

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 competitiveness 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)

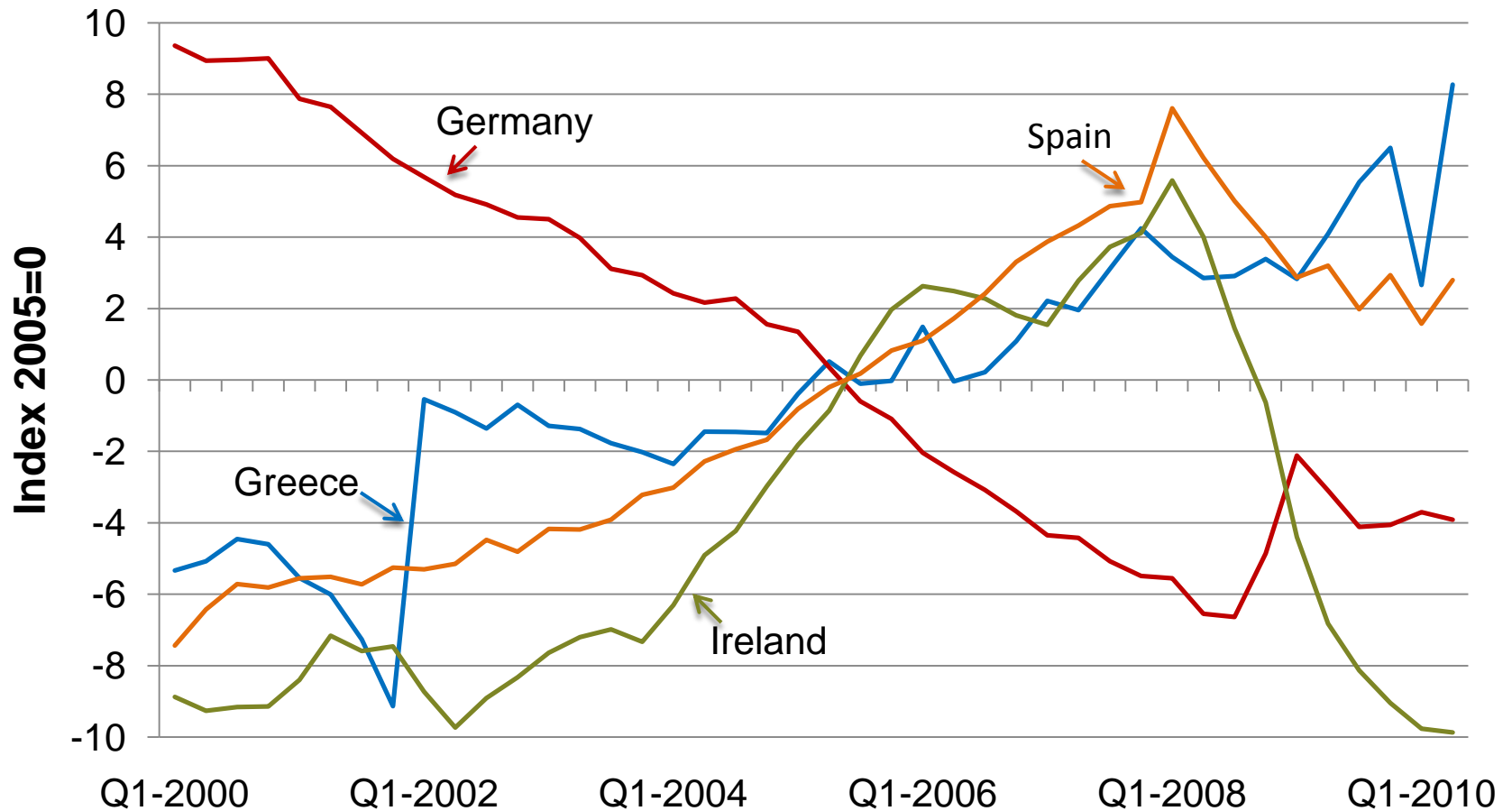
Global Implications

- 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?

