

Shredding Europe's Safety Net: The Welfare State and the Politics of Austerity

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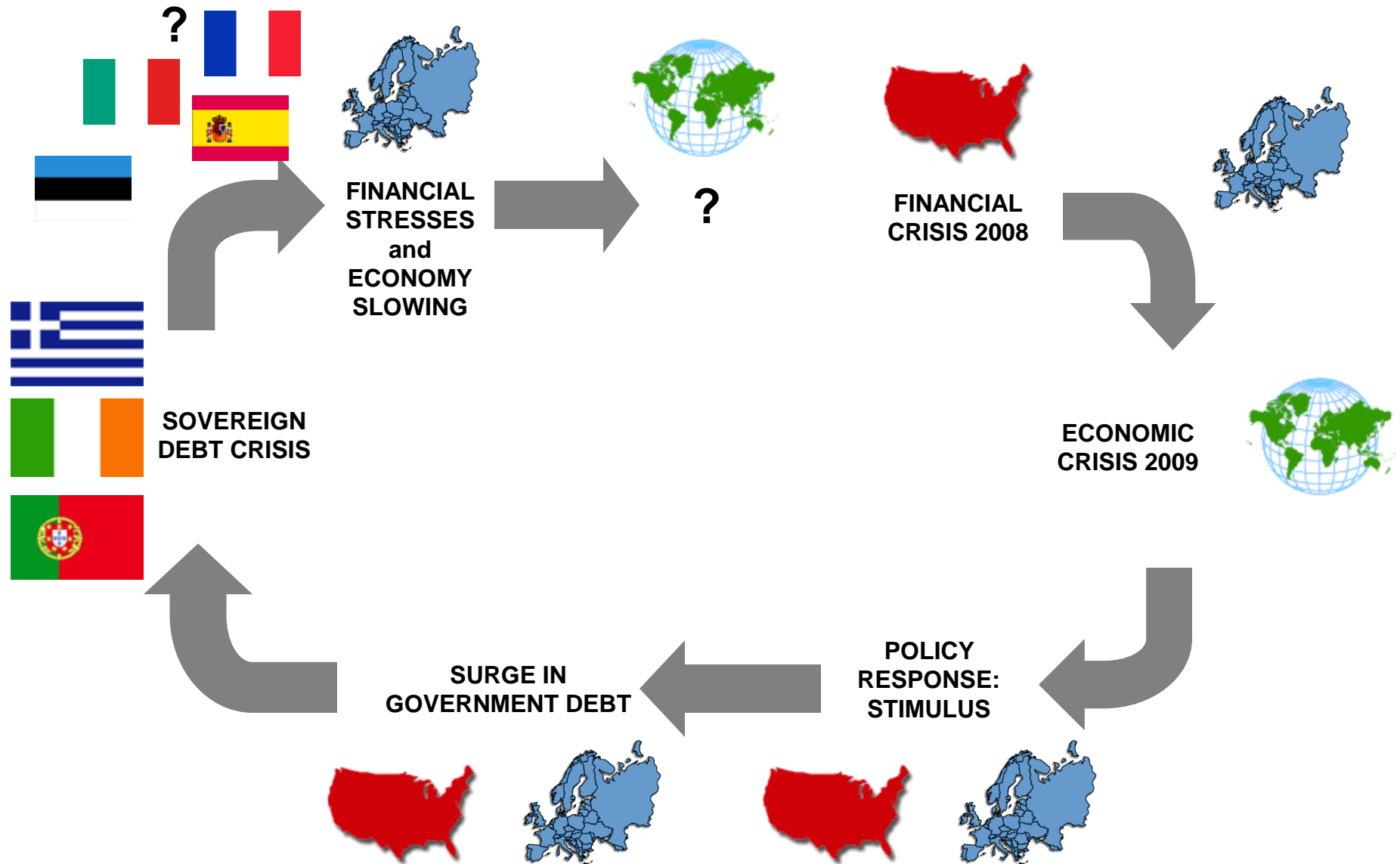
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- “In a few days, there might not be a euro zone for us to discuss”
– **Nouriel Roubini, April 27, 2010**
- “The euro is now at risk of collapse...the common European currency itself is under existential threat...We’re not talking about a crisis that will unfold over a year or two; this thing could come apart in a matter of days.”
- **Paul Krugman, September 12, 2011**
- “The chances of the euro zone being smashed apart have risen alarmingly, thanks to financial panic, a rapidly weakening economic outlook and pigheaded brinkmanship. The odds of a safe landing are dwindling fast ”
– **The Economist, November 26, 2011**
- "It now looks as though 2012 will be the year when the euro starts to break up."
– **Center for Economics & Business Research, Jan 2, 2012**

- “Today, those still predicting a break-up of the eurozone are sadly behind the curve”
– **Olli Rehn, January 11, 2013**
- “Europe has surprised me with its political resilience”
- **Paul Krugman, December 11 2012**
- "It's clearly the case that investors are returning to the eurozone, and resuming confidence in that market"
- **Christine Lagarde, January 14 2013**

What are they saying now??

