



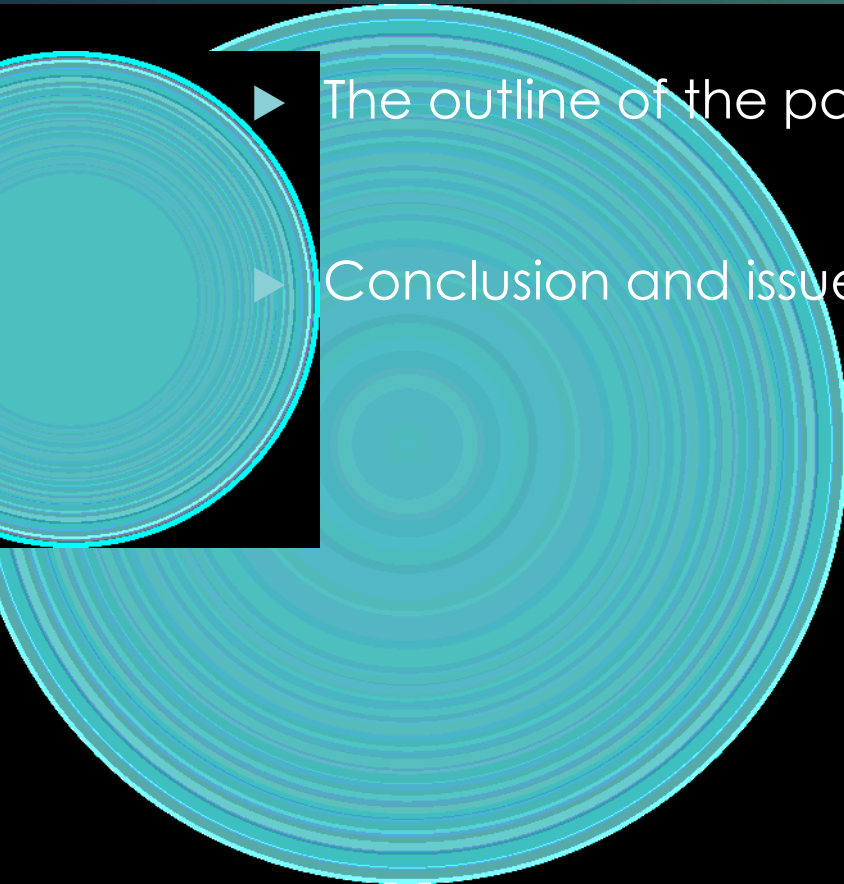
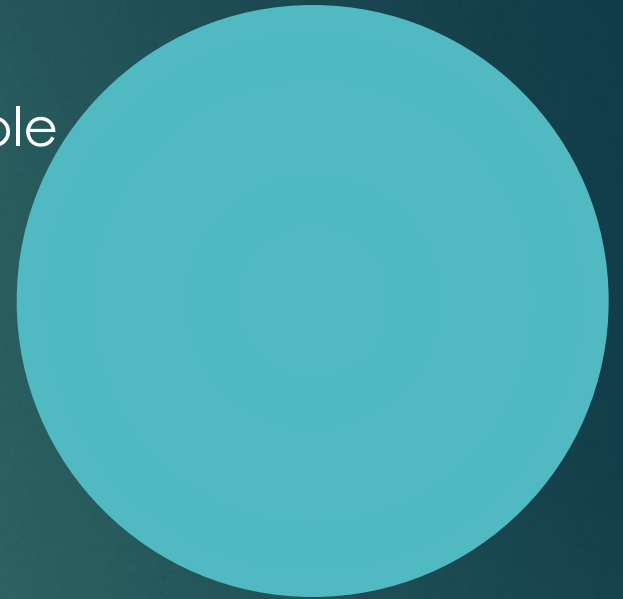
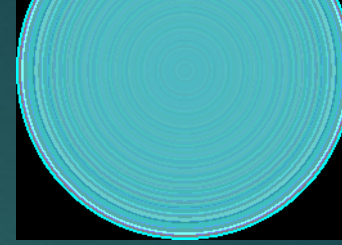
# European Financial Crisis and Political Economy of Austerity Measures in Spain

OUTLINE OF THE PAPER AND IMPLICATION



# Outline

- ▶ Hypothesis; independent variable and dependent variable
- ▶ The outline of the paper
- ▶ Conclusion and issues for further research



