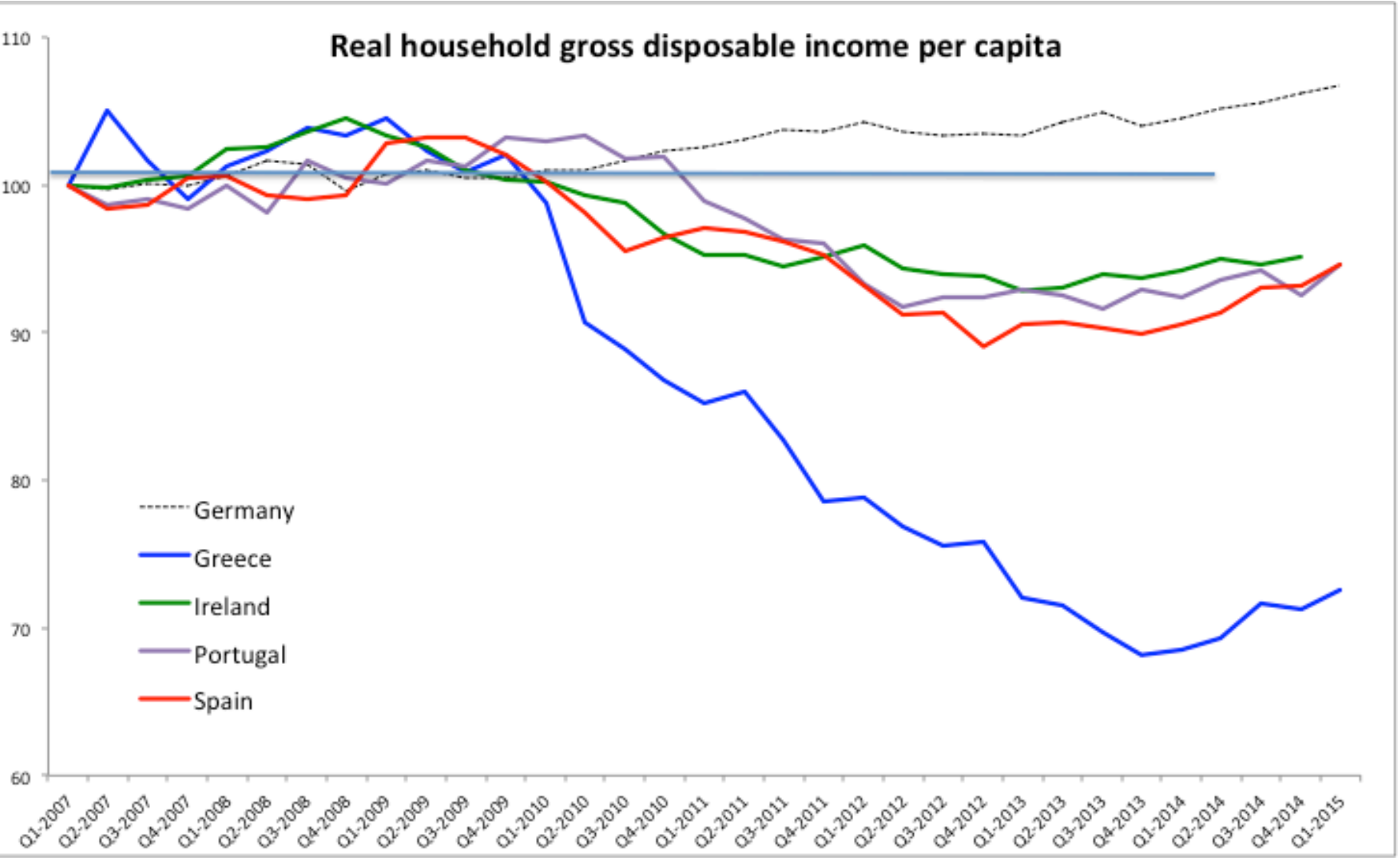
Cheap money fuelled relative cost increases in periphery, 2001-7

German wage repression over time

Internal devaluation after 2008
= reduced living standards



ECB Databank

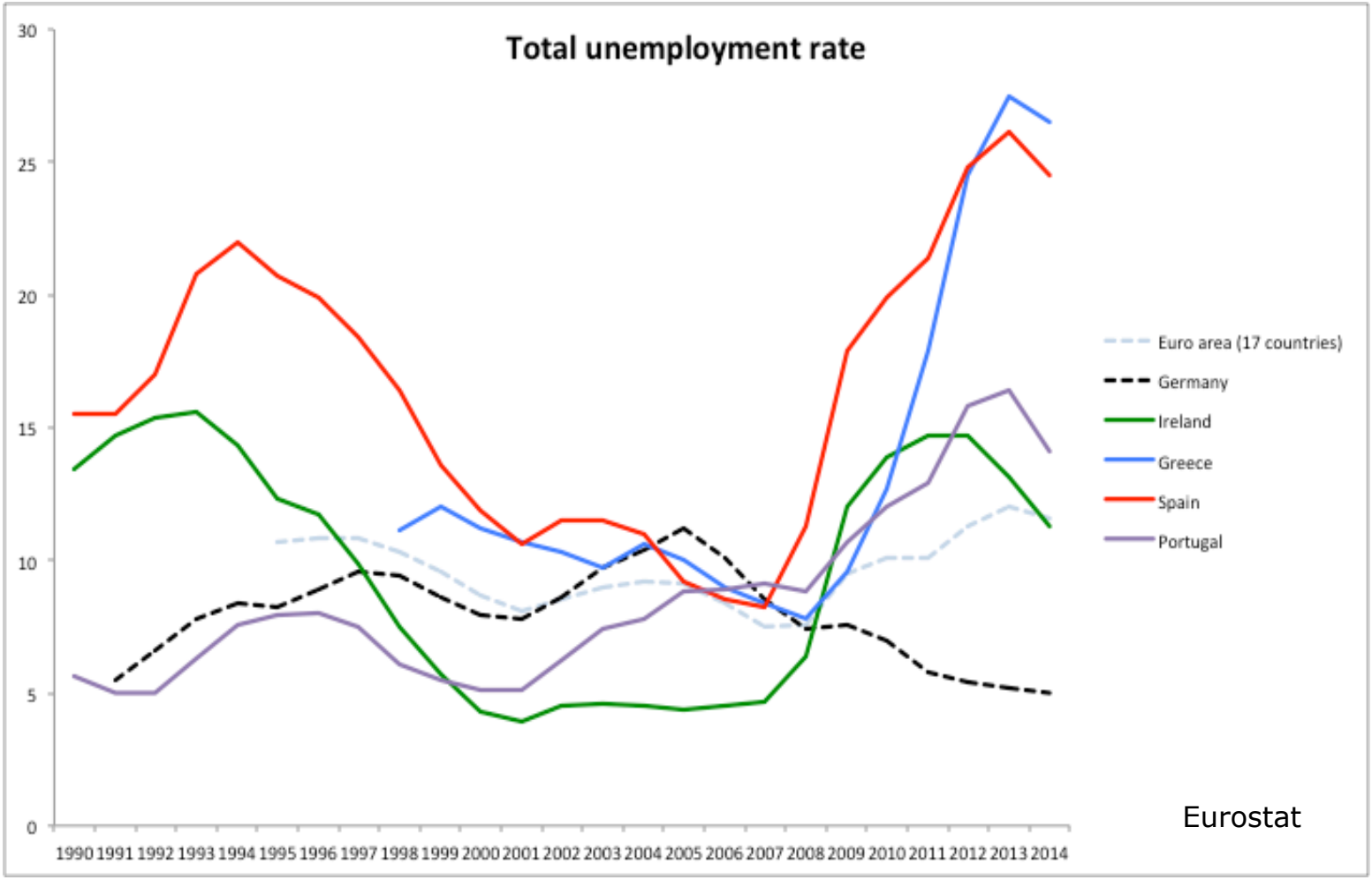


OECD Household Dashboard database

3. Implementation of austerity policies

- National austerity depends on
  - Institutional framework
  - Previous pathways
  - Consistency with national growth model