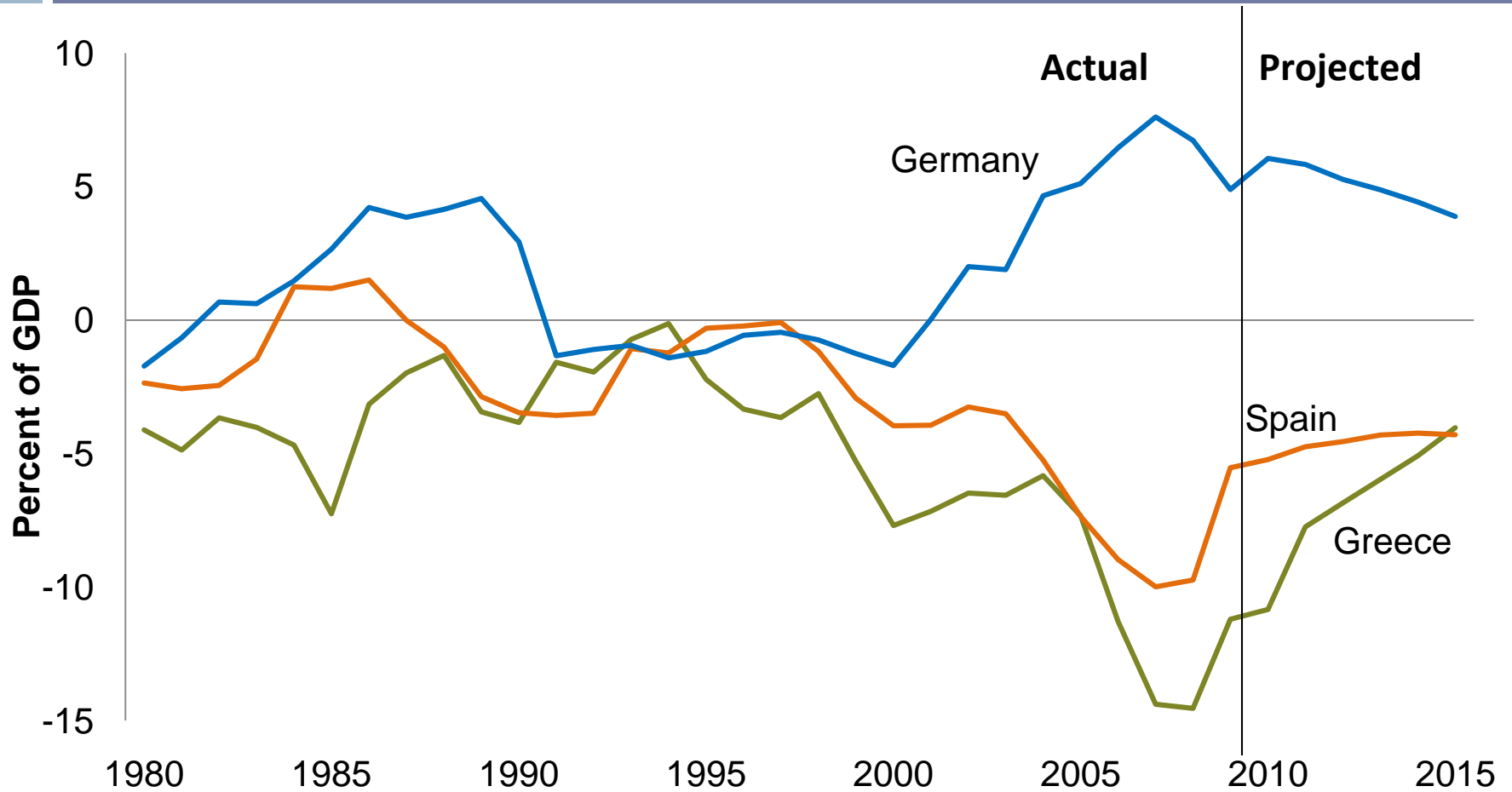
Why not an issue for the United States?

- 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