The never-ending crisis?



Problems with the European periphery

- The problem is not excessive government spending which fuels government deficits.
- Prior to the financial crisis, government deficits were a problem in Greece and to a lesser extent in Italy and Portugal but not in Spain and Ireland.
- So a remedy that just focuses on government deficit will not solve the problems of the Euro especially in the long run.

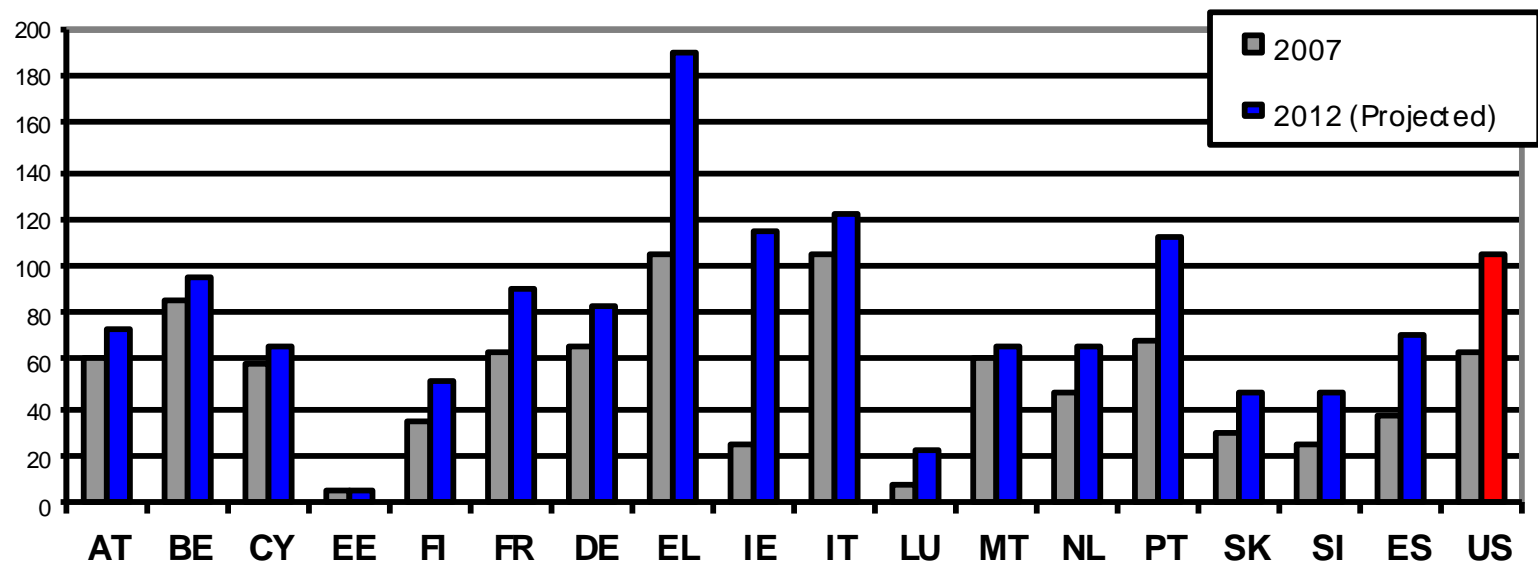
Government expenditures as a % of GDP										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<u>PIIGS</u>										
Portugal	42.4	42.2	43.6	44.5	45.6	44.4	44.4	44.8	49.9	51.4
Italy	47.7	47.1	48.1	47.5	47.9	48.5	47.6	48.6	51.6	50.3
Ireland	33.0	33.4	33.1	33.5	33.8	34.3	36.6	42.8	48.9	66.8
Greece	45.7	45.5	45.1	45.9	44.6	45.2	47.6	50.6	53.8	50.2
Spain	38.6	38.9	38.4	38.9	38.5	38.4	39.2	41.4	46.0	45.1
Mean	41.5	41.4	41.7	42.1	42.1	42.1	43.1	45.6	50.0	52.8
<u>Other Euro countries</u>										
Austria	51.3	50.7	51.3	53.8	50.0	49.1	48.6	49.3	52.9	52.5
Belgium	49.1	49.8	51.0	49.3	52.1	48.6	48.3	49.9	53.8	52.9
Finland	48.0	49.0	50.3	50.2	50.4	49.2	47.4	49.3	55.9	55.3
France	51.7	52.9	53.4	53.3	53.6	53.0	52.6	53.3	56.7	56.6
Germany	47.6	47.9	48.5	47.1	46.9	45.3	43.5	44.0	48.1	47.9
Netherlands	45.4	46.2	47.1	46.1	44.8	45.5	45.3	46.2	51.5	51.2
Mean	48.8	49.4	50.3	50.0	49.6	48.5	47.6	48.7	53.2	52.7
<u>Other EU</u>										
Denmark	54.2	54.6	55.1	54.6	52.8	51.6	50.8	51.5	58.0	57.8
Sweden	54.5	55.6	55.7	54.2	53.9	52.7	51.0	51.7	55.0	52.8
UK	40.2	41.1	42.1	43.0	44.1	44.2	43.9	47.9	51.4	50.2
Mean	49.6	50.4	51.0	50.6	50.2	49.5	48.6	50.4	54.8	53.6
<u>Other Europe</u>										
Norway	44.1	47.1	48.2	45.1	41.8	40.0	40.3	39.8	46.7	45.5
Switzerland	34.8	36.2	36.4	35.9	35.3	33.5	32.3	32.4	34.1	34.2
Mean	39.4	41.6	42.3	40.5	38.5	36.8	36.3	36.1	40.4	39.8
<u>Other</u>										
Australia	34.9	34.3	34.4	34.5	33.7	33.5	33.3	36.0	37.2	
Canada	42.0	41.2	41.2	39.9	39.3	39.4	39.4	40.0	44.4	44.1
New Zealand	37.1	36.5	36.8	36.7	37.8	39.0	38.8	41.6	42.3	
USA	35.0	35.9	36.3	36.1	36.3	36.0	36.8	39.1	42.7	42.5
Mean	37.3	37.0	37.2	36.8	36.8	37.0	37.1	39.2	41.6	43.3