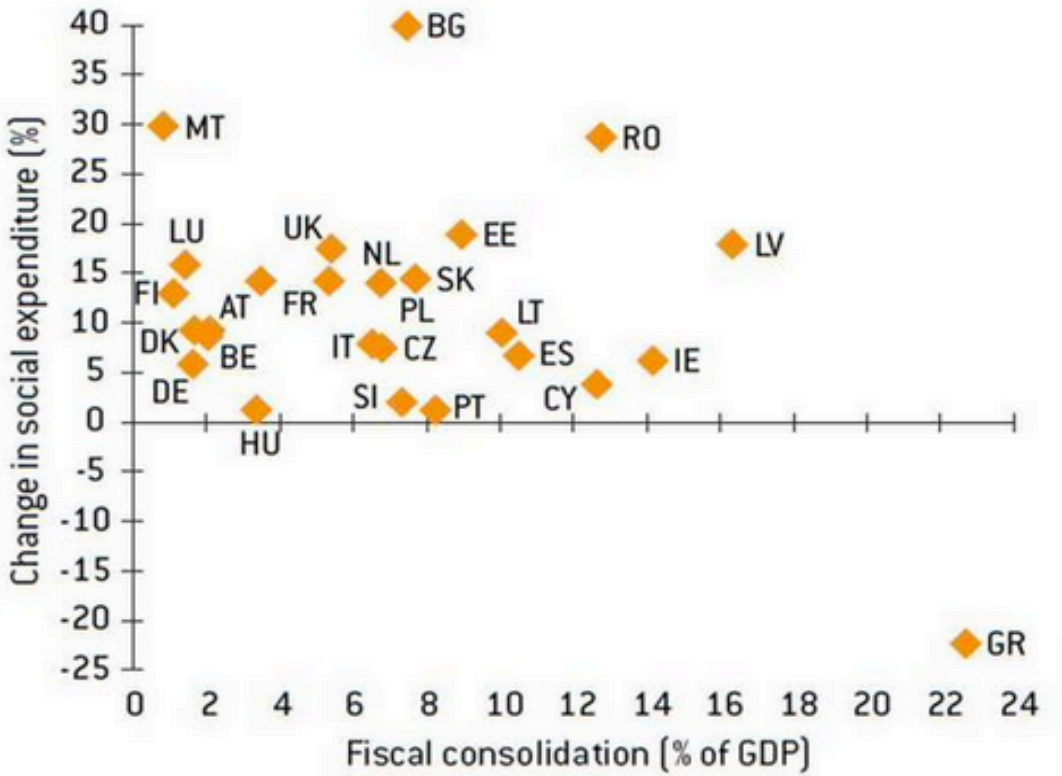
Social costs



- 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

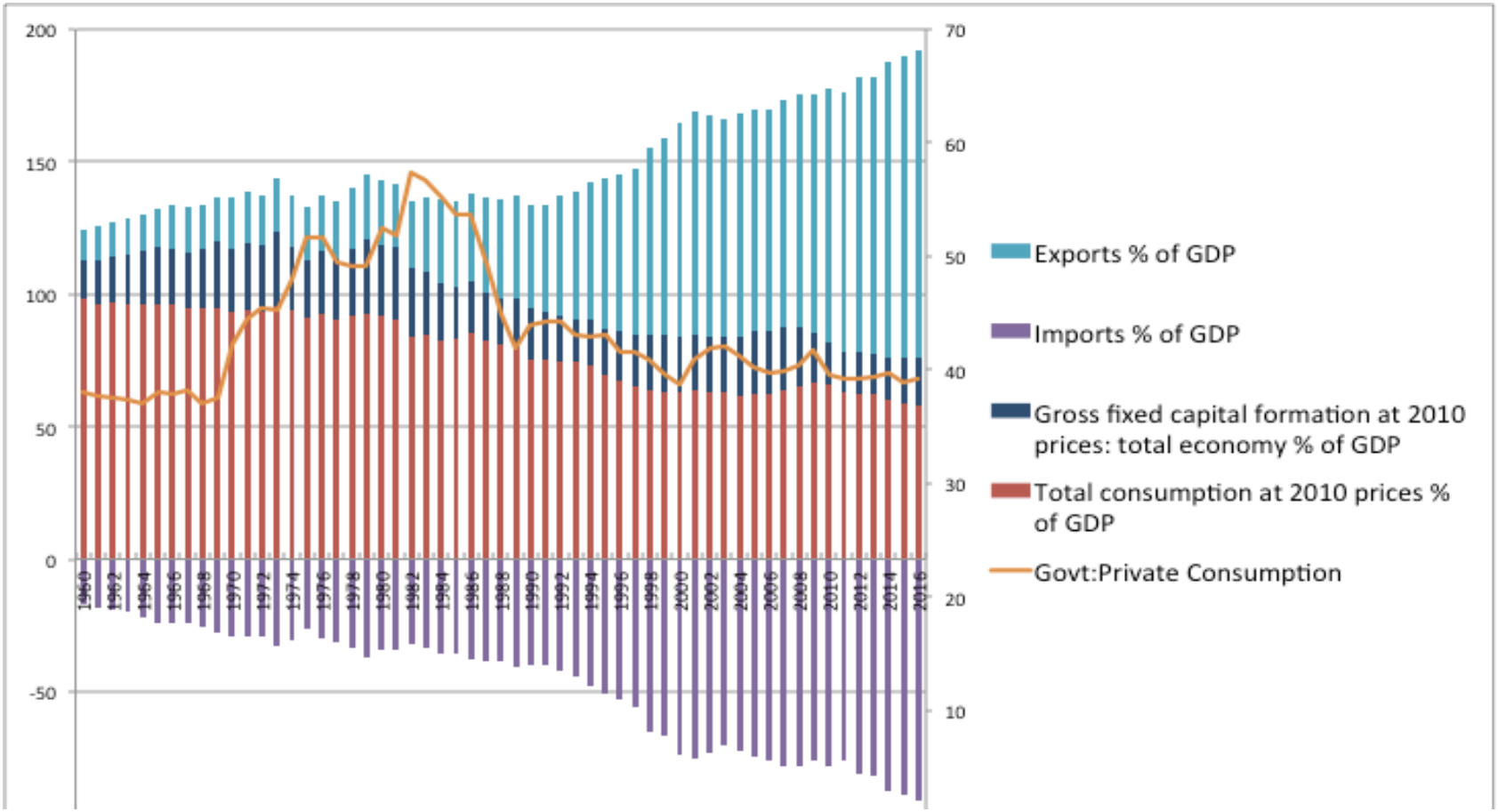
Fiscal adjustment vs. social expenditures during fiscal consolidations



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).

Bruegel

Ireland

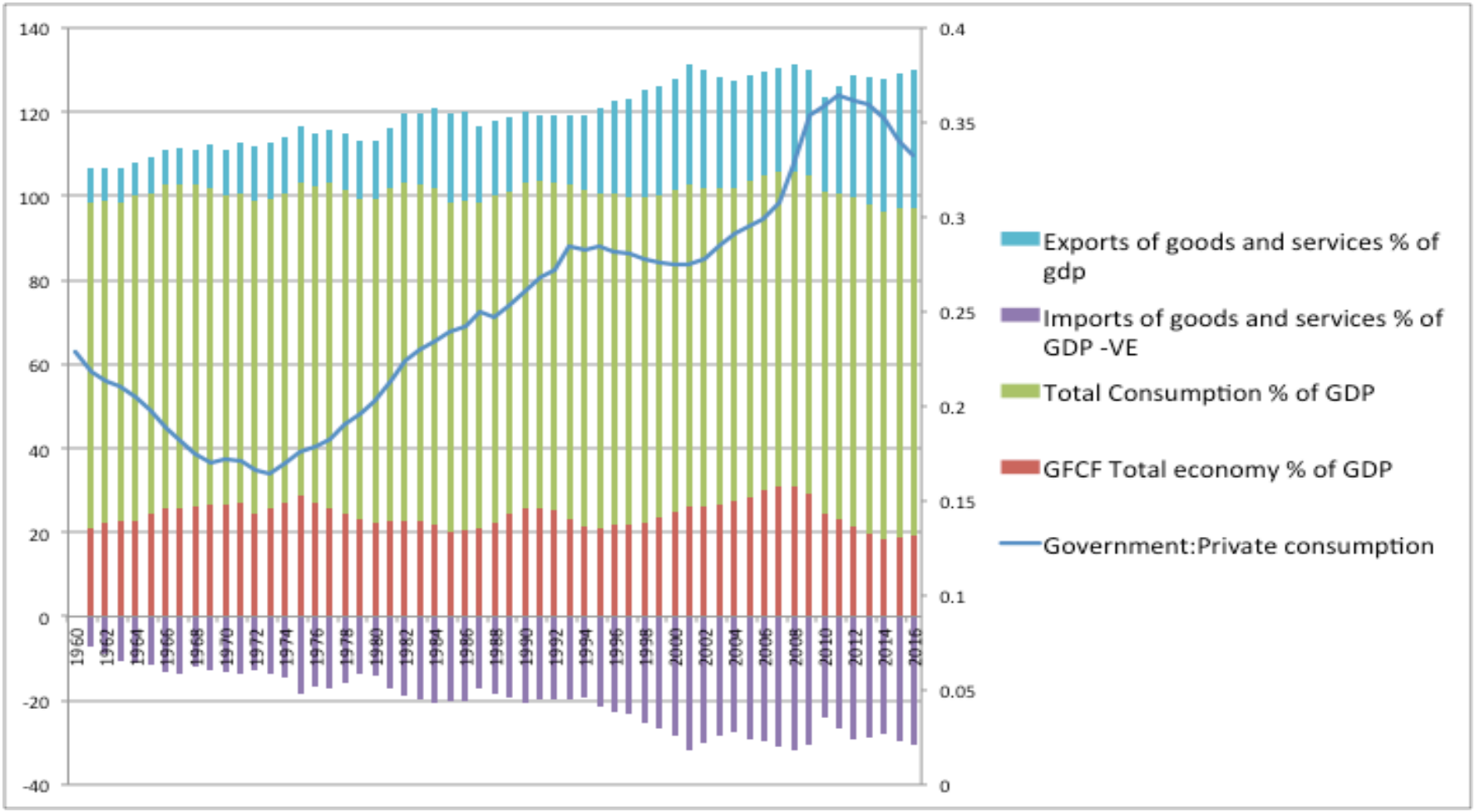


- Development of export-intensive growth (though distorted by housing boom)
- High-tech product and services exports are quite price-insensitive
- Repressed ratio of public to private consumption/ investment
- But most jobs not in exporting sectors
- Internal devaluation via job losses in construction, 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