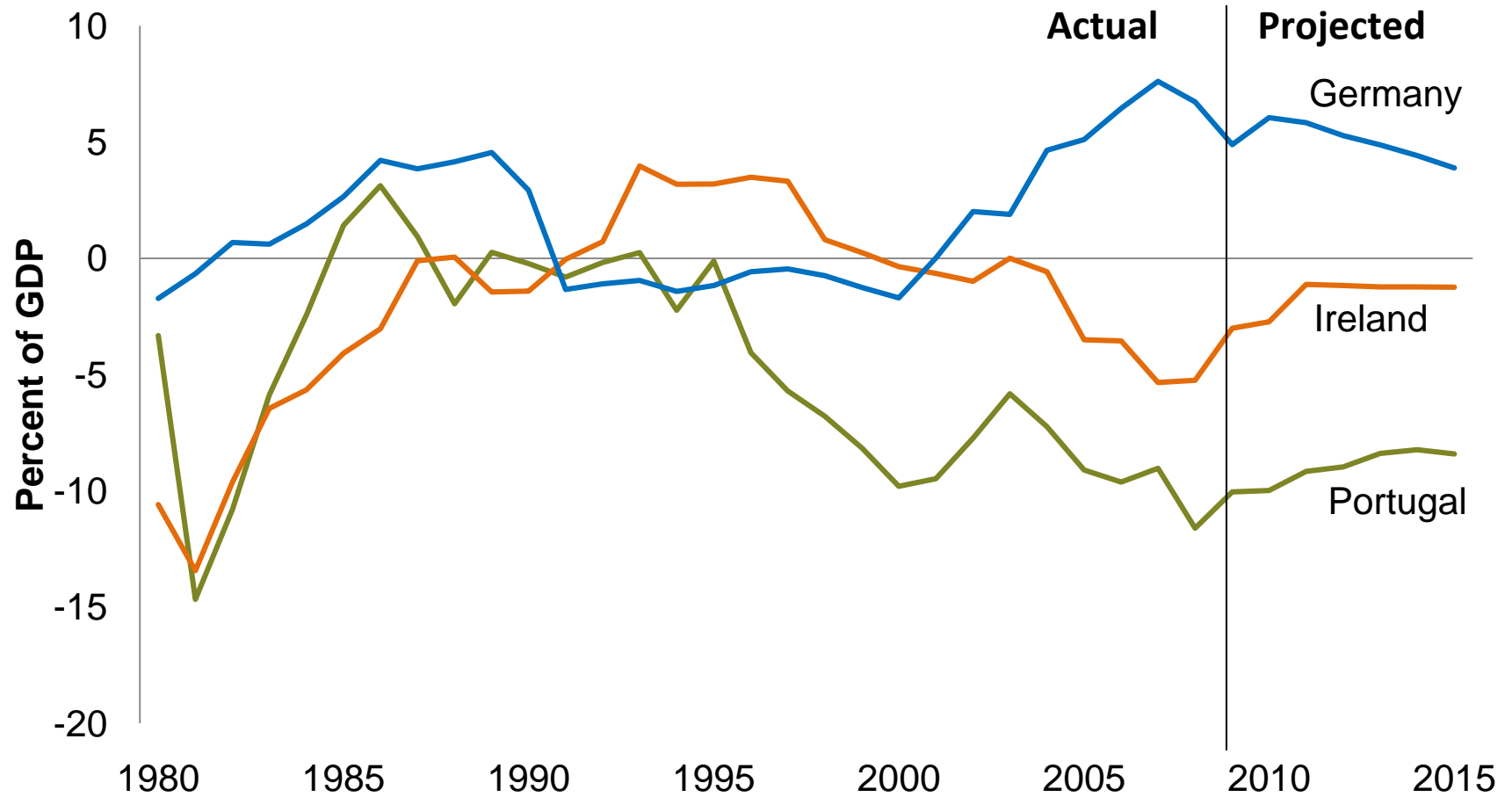
Unit Labor Cost Relative to Euro Average 2000-2010



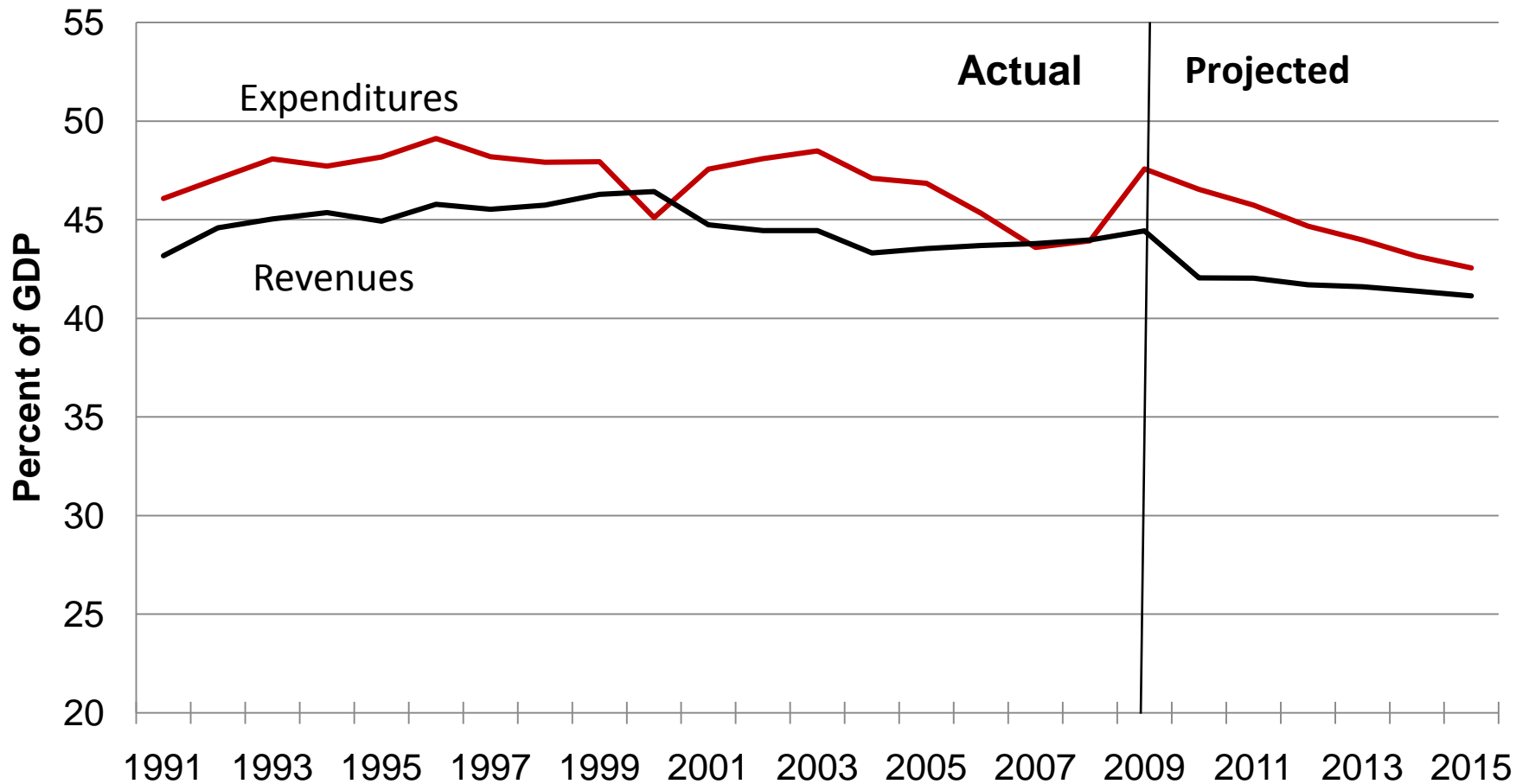