Deficit as a % of GDP										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<u>PIIGS</u>										
Portugal	-4.3	-2.9	-3.1	-3.4	-5.9	-4.1	-3.2	-3.7	-10.2	-9.8
Italy	-3.2	-3.2	-3.6	-3.6	-4.5	-3.4	-1.6	-2.7	-5.4	-4.5
Ireland	0.9	-0.3	0.4	1.4	1.7	2.9	0.1	-7.3	-14.2	-31.3
Greece	-4.5	-4.9	-5.8	-7.5	-5.6	-6.0	-6.8	-9.9	-15.8	-10.8
Spain	-0.5	-0.2	-0.4	-0.1	1.3	2.4	1.9	-4.5	-11.1	-9.2
Mean	-2.3	-2.3	-2.5	-2.6	-2.6	-1.6	-1.9	-5.6	-11.3	-13.1
<u>Other Euro countries</u>										
Austria	-0.2	-0.9	-1.7	-4.6	-1.8	-1.7	-1.0	-1.0	-4.1	-4.4
Belgium	0.4	-0.2	-0.2	-0.4	-2.8	0.1	-0.3	-1.3	-5.9	-4.2
Finland	5.1	4.1	2.4	2.2	2.7	4.0	5.3	4.2	-2.7	-2.8
France	-1.7	-3.3	-4.1	-3.6	-3.0	-2.4	-2.8	-3.3	-7.6	-7.1
Germany	-3.1	-3.8	-4.2	-3.8	-3.3	-1.7	0.2	-0.1	-3.2	-4.3
Netherlands	-0.3	-2.1	-3.2	-1.8	-0.3	0.5	0.2	0.5	-5.6	-5.0
Mean	0.0	-1.0	-1.8	-2.0	-1.4	-0.2	0.3	-0.2	-4.8	-4.6
<u>Other EU</u>										
Denmark	1.2	0.3	-0.1	1.9	5.0	5.0	4.8	3.3	-2.7	-2.7
Sweden	1.6	-1.5	-1.3	0.4	1.9	2.2	3.6	2.2	-0.9	0.0
UK	0.5	-2.1	-3.4	-3.5	-3.4	-2.7	-2.8	-5.0	-11.3	-10.1
Mean	1.1	-1.1	-1.6	-0.4	1.2	1.5	1.9	0.2	-5.0	-4.3
<u>Other Europe</u>										
Norway	13.3	9.2	7.4	11.1	15.0	18.3	17.3	18.8	10.6	11.2
Switzerland	-0.1	-1.2	-1.7	-1.8	-0.7	0.8	1.7	2.3	1.0	0.6
Mean	6.6	4.0	2.8	4.7	7.2	9.6	9.5	10.5	5.8	5.9
<u>Other</u>										
Australia	-0.1	1.1	0.9	1.1	1.6	1.3	1.5	-3.2	-5.4	
Canada	0.7	-0.1	-0.1	0.9	1.5	1.6	1.4	-0.4	-4.9	-5.6
New Zealand	1.5	3.6	3.7	4.1	4.6	5.2	4.4	0.4	-2.5	
USA	-0.5	-3.9	-4.9	-4.4	-3.2	-2.0	-2.8	-6.4	-11.5	-10.6
Mean	0.4	0.2	-0.1	0.4	1.1	1.5	1.1	-2.4	-6.1	-8.1