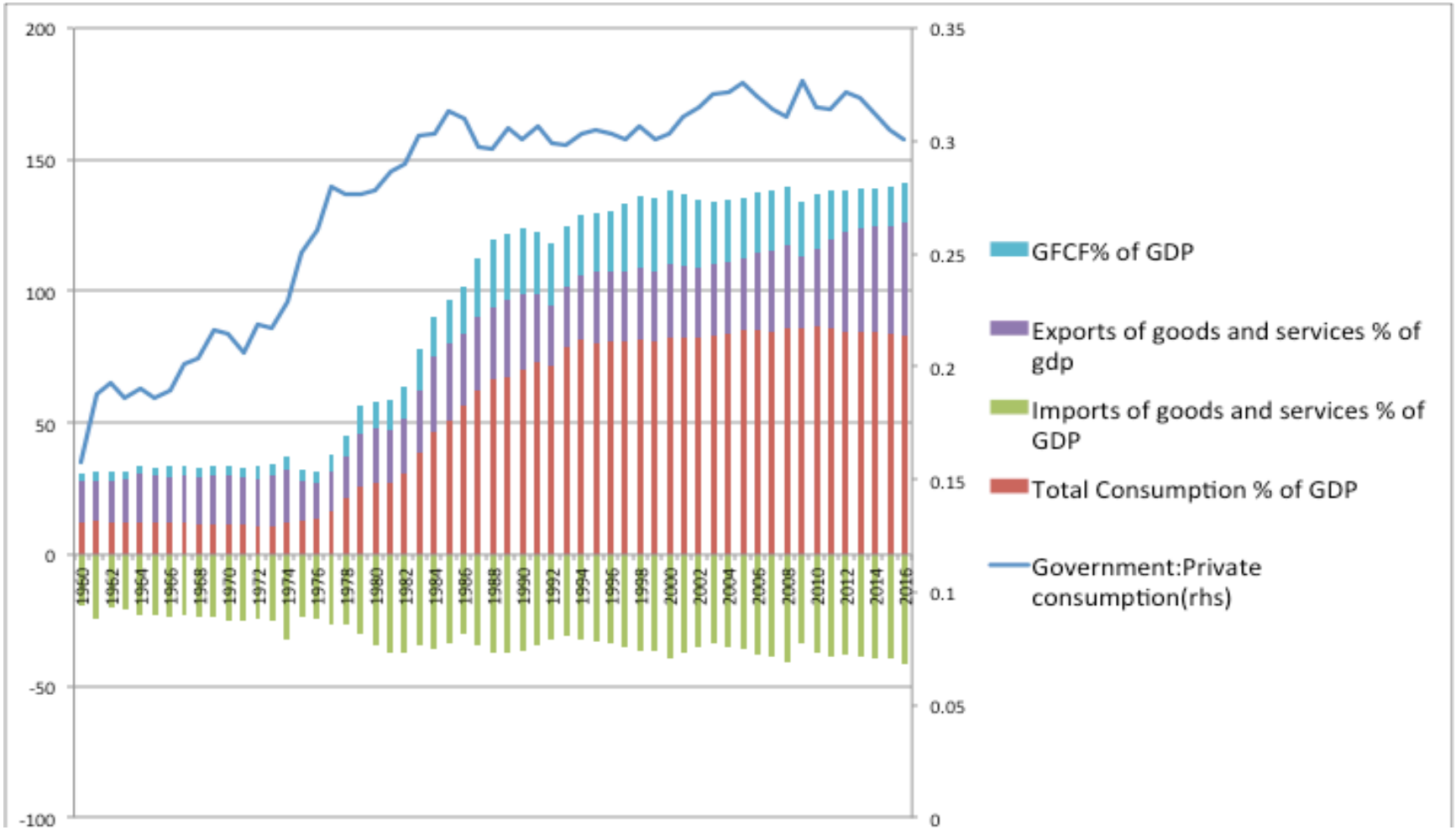


- Higher reliance on consumption-led growth
- Bigger role of government/ public consumption
- Export pick-up in 1990s stalled by housing boom and credit-led GFCF

Implications

- Contested economic governance
- PSOE (1982-1996, 2004-2011)
  - 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

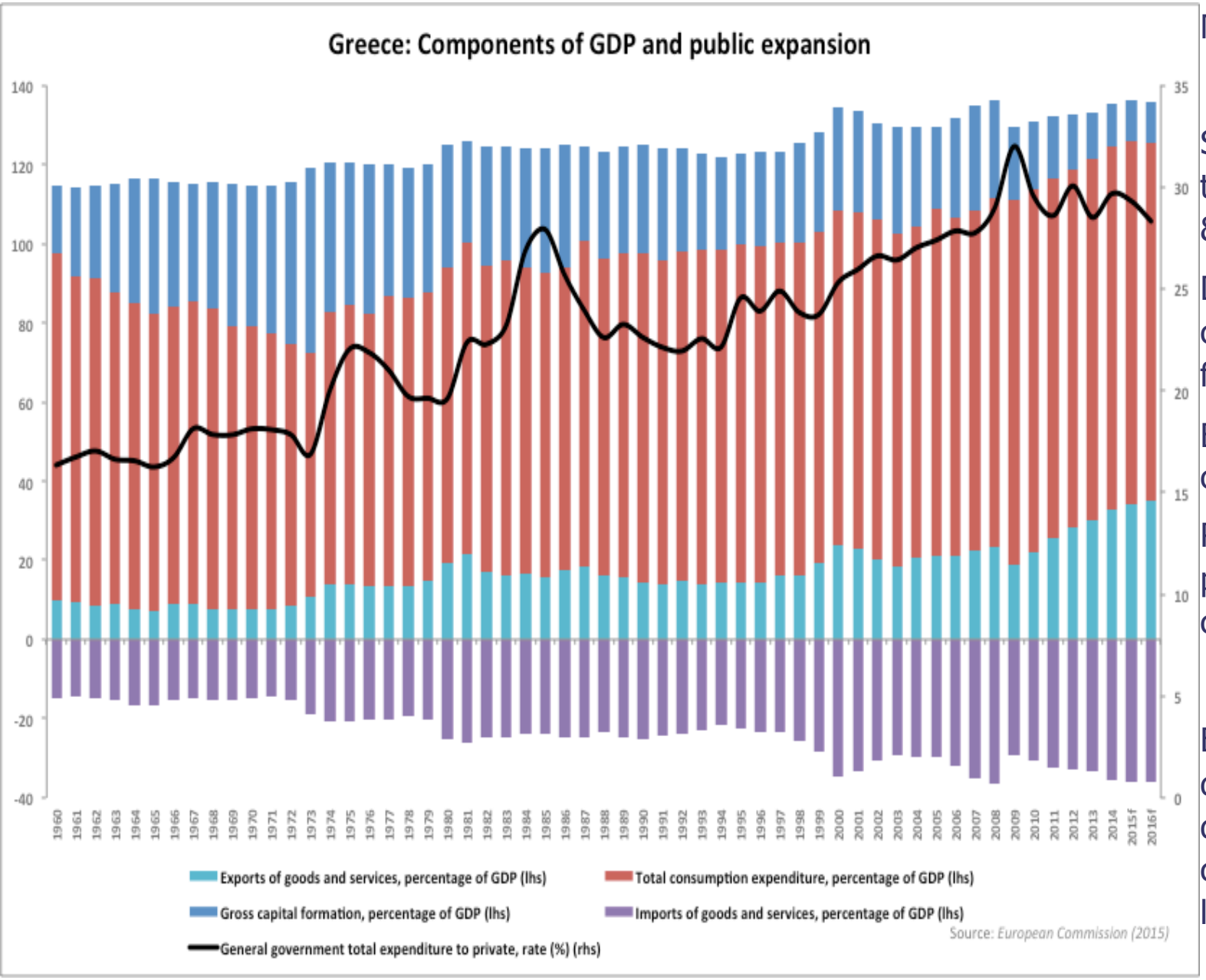


- Consumption-led rather than export-led growth; low-wage exports
- Slow growth during EMU, no financial or credit boom
- Low levels of GFCF, slow to increase skill-intensity
- Long-term low-level educational investment

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



NB scale

Small role of tradeable goods & services

Declining gross capital formation

Bias toward consumption

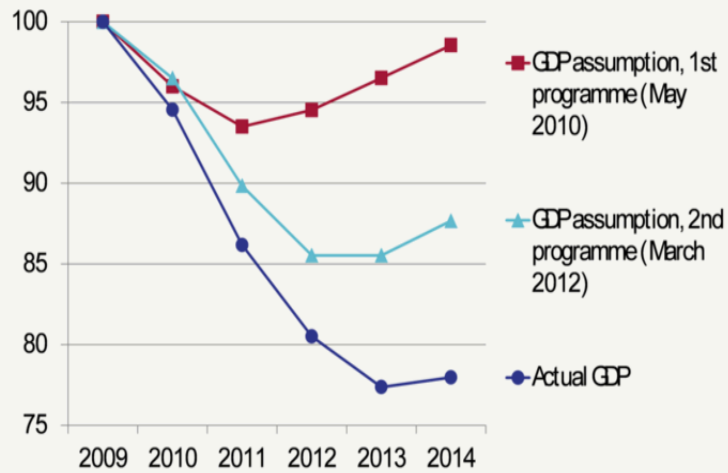
Rising ratio of public to private consumption