Current Account 1980-2015



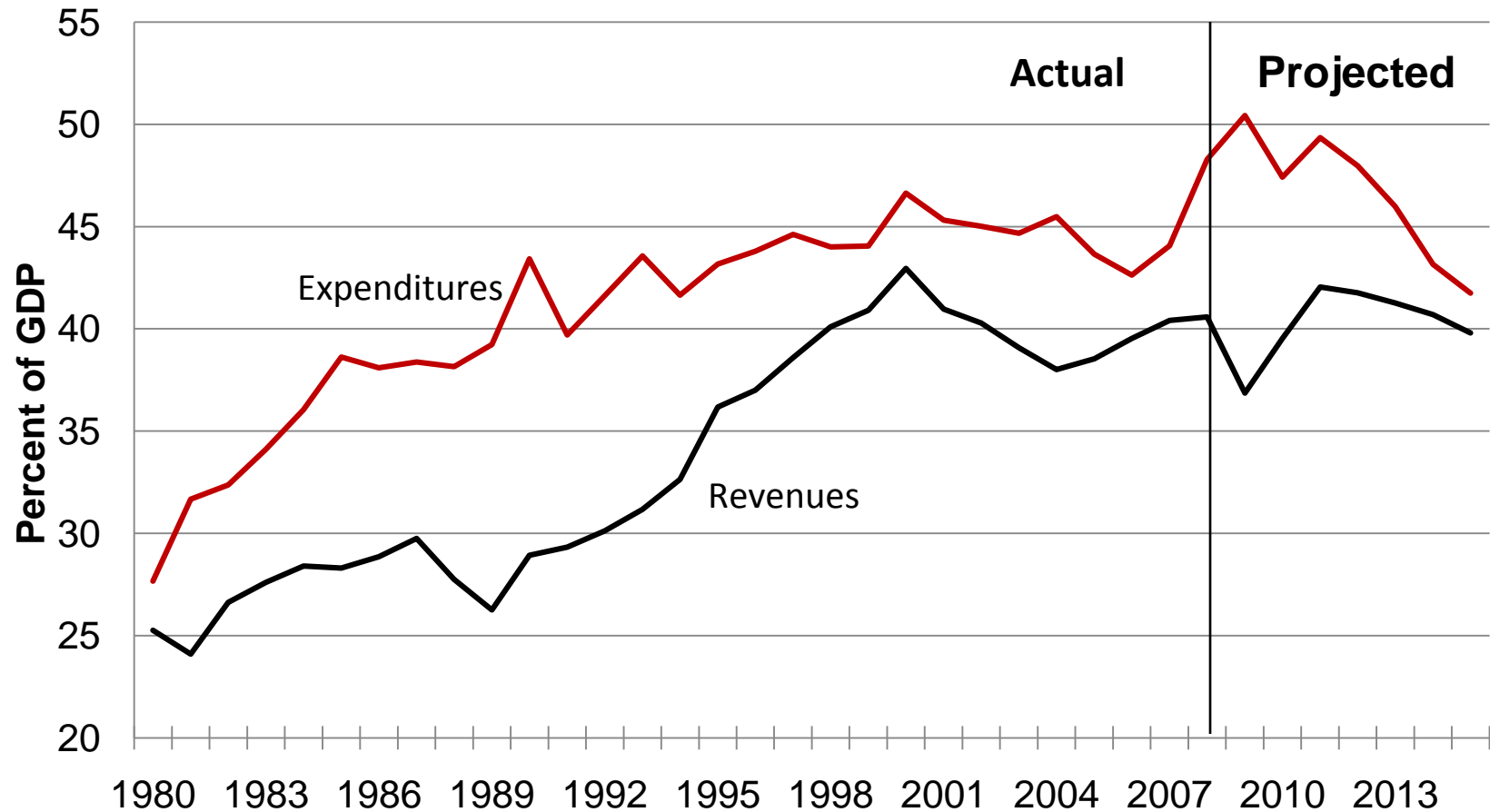
Current Account 1980-2015



