FISCAL POLICY IN THE EUROZONE AFTER THE CRISIS

Discussant Barry Bosworth, Brookings Institution
Rebalancing within the EMU

- Three Problems
  - Fiscal imbalances in PIGS
  - Competitiveness imbalances within the EMU
  - Lack of Growth in EMU as a whole
- Unit labor costs as measure of exchange rate
- External imbalance – current accounts
- Fiscal balance budget deficits
Problems of the PIGS

- Contrast between Germany and PIGS
  - Portugal – fiscal and external balance problems
  - Ireland – largely a debt problem – capital loss?
  - Greece – large fiscal and large external problems
  - Spain – Mostly an external problem

- Fiscal problems are largely on the expenditure side in sense of a rising share of GDP

- External problems look like competiveness issue not lack of market growth.

- Situations seem quite diverse

- Implications for the rest of Europe?
EMU Emergency Loan Facility

- Temporary measure that buys time to make fiscal adjustment.
- Prevents spiral of higher interest rates leading to rising deficits
- Should Ireland act now or wait?
- Impact on other PIGS
- Distinguish between stock (debt) and flow problems (deficit)
Global Implications

- Euro Area external trade is roughly balanced
- German trade surplus
  - What proportion is within Euro Area?
  - Does seem closely related to ‘exchange rate’
- Very slow convergence of wages and product prices within EMU
- Scandinavian countries achieved remarkable fiscal consolidation in 1990s
- UK situation?
Why not an issue for the United States?

- Population Mobility
- Don’t even have measures of trade balances
- Constitutional deficit restrictions
- Don’t hear much about regional growth differences, but the center has never supervised or bailed out the states
- Large central government budget is primary tool for stabilization
- Product and labor market convergence both seem stronger
Unit Labor Cost Relative to Euro Average 2000-2010

Index 2005=0

Q1-2000  Q1-2002  Q1-2004  Q1-2006  Q1-2008  Q1-2010

Germany
Spain
Greece
Ireland

Q1-2000  Q1-2002  Q1-2004  Q1-2006  Q1-2008  Q1-2010
Current Account 1980-2015

- Germany
- Spain
- Greece

Percent of GDP

Actual
Projected
General Government Revenues and Expenditures: Germany 1991-2015

Percent of GDP

Expenditures

Revenues

Actual

Projected

1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015

![Graph of General Government Revenues and Expenditures: Greece 1980-2015](image-url)

- **Revenues** and **Expenditures** are shown as percentages of GDP over the years from 1980 to 2015.
- The graph distinguishes between **Actual** and **Projected** data.

The graph highlights the trend of increased government revenues and expenditures relative to GDP, with notable spikes and fluctuations over the years.

The graph illustrates the percent of GDP for actual and projected revenues and expenditures from 1980 to 2015 in Ireland. The graph shows fluctuations in both revenues and expenditures over the years, with expenditures generally declining until a sharp rise in 2010. Revenues exhibit more variability, with peaks in 1983, 1992, and 2010, and dips in 1995 and 2001.

The graph shows the percentage of GDP for revenues and expenditures in Spain from 1995 to 2015. The graph indicates that expenditures as a percentage of GDP have generally decreased over time, except for a sharp increase around 2010. Revenues have been relatively stable, with a minor decline around 2008. The data is split into actual and projected values for the years 2007 to 2015.
Current Account 1980-2015

Percent of GDP


Actual
Japan
Canada
United States

Projected

![Graph showing General Government Revenues and Expenditures as a percent of GDP from 1988 to 2015. The graph includes Actual and Projected data.](image-url)