Emergence of debt-fuelled, demand & consumption-led growth

Implications

- EU tolerated unreliable Greek data
- Both main parties supported growth built on public spending and private consumption
  - PASOK (1981-1989, 1993-2000, 2009-11)
  - New Democracy (1990-1993, 2004-2009)
- Strong clientelism; episodes of reform (1990s)

Figure 1: GDP at constant prices (2009 = 100), 2009-2014

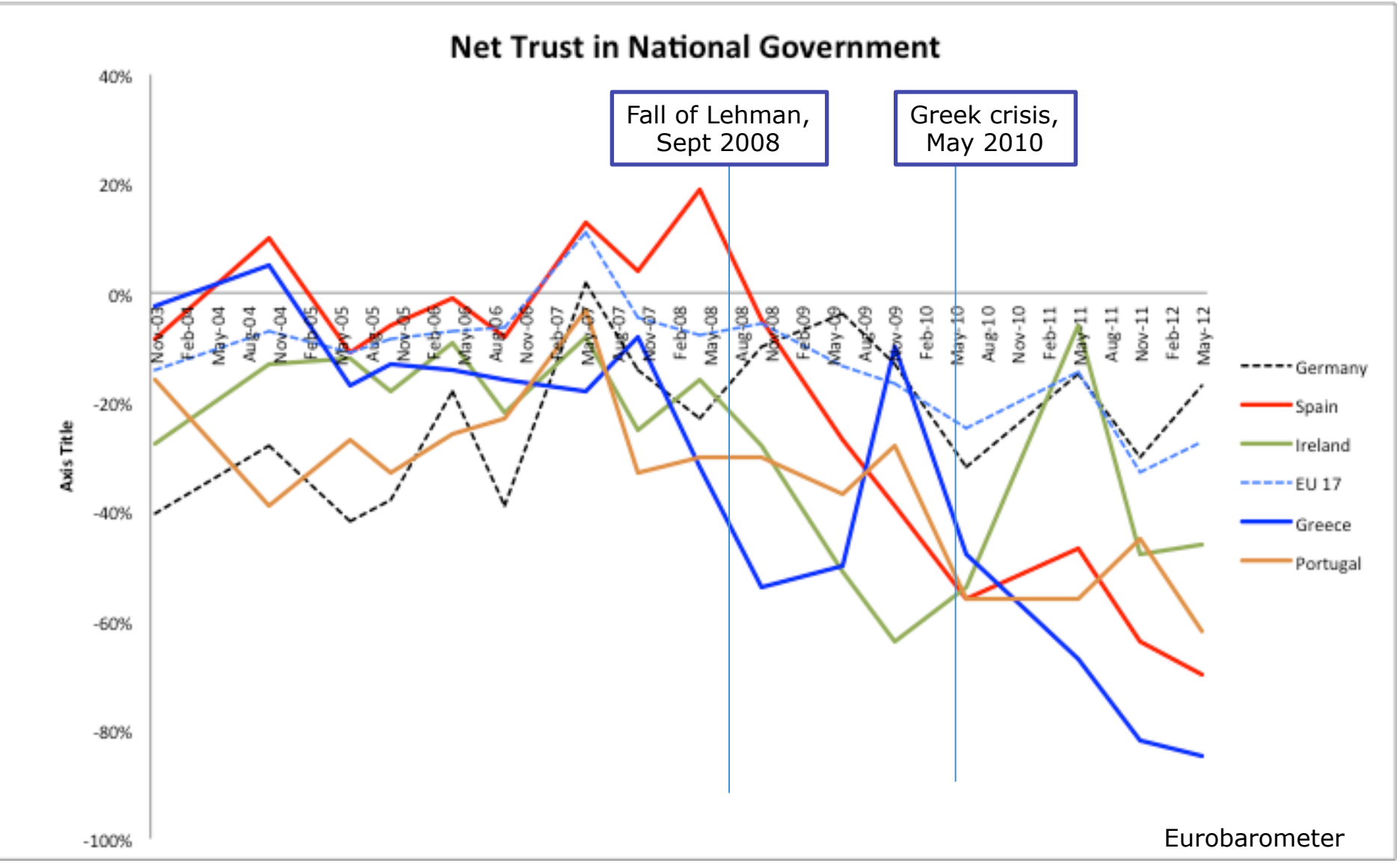


Source: Programme documents, AMECO database May 2015.

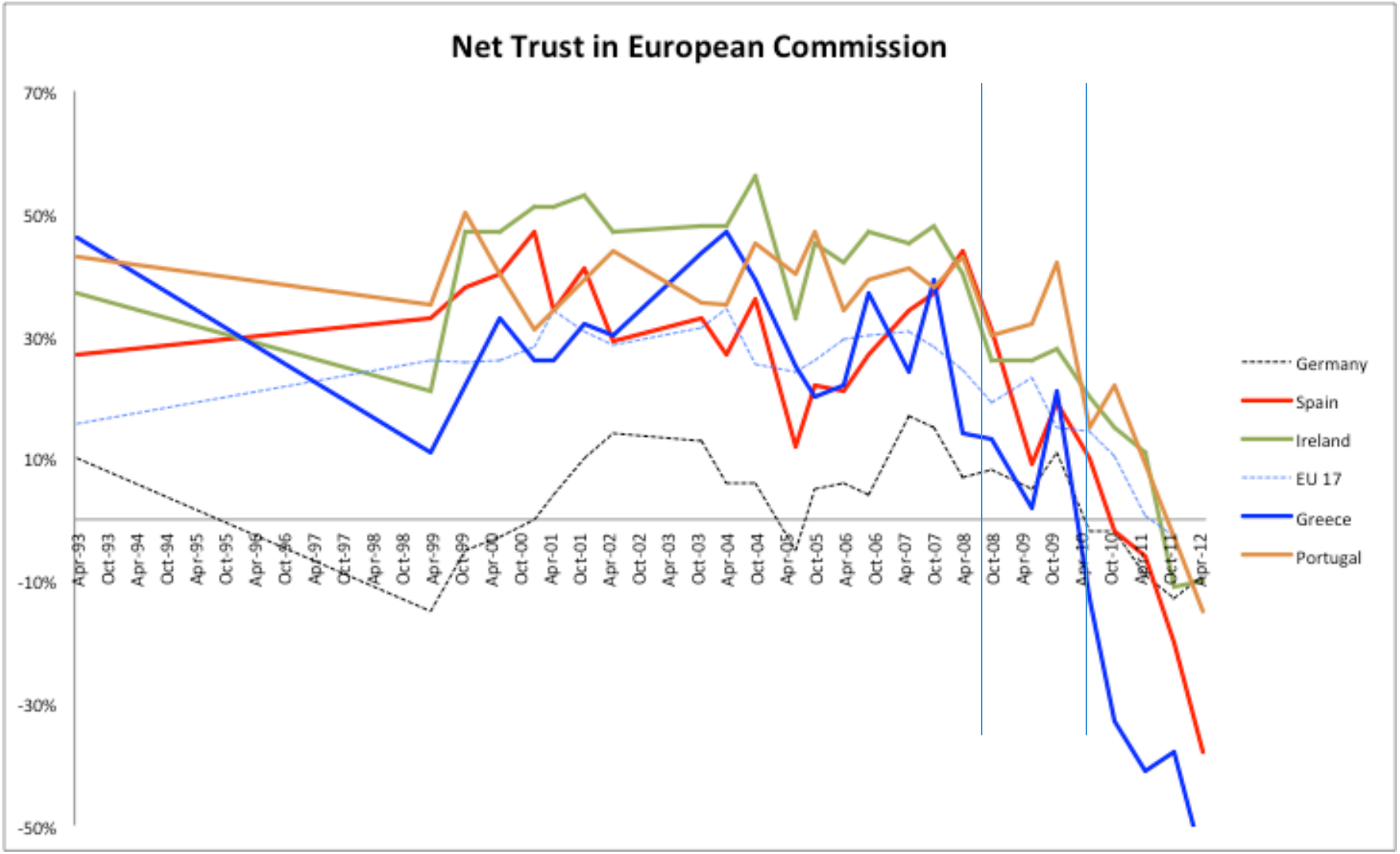
- Loan agreements and ltd debt relief 2010, 2012, 2015
- Little attention paid to growth generation, export capabilities, institutional quality