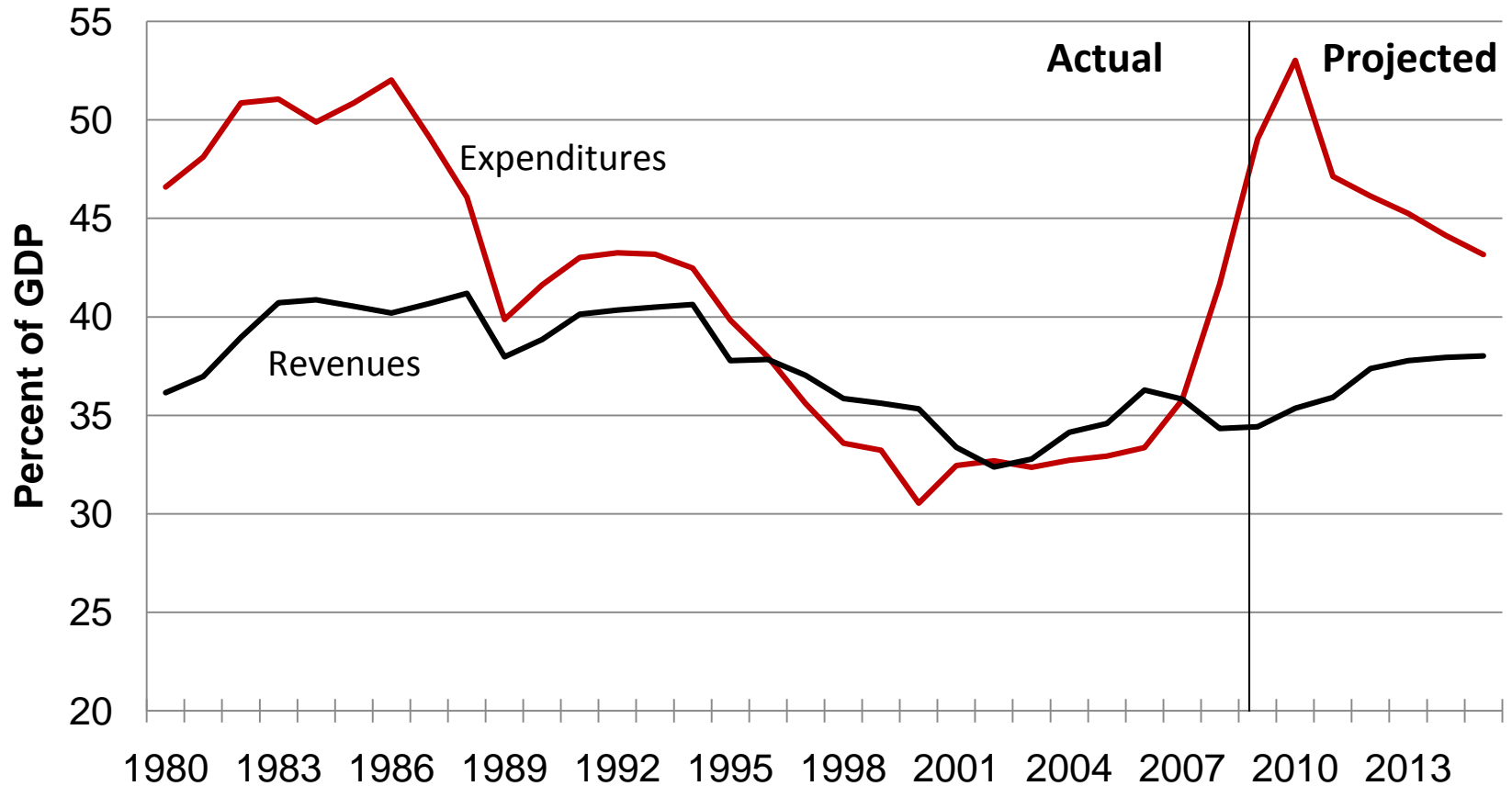
General Government Revenues and Expenditures: Germany 1991-2015



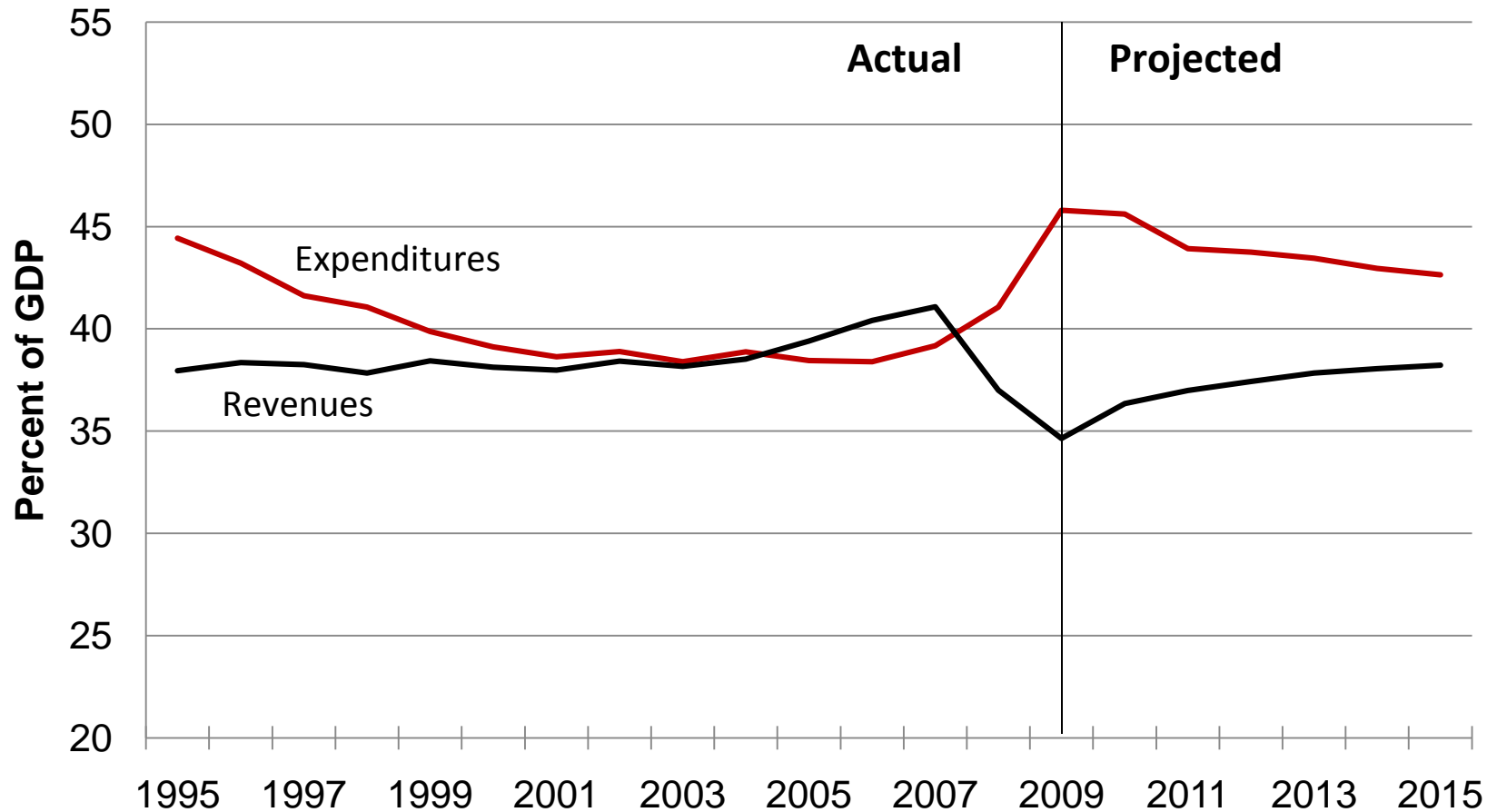