# Hypothesis: independent variables and the dependent variable

- ▶ Hypothesis: the successful provision of the financial support from EFSF was due to the following two variables
  - ▶ The spontaneous fiscal entrenchment and the austerity measures made the coherence between the EFSF and the government of Spain
    - ▶ The existence of the two-dips in the crisis from 2008
    - ▶ The first dip made Spain implement stimulus package
      - ▶ This made the fiscal debt worse
    - ▶ The necessity of the fiscal entrenchment and the austerity measures
    - ▶ These measures were kept under implementation under the leftist administration before the general election in 2011
    - ▶ And after the general election under the transition of power to the rightist party, it had made the coherence of the conditionality and the measures in Spain

# Hypothesis: independent variables and the dependent variable (Cont'd)

- ▶ The common profit for sustaining the international market stable facilitated the agreement
  - ▶ The contagion in the market made the bond yields to correlate, which entailed the possibility that the EFSF's financial procurement and the one of Spain becomes more difficult simultaneously.
  - ▶ The specific structure of the system mechanism of EFSF, which is the limited liability company in the Luxemburg, under the auspices of Luxemburg law.
    - ▶ This mechanism magnified the influence of the largely contributing countries, such as Germany, France and so on.

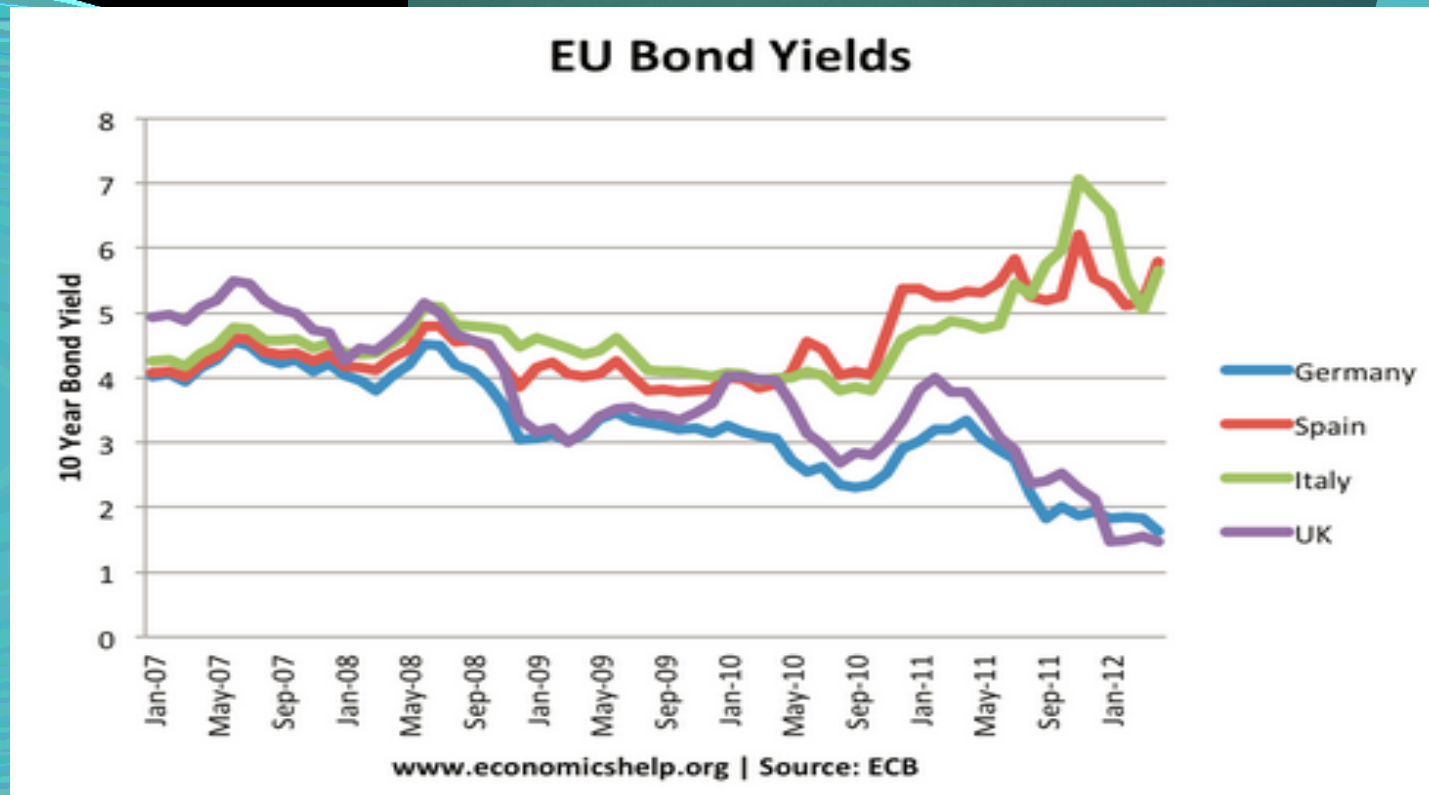
# Chapter 1; the background indicators during the financial crisis and chronology of the response of Spanish government