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


Net Trust in European Commission
70%
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30%
10%
-10%
-30%
-50%
Apr-93
Oct-93
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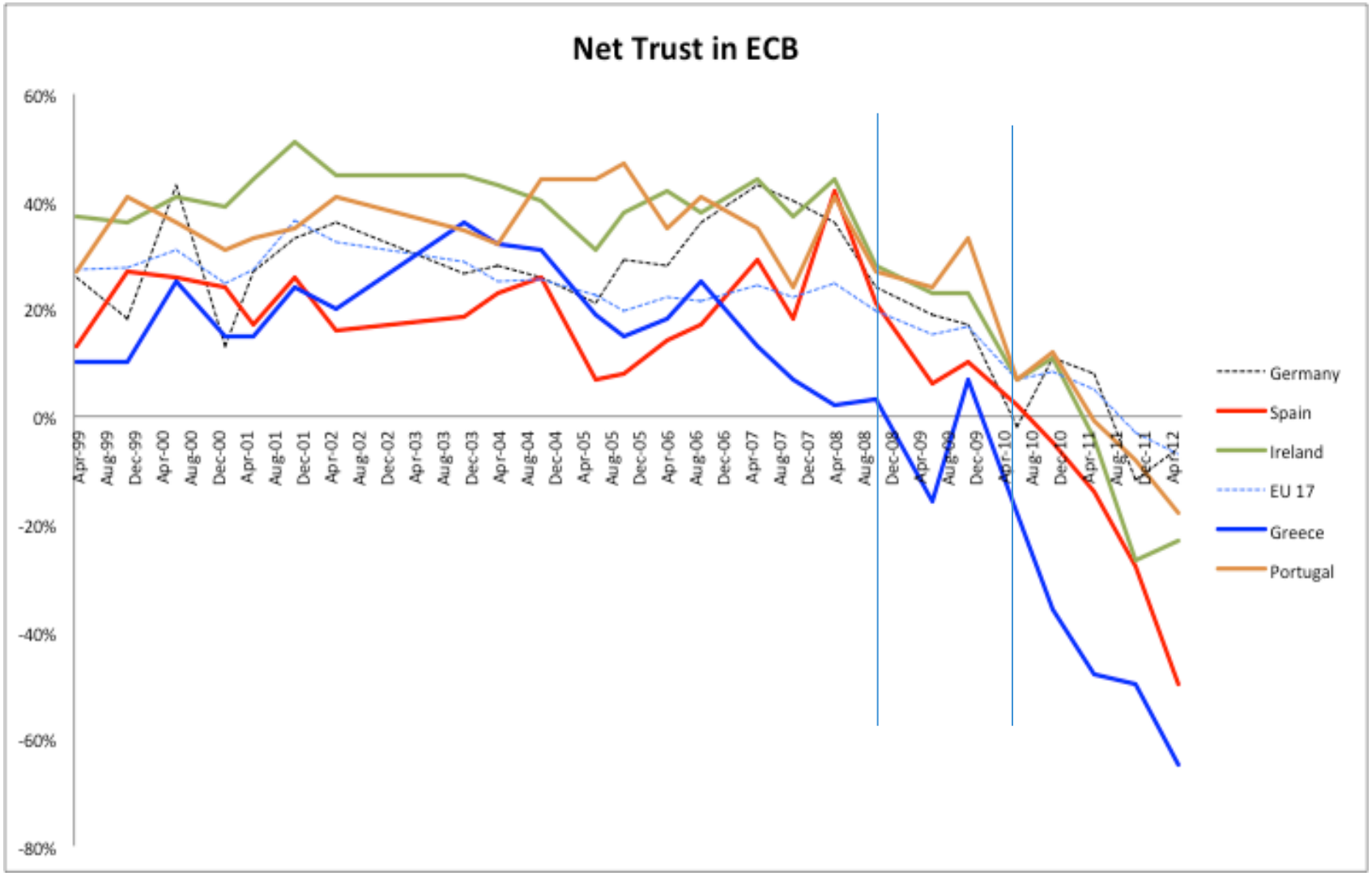
Germany
Spain
Ireland
EU 17
Greece
Portugal


Net Trust in ECB
60%
40%
20%
0%
-20%
-40%
-60%
-80%
Apr-99
Aug-99
Dec-99
Apr-00
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Dec-00
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Germany
Spain
Ireland
EU 17
Greece
Portugal

National politics

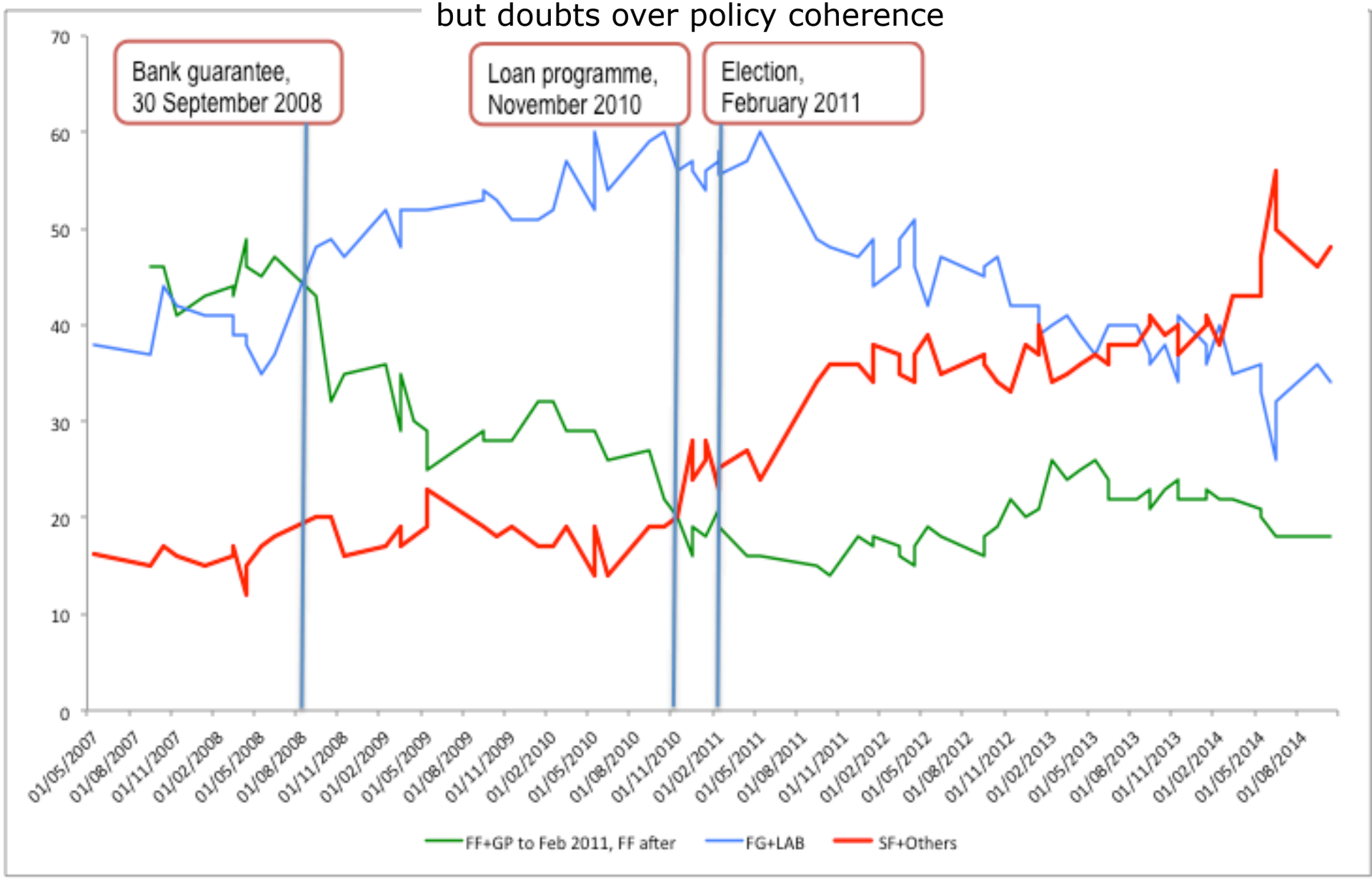
- Ongoing erosion of vote share of long-established large parties

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

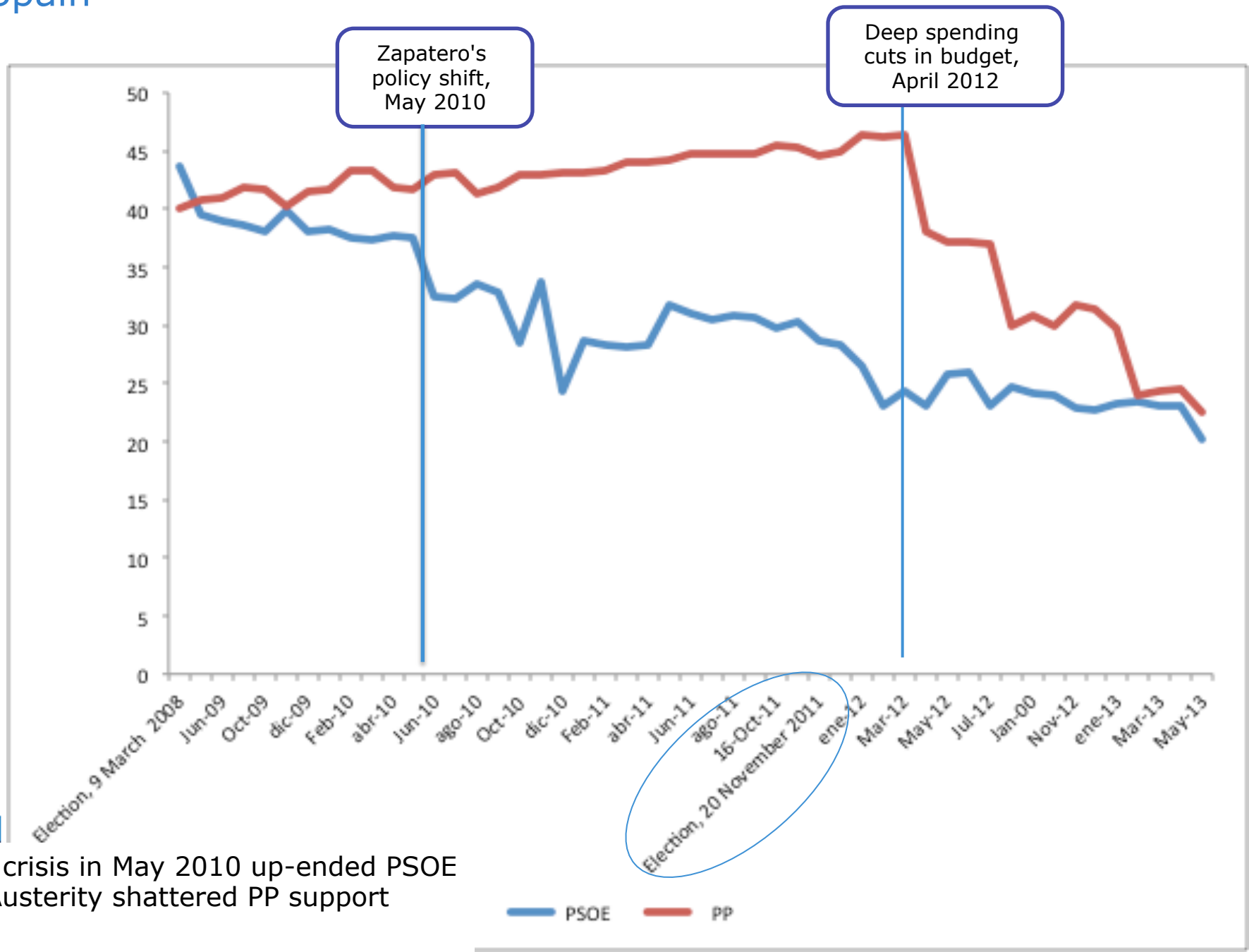
- Expectations of rise of Eurosceptic extreme right
  - Less in evidence in EZ south/west peripheries