Debt as a % of GDP										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<u>PIIGS</u>										
Portugal	61.5	64.8	66.5	69.1	72.6	77.3	75.4	80.6	93.2	96.7
Italy	120.1	118.8	116.4	116.7	119.4	116.9	112.1	114.7	127.1	126.1
Ireland	37.0	35.1	33.9	32.6	32.9	29.2	29.3	50.4	72.2	92.8
Greece	119.2	118.6	113.3	115.8	113.4	116.9	115.1	118.1	133.5	124.0
Spain	61.9	60.3	55.3	53.4	50.7	46.2	42.3	47.6	62.4	66.3
Mean	79.9	79.5	77.1	77.5	77.8	77.3	74.8	82.3	97.7	101.2
<u>Other Euro countries</u>										
Austria	71.7	72.8	71.1	70.6	70.6	66.4	63.3	68.3	74.3	78.1
Belgium	111.9	108.2	103.3	98.2	95.9	91.7	88.0	92.8	100.0	100.2
Finland	49.9	49.4	51.4	51.4	48.4	45.6	41.4	40.4	51.5	57.6
France	64.3	67.6	71.8	74.0	76.0	71.3	70.3	76.4	88.0	
Germany	60.2	62.6	66.0	69.0	71.7	69.7	65.5	69.5	77.2	
Netherlands	59.4	60.3	61.4	61.9	60.7	54.5	51.5	64.8	67.5	70.6
Mean	69.6	70.2	70.8	70.9	70.5	66.5	63.3	68.7	76.4	76.6
<u>Other EU</u>										
Denmark	58.4	58.2	56.6	54.0	45.9	41.2	34.3	42.6	52.4	55.6
Sweden	62.7	60.2	59.3	60.0	60.8	53.9	49.3	49.6	51.9	48.9
UK	49.3	48.8	48.5	50.8	53.4	53.0	53.7	64.1	79.5	88.8
Mean	56.8	55.8	54.8	54.9	53.4	49.4	45.8	52.1	61.3	64.4
<u>Other Europe</u>										
Norway	31.6	38.8	48.2	50.7	47.6	58.8	56.5	53.9	48.6	49.1
Switzerland	48.6	55.0	54.7	55.2	53.1	47.1	44.0	40.3	38.8	
Mean	40.1	46.9	51.4	53.0	50.4	53.0	50.2	47.1	43.7	49.1
<u>Other</u>										
Australia	34.3	33.5	30.9	29.2	28.6	27.3	26.4	28.0	37.6	42.2
Canada	105.5	103.9	98.7	92.2	91.2	89.2	83.9	89.1	102.9	104.2
New Zealand							40.7			
USA	55.0	57.4	60.7	61.8	62.0	61.4	62.6	72.0	85.7	94.9
Mean	64.9	64.9	63.4	61.1	60.6	59.3	53.4	63.0	75.4	80.4

Government (sovereign) debt levels ballooned

Debt to GDP in the Euro Area Countries and the US (as % of GDP)



Source: European Commission, Spring 2012

- The financial crisis is the immediate cause of the euro crisis.
- Lack of adequate financial regulation allowed the subprime mortgage crisis to occur.
- Huge private debt fueled by bank lending and real estate bubbles were the problems in Spain and Ireland.
- Because the Eurozone is not an optimal currency area, the shocks hit one area and there were no automatic stabilizers to cushion the shocks.

The EMU is not an optimal currency area

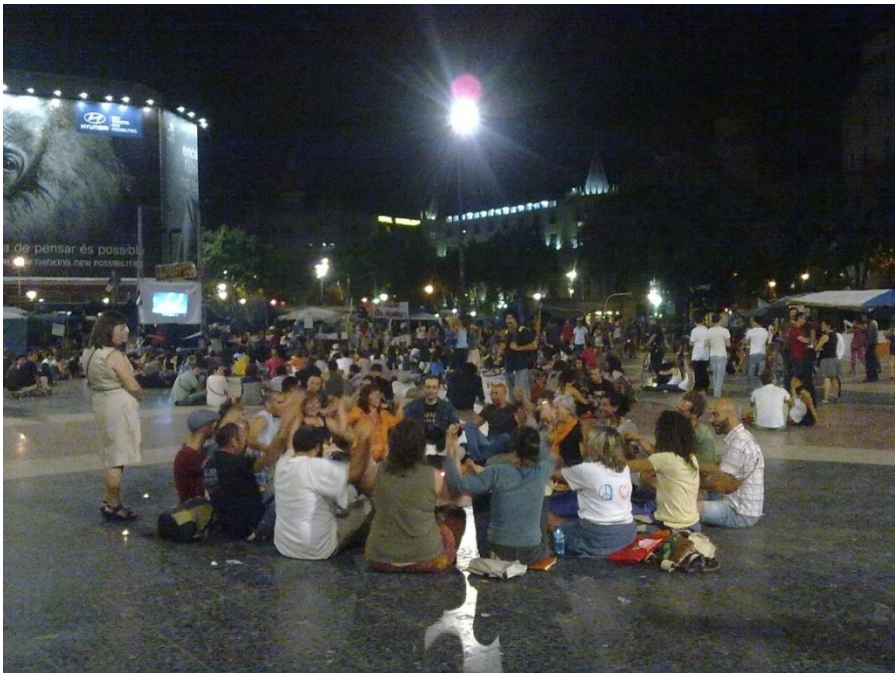
- OCA is a geographical region in which it would maximize economic efficiency to have the entire region share a single currency.
 - Trade openness, capital mobility, and wage and price flexibility across the region.
 - Labor mobility across the region.
 - Participant regions/countries have similar business cycles. No asymmetric shocks → same fiscal and monetary policy appropriate for all regions.
 - A risk sharing system such as an automatic fiscal transfer mechanisms to redistribute money to areas/sectors which have been adversely affected by asymmetric shocks. This usually takes the form of taxation and redistribution to less developed areas of a country/region.