- ▶ The two dipped crisis from 2008



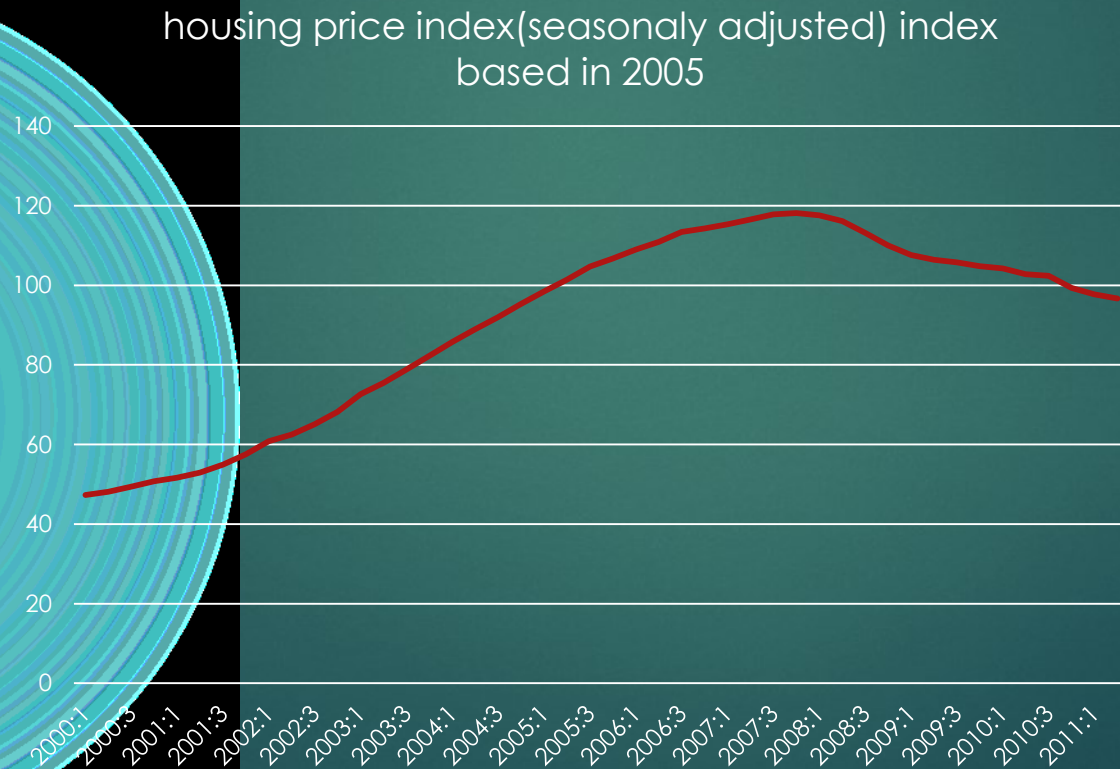
# Chapter 1; the background indicators during the financial crisis and chronology of the response of Spanish government

- ▶ The rise of the bonds yields



# Chapter 1; the background indicators during the financial crisis and chronology of the response of Spanish government

## ► The housing bubble



# The chronology of the political actions of Spanish government

## ▶ **March 2008**

- ▶ Prime Minister Jose Luis Rodriguez Zapatero wins a second term in office, but without an outright majority.

## ▶ **Third quarter 2008**

- ▶ Economy officially enters recession. Standard & Poor's is the first credit rating agency to downgrade Spain, cutting its treasured AAA rating by one notch to AA+. Spain adopts an economic stimulus plan worth an estimated 5pc of GDP, including €8bn (£6.5bn) euros of infrastructure projects.

- ▶ The Bank of Spain bails out regional lender Caja Castilla-La Mancha, the country's first bank rescue in recent years.