Ireland

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

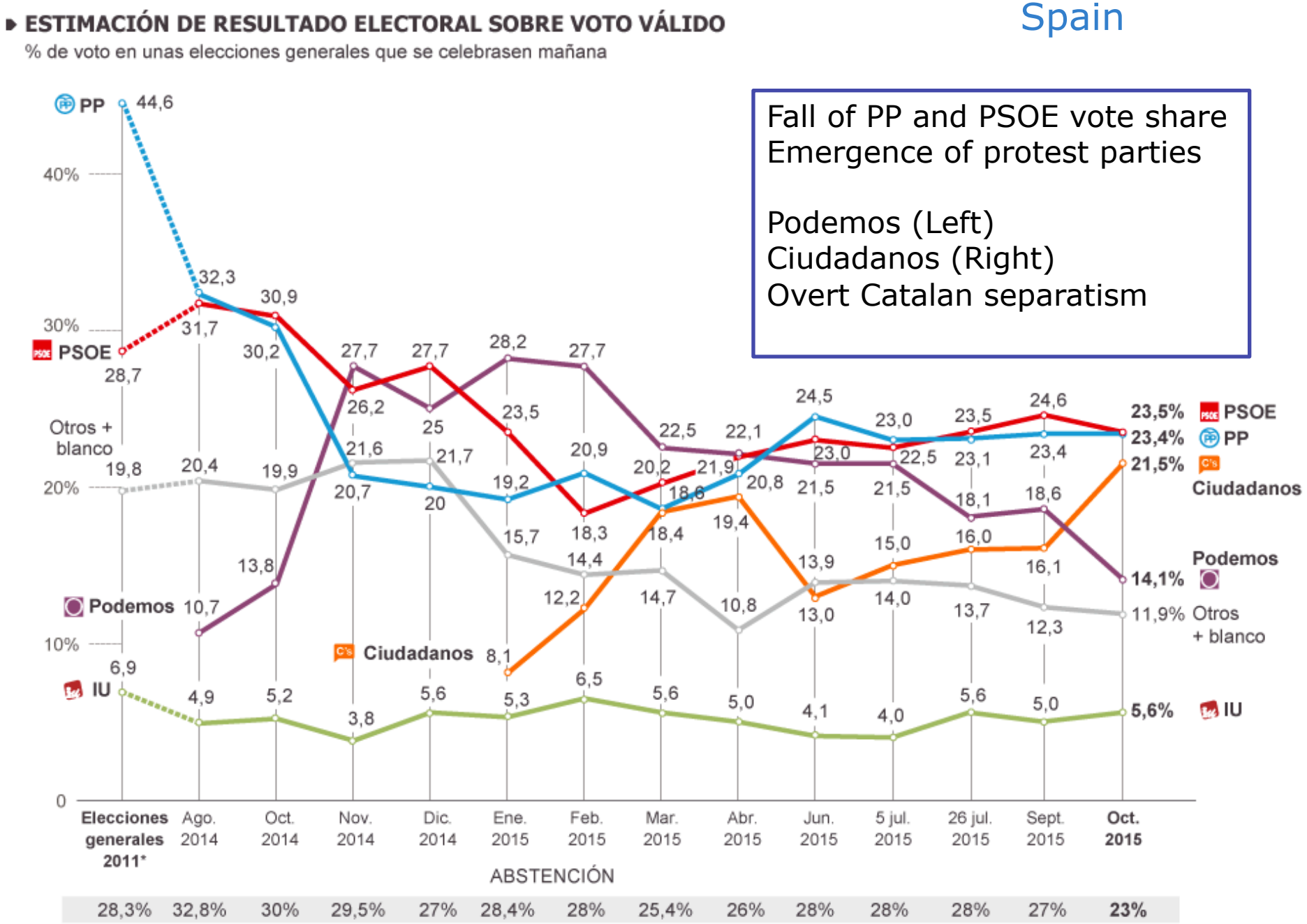


Spain



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

Spain

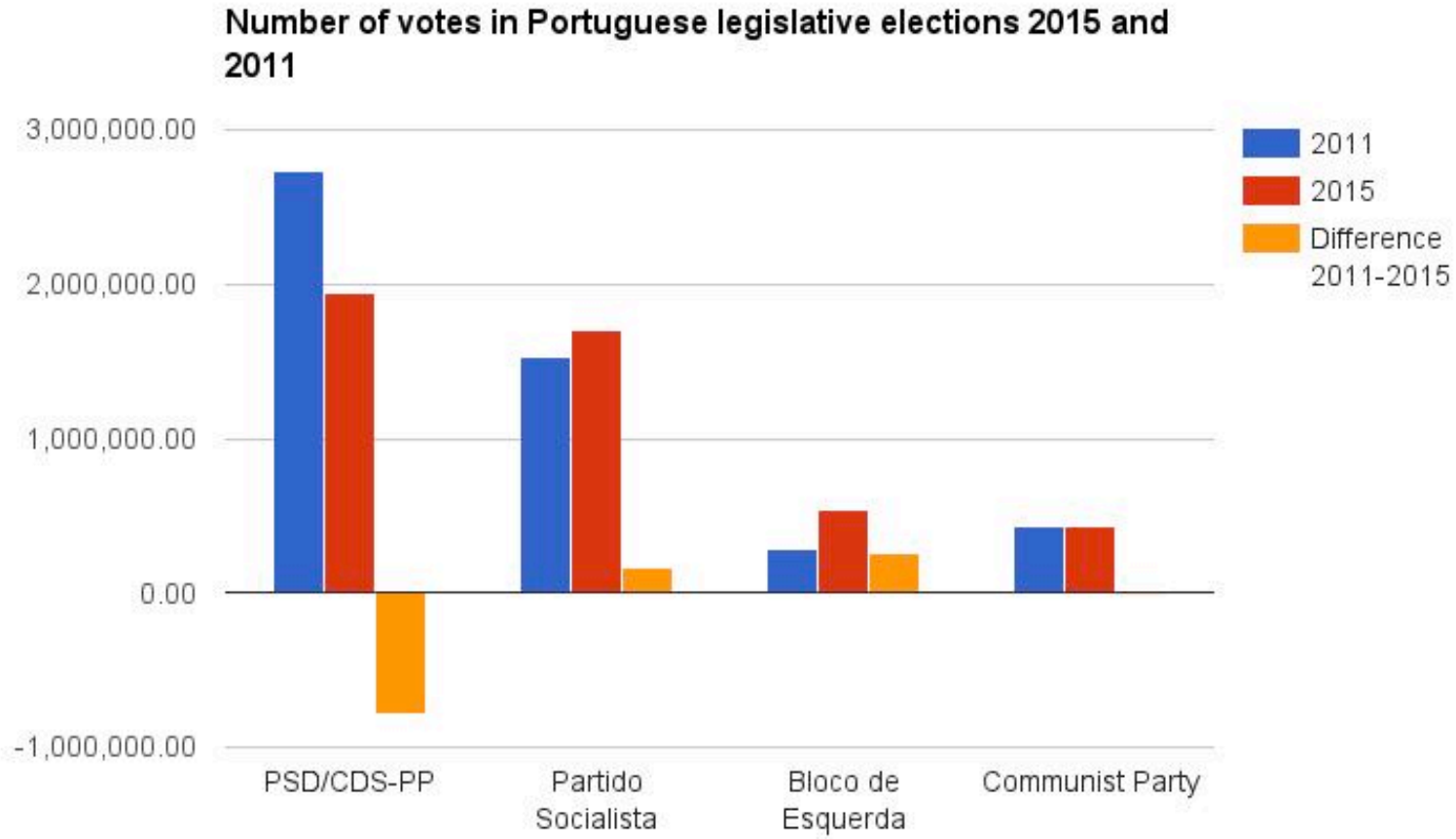


Fall of PP and PSOE vote share
Emergence of protest parties

Podemos (Left)
Ciudadanos (Right)
