

# Austerity Measures in the Current European Debt Crisis

What drives governments to choose  
these unpopular policies?

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# Introduction

## ❖ Austerity measures in Europe

The paper does not try to explain the reasons of the debt crisis, neither tries to analyze whether austerity measures are positive or negative for the economies hit by the crisis.

Austerity measures OR fiscal consolidation = tax hikes + spending cuts

## ❖ Research methodology

Basically a secondary research (working papers by the Central Banks, the European Commission, IMF, press articles, etc.)

# Literature Review

- ❖ Mainly the IMF, European Commission and the Institute for Social and Economic research working papers.
- ❖ Macroeconomic effects of fiscal consolidations, lessons learnt from the past and a comparison of distributional effects in 6 EU countries.

# Framework

- ❖ Dependent variable: the Spanish government chooses austerity measures despite being unpopular and having a negative effect in future elections for the politicians in power
- ❖ Independent variable: political reasons that motivate adopting fiscal consolidation
- ❖ Controlled variable: economic reasons such as monetary inflexibility, GDP levels, etc.

# Hypothesis

- ❖ There are “two Europes” (core and periphery).
  - Spain represents the periphery, while Germany represents the core.
  - Stronger countries can decide on the policies of weaker countries.

BUT, is it true Spain cannot resist these impositions? How to deal with Germany and get concessions?

# Relevant factors

- ❖ Main political reasons:
  - Politics before/during the crisis in Germany and Spain
    - » Federal elections in 2009 (CDU-CSU's victory against SPD)
    - » Spanish General elections 2008 and 2011 (victory from PSOE to PP)
- ❖ Pressure to Spain from core countries' leaders
  - Sarkozy and Merkel's Pact
- ❖ Role of Credit Rating Agencies
  - Criticism from PMs and ECB
- ❖ What are the IMF and CBs saying?

# Basic Argument

- Germany and Spain's situation different the debt crisis is very different, so although they both share the same interest (prosperity within the Euro-zone), their needs are very different now (**expansionary vs austerity measures**)
- The crisis is not only national, but **international**, so Spain needs the help from outside.
- Then, what others propose really matters to Spain.
- Negotiation between Germany and Spain seems to have always a single winner (Germany). However, Spain can still **renegotiate and get concessions** from Germany thru strategic partners and allies (Italy and France), or by using the example of Greece as something to be avoided.



# Conclusion

- The core imposes austerity measures to the periphery, who cannot really reject them even being too risky for the next elections.
- Germany wants to make sure any bail out or economic assistance to Spain goes with a conditionality and with credible fiscal deficit solutions.
- Recent calls for expansionary measures are also increasing in number and intensity.
- Civil unrest can be an excuse to get concessions from Germany.
- Spain can keep up with austerity measures to some extent, but warnings of leaving the Euro due to discontent by the citizens is possible (although not very likely).