## ▶ **May-June 2009**

- ▶ Spain creates a bank bail-out fund, known as the FROB, with firepower of up to €99bn euros and urges weaker savings banks to merge to improve solvency.

## ▶ **First quarter 2010**

- ▶ Spain's economy exits recession. o lend country up to €100bn to shore up its banks and Madrid said it would specify precisely how much it needs once independent audits report in just over a week





▶ **April 2010**

- ▶ As talks intensify on granting Greece an economic bailout, attention turns to Spain amid worries over its public deficit - 11.2pc of GDP in 2009.

▶ **May 2010**

▶ After initially denying Spain was in trouble, Zapatero announces austerity measures worth around 1.5pc of GDP. Austerity measures passed over the following six months, including a two percentage point rise in VAT, are worth an estimated total of 5pc of GDP

▶ **June 2010**

▶ Spain's cabinet approves a labour market reform. The bill is passed through parliament in September.

▶ **December 2010**

- ▶ The central government forces the country's 17 autonomous regions, considered the weak link in spending cuts, to publish more details of their accounts.



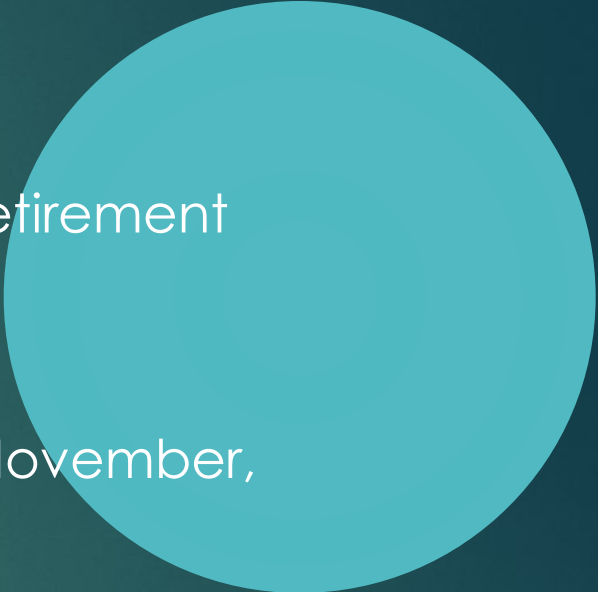

▶ **January 2011**

- ▶ Spain passes pension reform that will gradually raise the retirement age to 67 from a previous 65.

▶ **June 2011**

- ▶ Zapatero decides to bring forward national elections to November, four months early.

▶ **September 2011**

- ▶ Parliament passes a constitutional amendment forcing governments to keep balance budgets.
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▶ **November 2011**

- ▶ Mariano Rajoy's centre-right People's Party wins an absolute majority in November 20 elections as voters punish the outgoing Socialist government for the economic crisis.

▶ **December 2011**

- ▶ New government says on December 30 that the public deficit for 2011 would come in at 8pc of GDP, well above a target of 6pc. The government also announces new austerity measures with a cut in public spending by €8.9bn in 2012 for all ministries.
- ▶ Treasury Minister Cristobal Montoro announces tax hikes to focus on the wealthy, raising around €6bn.

▶ **January 2012**

- ▶ Spain ends 2011 with almost one-in-four of its economically active population out of work. The jobless rate jumps to 22.85pc, or 5.27m people - the highest in the European Union.



▶ **March 2012**

- ▶ Spain will aim to save more than €27bn in its 2012 budget through corporate taxes, freezing civil servant wages and ministerial spending cuts. Rajoy has said he will reduce the budget deficit to equal to 5.3pc of GDP in 2012 from 8.5pc of GDP in 2011.

▶ **First quarter 2012**

- ▶ Economy falls back into recession.
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▶ **April 2012**

- ▶ Thousands of people protest across Spain against government cuts aimed at tackling the debt crisis.

▶ **May 2012**

- ▶ Government says 2011 public deficit 8.9pc of GDP.


▶ **May 2012**

- ▶ Bankia asks for a €19bn state rescue on May 25. Spain is nationalising Bankia, which holds some 10pc of the country's bank deposits, weighed down by heavy losses from the property crash.

▶ **June 2012**

- ▶ Montoro says Spain's high borrowing costs mean it is effectively shut out of the bond market and the EU should help Madrid recapitalise its debt-laden banks. Spain still needs to refinance about €82bn of debt in 2012, while helping its regions to repay maturing debts of about €16bn in the second half of 2012.