Overt Catalan separatism

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

Portugal



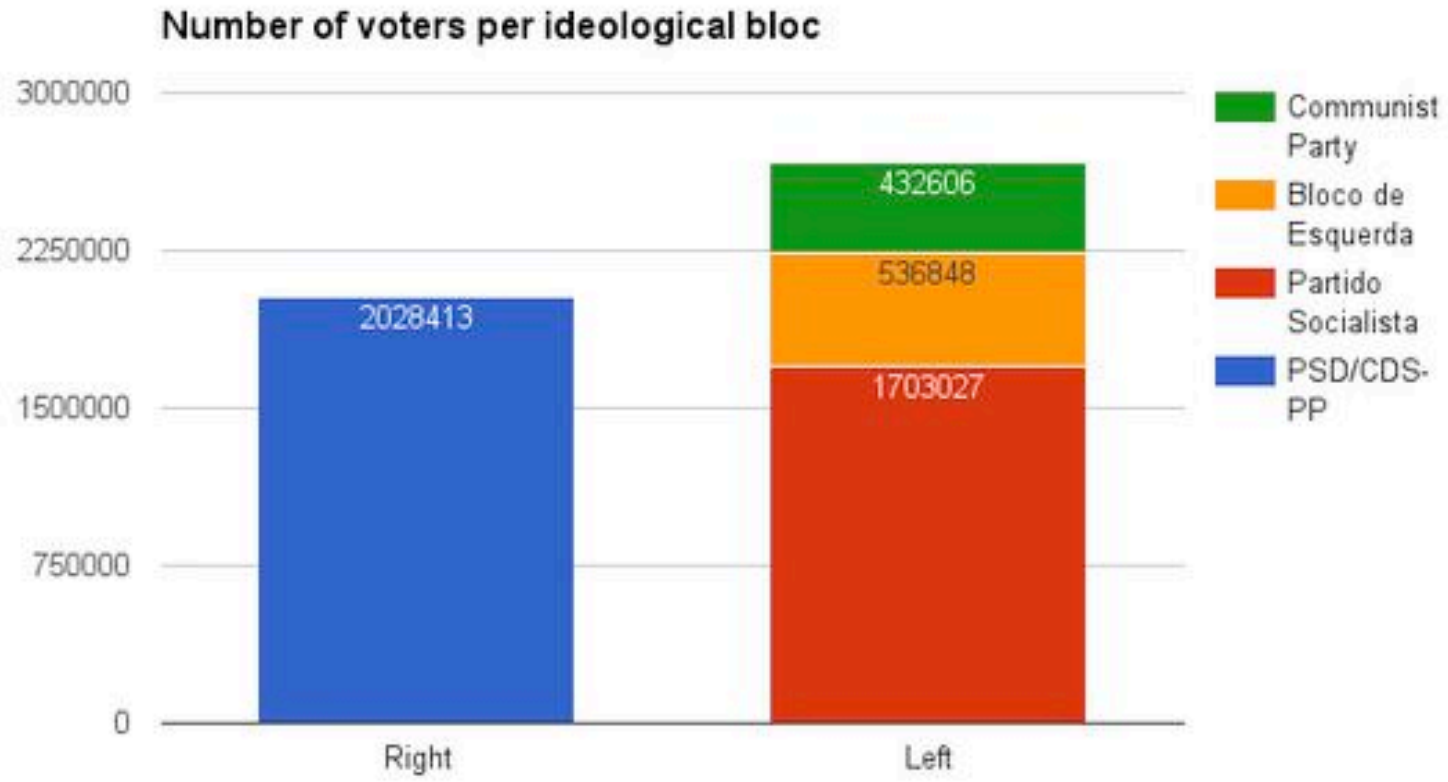
Alexandre Afonso

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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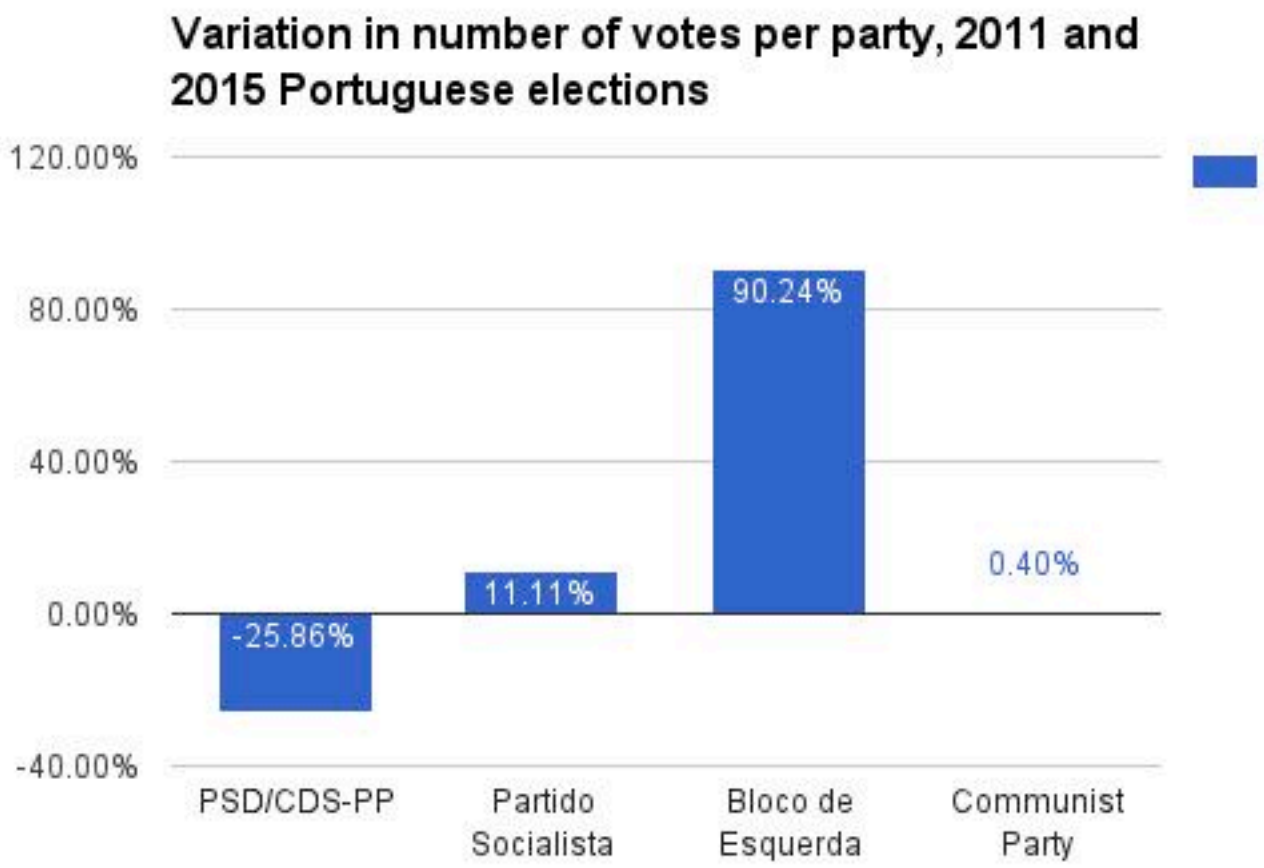
Portugal