- The generous European welfare states are not the problem!
- Too much focus on government budget deficits; the deficits exploded AFTER the financial crisis hit.
- Need for much stronger financial regulation.
- Need for a mechanism, like the much discussed Eurobonds, to cushion asymmetric economic shocks in the Eurozone.

Is austerity sustainable?...

Domestic legitimation







People Before Profit Alliance will launch

'Economic Alternative Agenda' Document

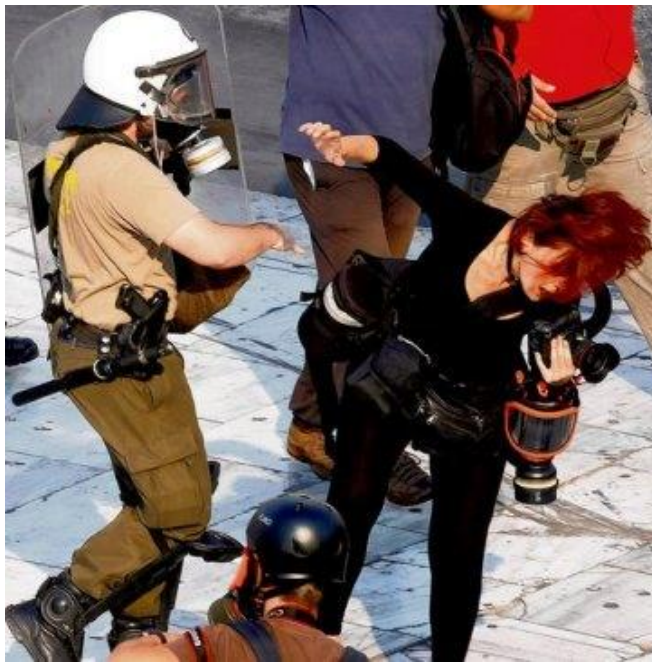




Tuesday 28th April @ 7.30pm
Unite Hall, Abbey Street, Dublin

Speakers include:
Richard Boyd Barrett (People Before Profit Alliance)
Cllr Joan Collins (People Before Profit Alliance)
Cllr Chris O'Leary (Independent, ex-Green Party)
Vincent Browne (Journalist)