▶ **June 9, 2012**

- ▶ Spain bows to bailout of struggling bank sector. Eurozone finance ministers agree to lend country up to €100bn to shore up its banks and Madrid said it would specify precisely how much it needs once independent audits report in just over a week.
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# The establishment of EFSF as an supra national body for financial stability

- ▶ The EFSF was created as a temporary crisis resolution mechanism by the euro area Member States in June 2010.
- ▶ Gocaj(2013) points out the existence of path dependency “in the subsequent management of an unrelenting crisis, enshrined intergovernmentalism as the modus operandi, and led to suboptimal solutions”.
- ▶ Also suggests that suggests that the establishment of EFSF entailed “political sunk cost” in each country to pass the bill for approval, for the purpose of being persuasive to market, by pointing out the volatility of the downgrading of EFSF in the case of the one of advocating countries.

# Chapter 2; Evaluation of the facts

## ▶ **The model of responsiveness and responsibility**

- ▶ the theory Bosco et al (2015) suggests explains that there are two concepts in contradiction, responsiveness and responsibility, imposed upon incumbents in authority
- ▶ In fact, the case of Spain in Europe financial crisis, the government of Spain was at first hesitated to admitted that the economic crisis as crisis but continued to say it was a “de-acceleration” for the first time, in terms of the relationship with the domestic voters,
- ▶ In addition, Mascia et al(2012) suggests that “there is a broad consensus that the New Public Management(NPM) has constituted the most visible attempt to reform the public sector across the western world and beyond”,

## ▶ **Evaluation of voters, from the rational perspective**

# Evaluation of voters, from the rational perspective

- ▶ The analysis of the austerity measures

- ▶ Lessons from Spanish Crisis

- ▶ The reason of the smooth provision of the financial support



# Chapter 3; Conclusion

- ▶ The response of the government of Spain was an unpopular and contradictory to the European welfare state tradition pervasive in Europe as well as there were actual damages and ignorance of the profit of the citizens, which can be a persuasive reason for the negative perception of the citizens toward the government action.

- ▶ it can be led that the successful provision of the financial support from EFSF was due to the spontaneous implementation of the austerity measures and the coherence of the motivation of the government of Spain and EFSF including the other major economies in Europe.

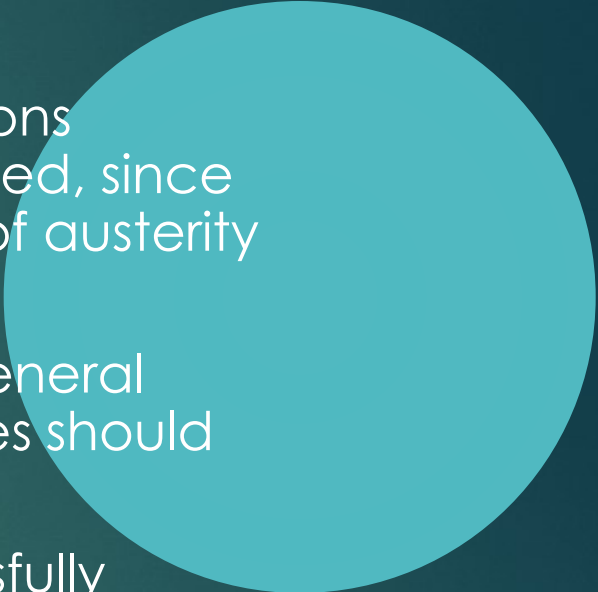



- ▶ For the further research, the more chronological interactions between Spain and the authority of EU should be scrutinized, since this paper was rather inclined to the ideological analysis of austerity measures and the historical approach.

- ▶ And the more detailed analysis on the dilemma of the general election and the implementation of the austerity measures should be viewed from wider perspective.

- ▶ For the bridge to the point, this paper could have successfully introduced Historical Institutionalism that positions international organization as the product of path dependency.

- ▶ Actually, a lot of issues are piled up in Spanish economy even after the successful implementation of the measures, such as high unemployment and etc.



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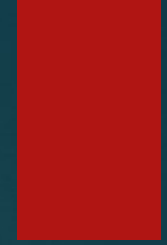
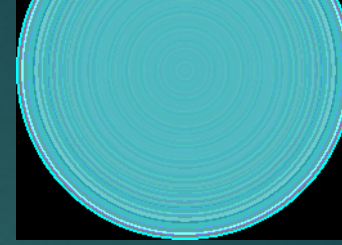
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► Questions, comments and discussions.