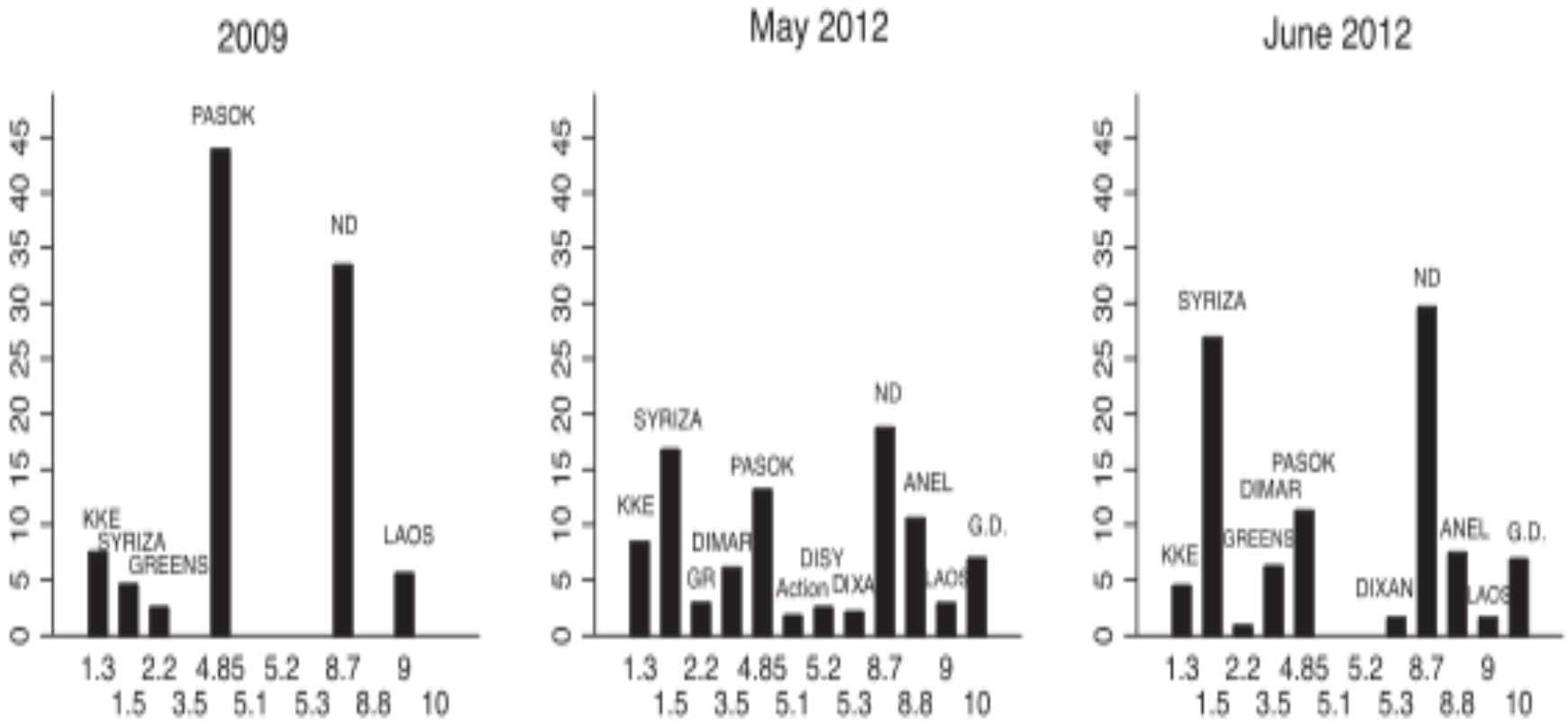


Alexandre Afonso

Boco de Esquerda is smuch smaller than Podemos or SYRIZA though –
Not new but longer-established;
CP siphons off protest

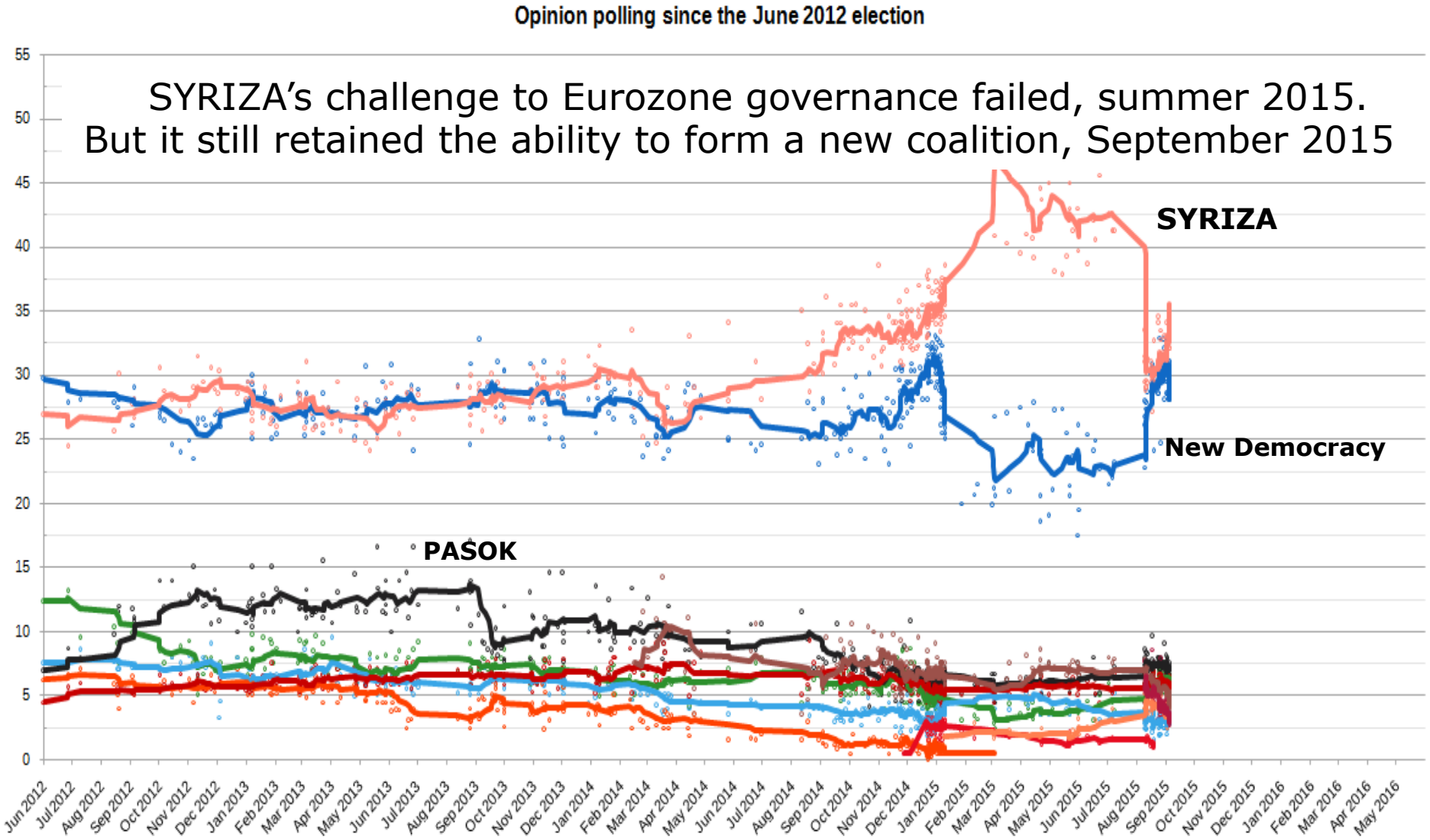
Greece

Dinas and Rori 2013, p.272

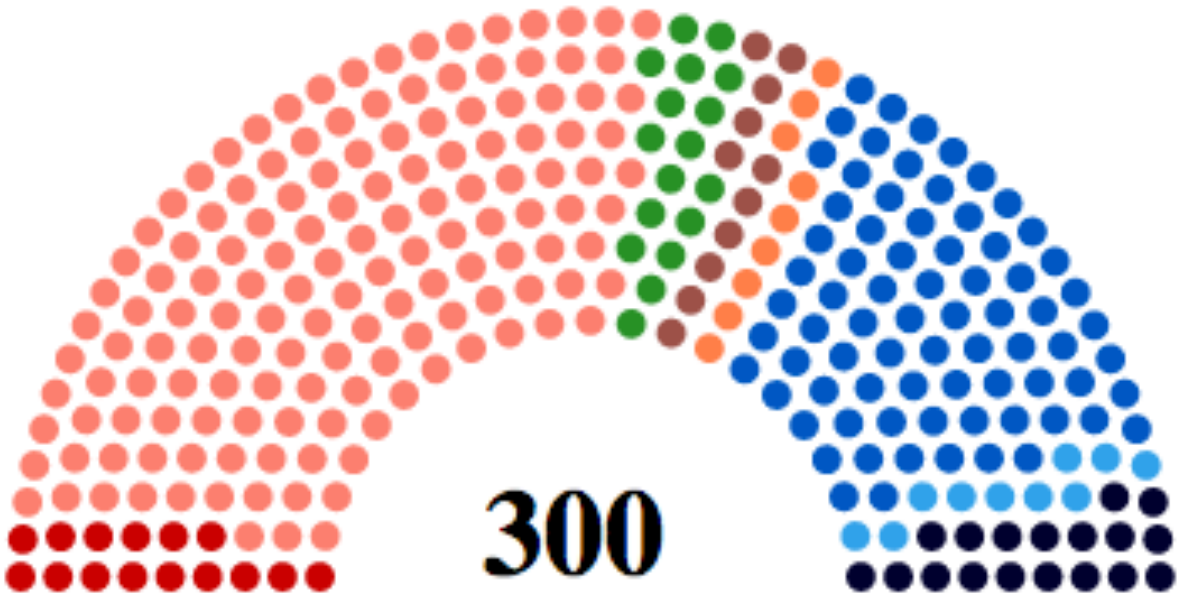


Implosion of Greek party system
To 2009: bipolar competition
Rise of leftist SYRIZA
Extreme right Golden Dawn and right-wing nationalists ANEL do well, but much less dramatic

Greece



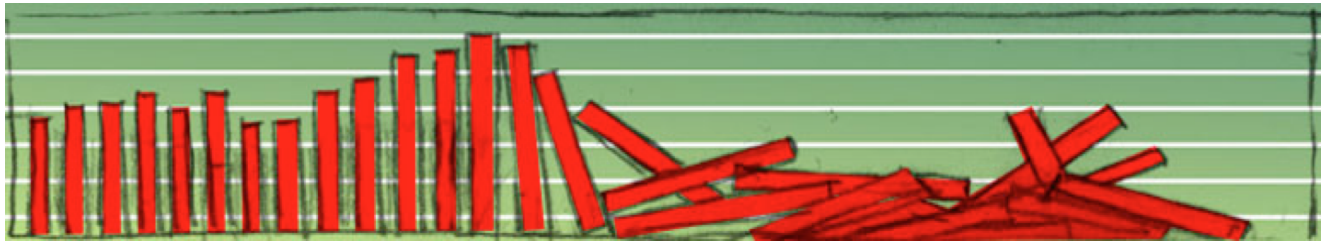
Greece



Distribution of seats after the 20 September 2015 election. KKE: 15 seats SYRIZA: 145 seats PASOK-DIMAR: 17 seats POTAMI: 11 seats Centrists: 9 seats ND: 75 seats ANEL: 10 seats XA: 18 seats

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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