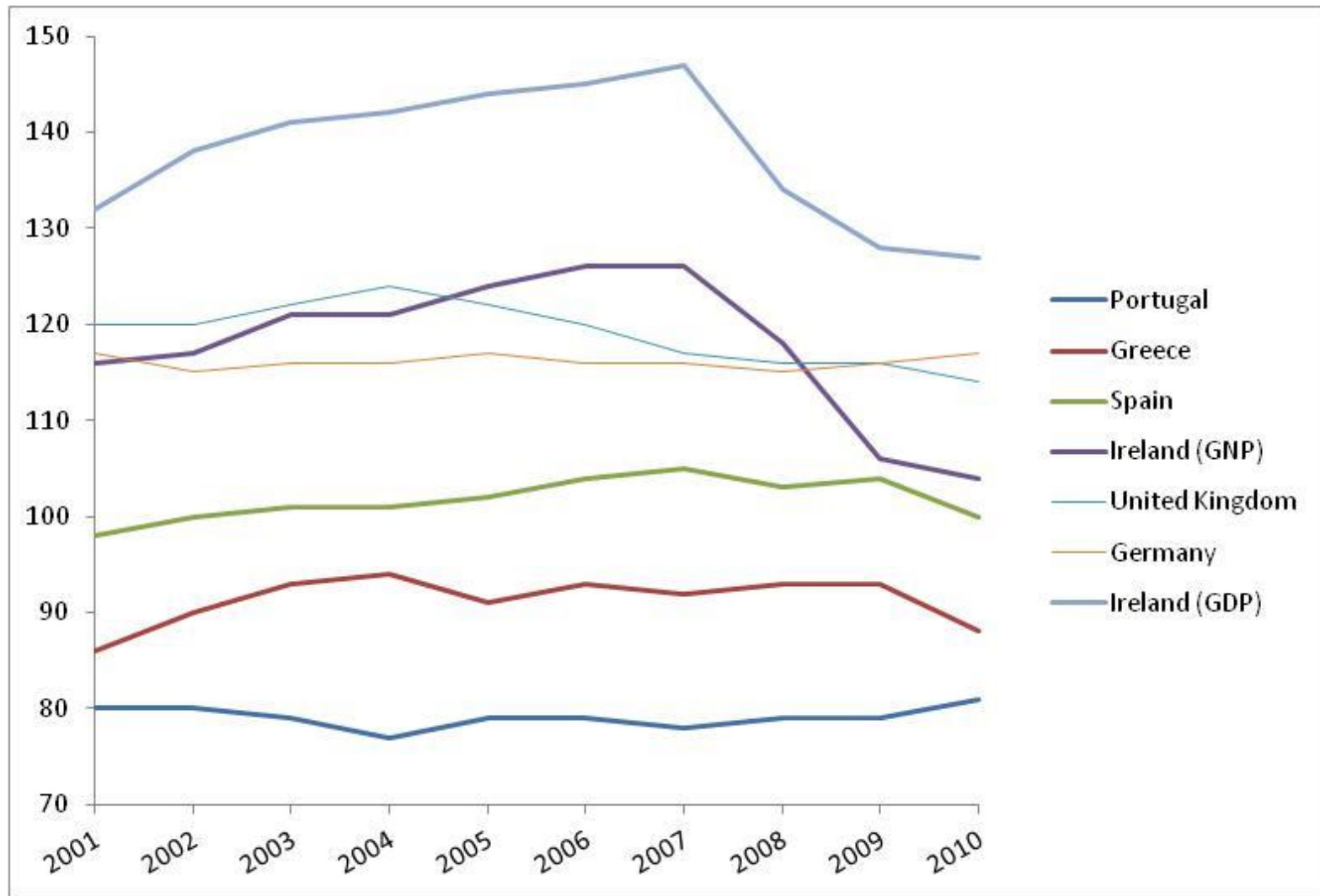


Pain - internal deflation...



**Harmonized competitiveness indicators based on unit labour costs, whole economy.
ECB, June 2011**

...from different bases



Per capita GDP in PPS, EU27=100,
Eurostat (May 2011 data, accessed 17.11.2011)

- ‘Internal deflation’ is very uneven
- But much tougher in Greece



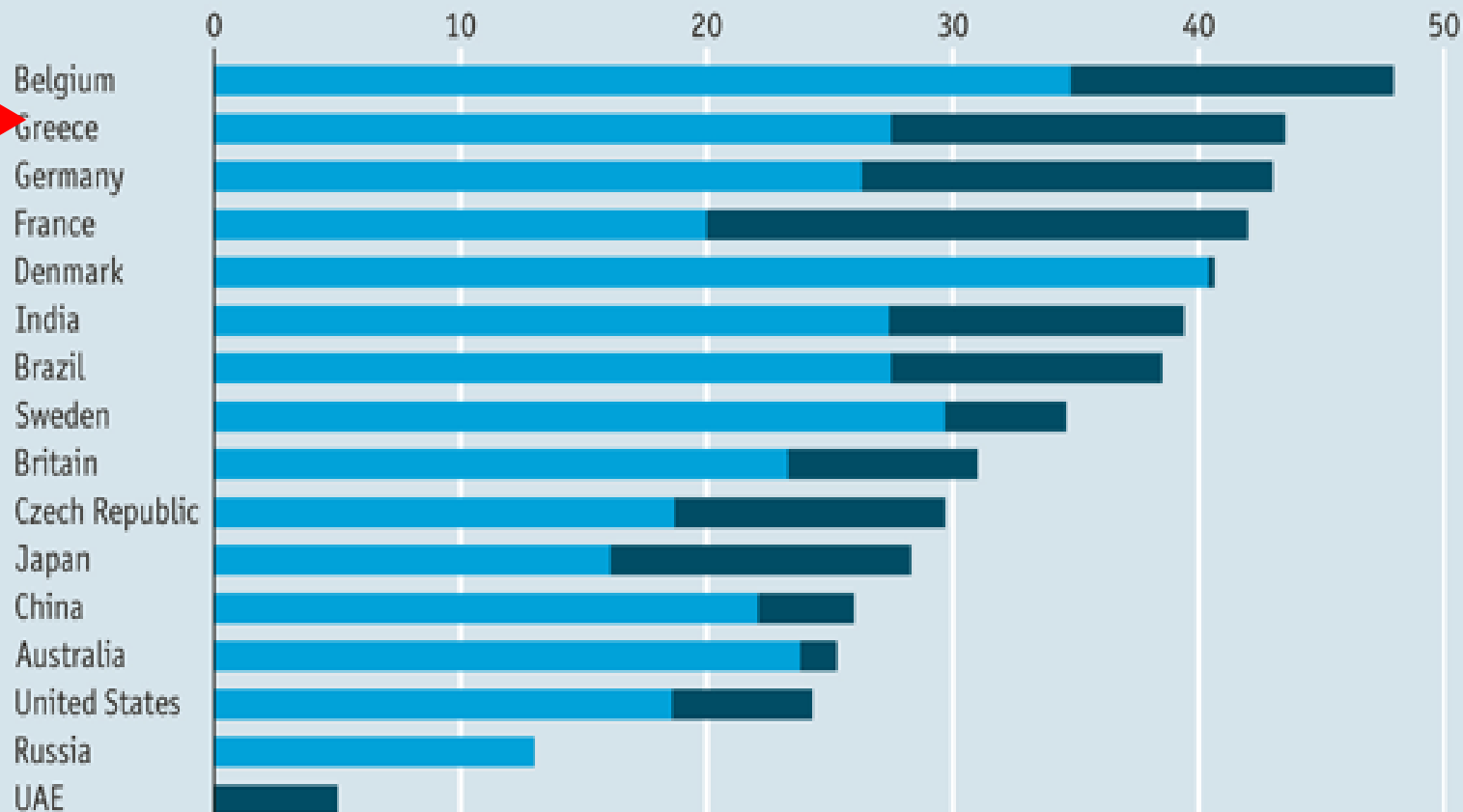
Higher paid are now highly taxed...