General Government Revenues and Expenditures: Greece 1980-2015



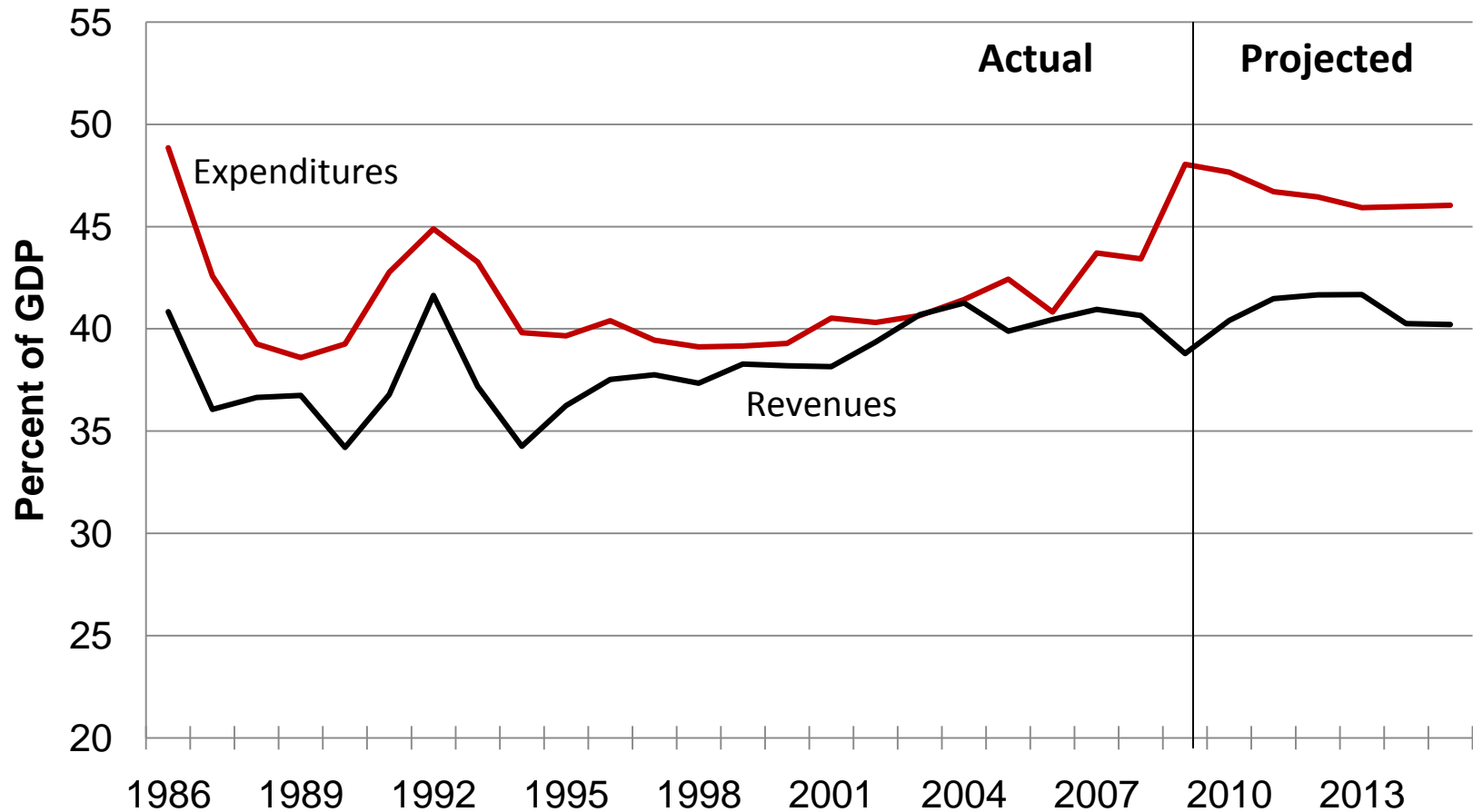
General Government