Effective tax rates

On gross income of \$100,000, May 2011, %

Income tax

Employee social security



Source: KPMG

... if you can find them...

Legacy of past policy mix

Ireland

- 'Liberal market economy'
- Growth
- Flexible labour market
- 'Business-friendly'
- Programme compliance not technically difficult

Greece

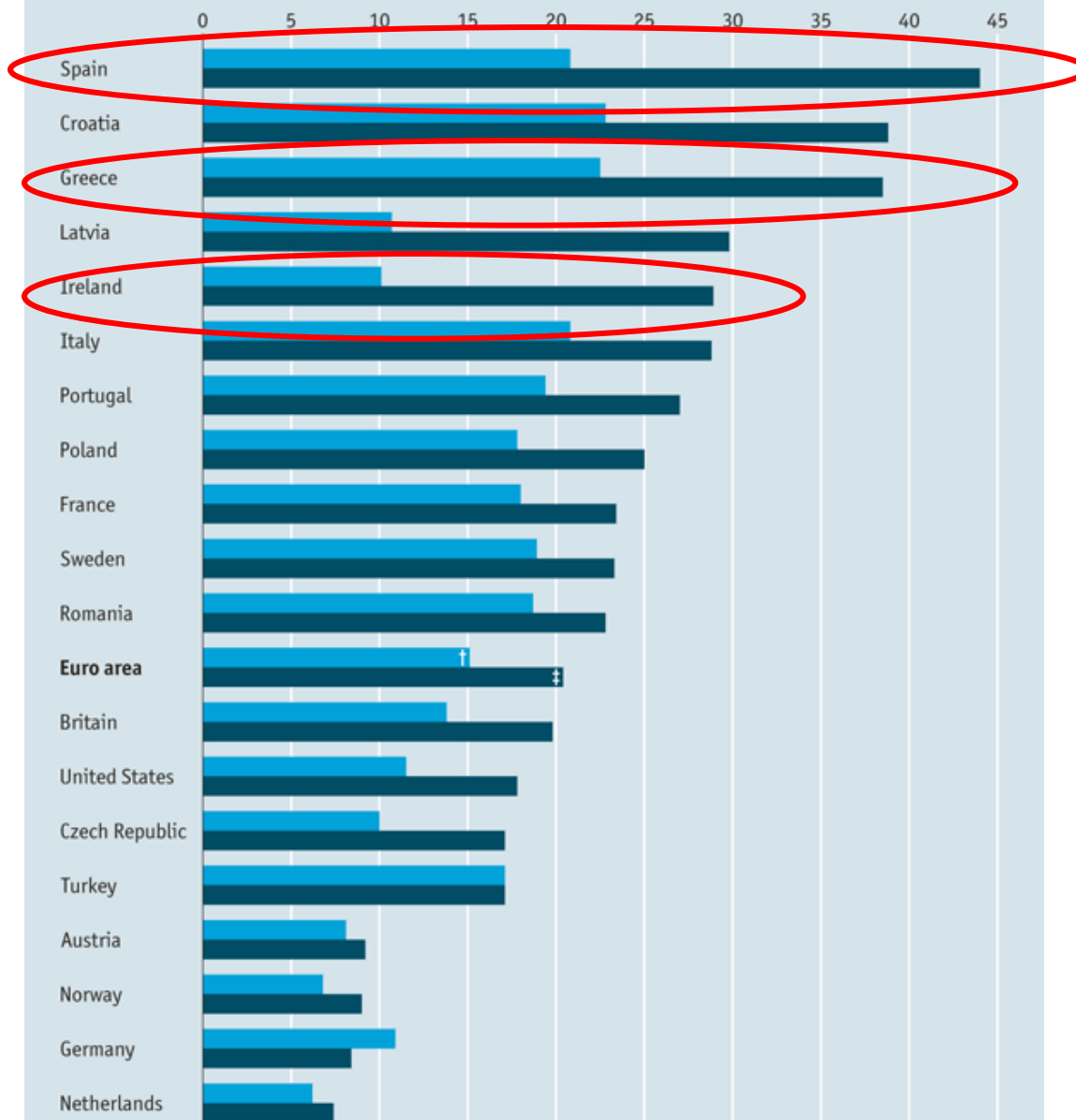
- 'Mixed market economy'
- Patronage
- Protected enclaves
- Regulation
- Programme compliance undermines politics

Youth unemployment*

As % of labour force

Q1 2008

Q1 2011

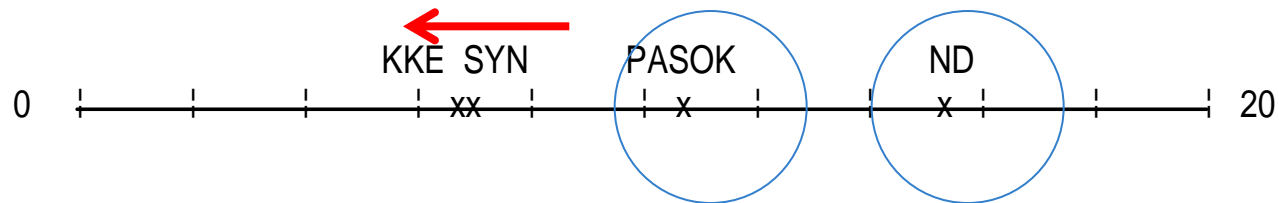


Source: Eurostat

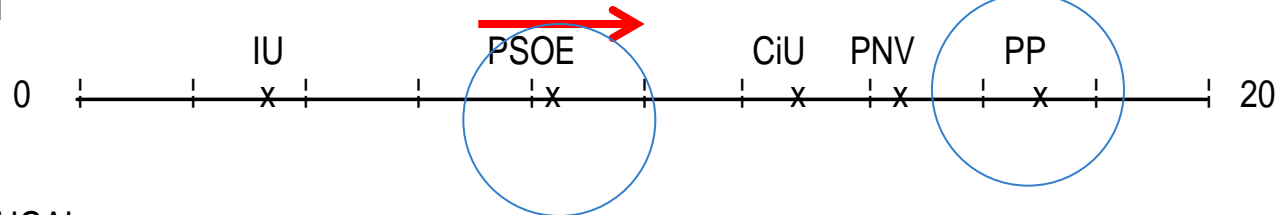
*15-24 year olds †15 countries ‡17 countries

Party system polarization

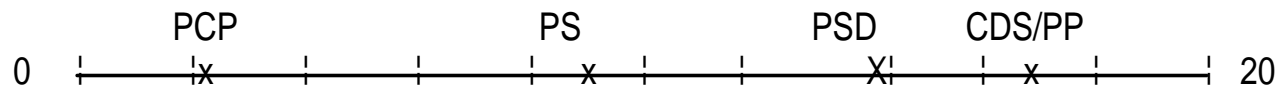
GREECE



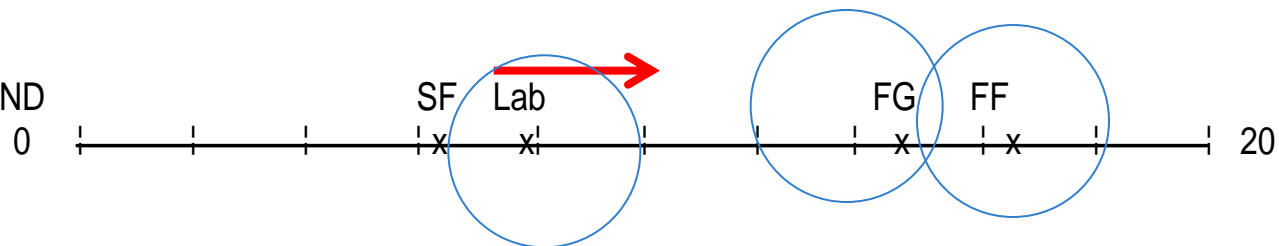
SPAIN



PORTUGAL

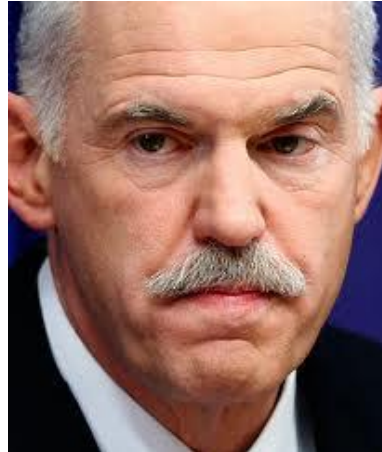


IRELAND



From Benoit and Laver, 2006

- Democratic deficits at home...



- Democratic deficits at home...
- ...and in Europe