Revenues and Expenditures: Ireland 1980-2015



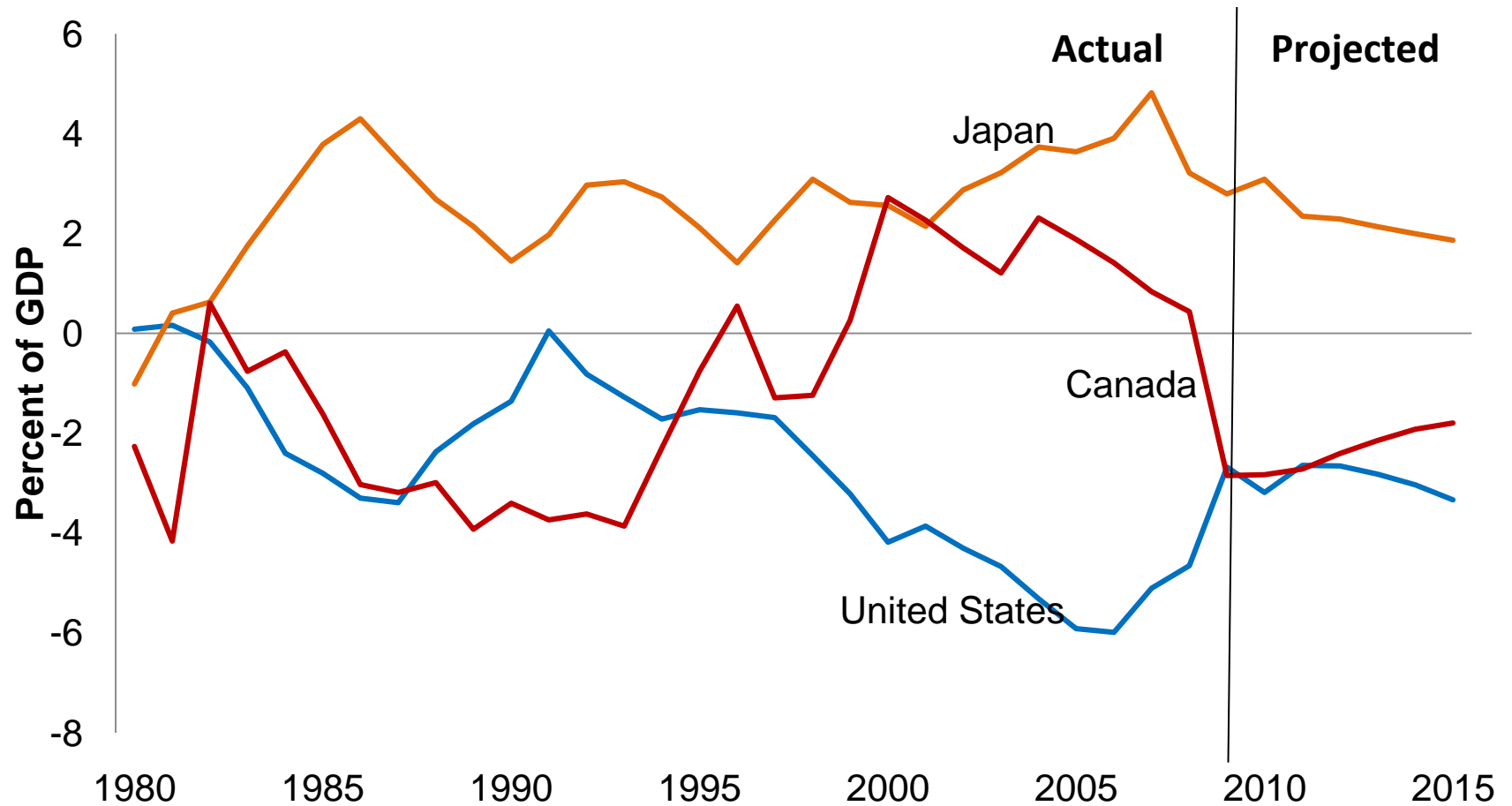
General Government Revenues and Expenditures: Spain 1995-2015



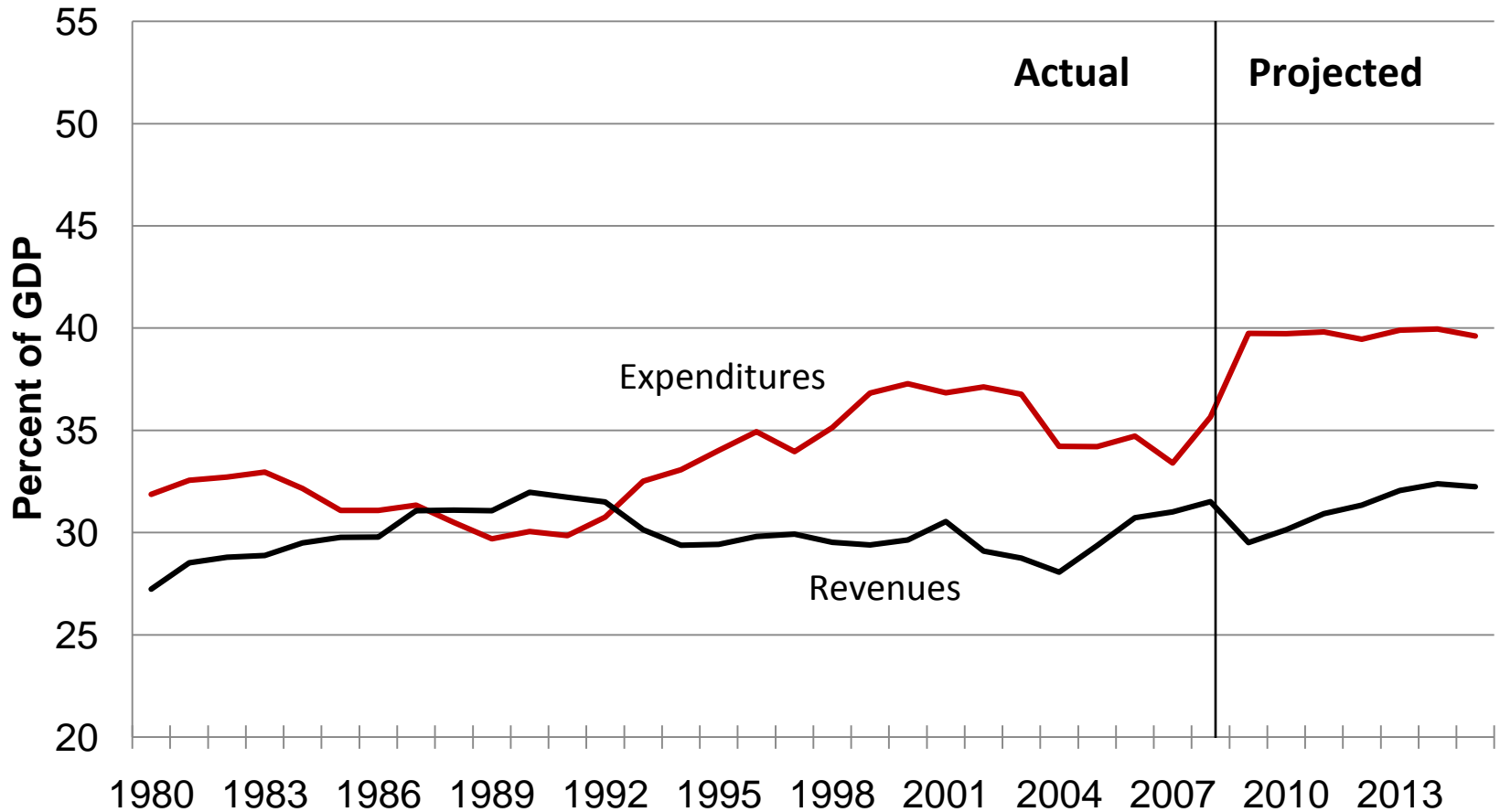
General Government Revenues and Expenditures: Portugal 1986-2015



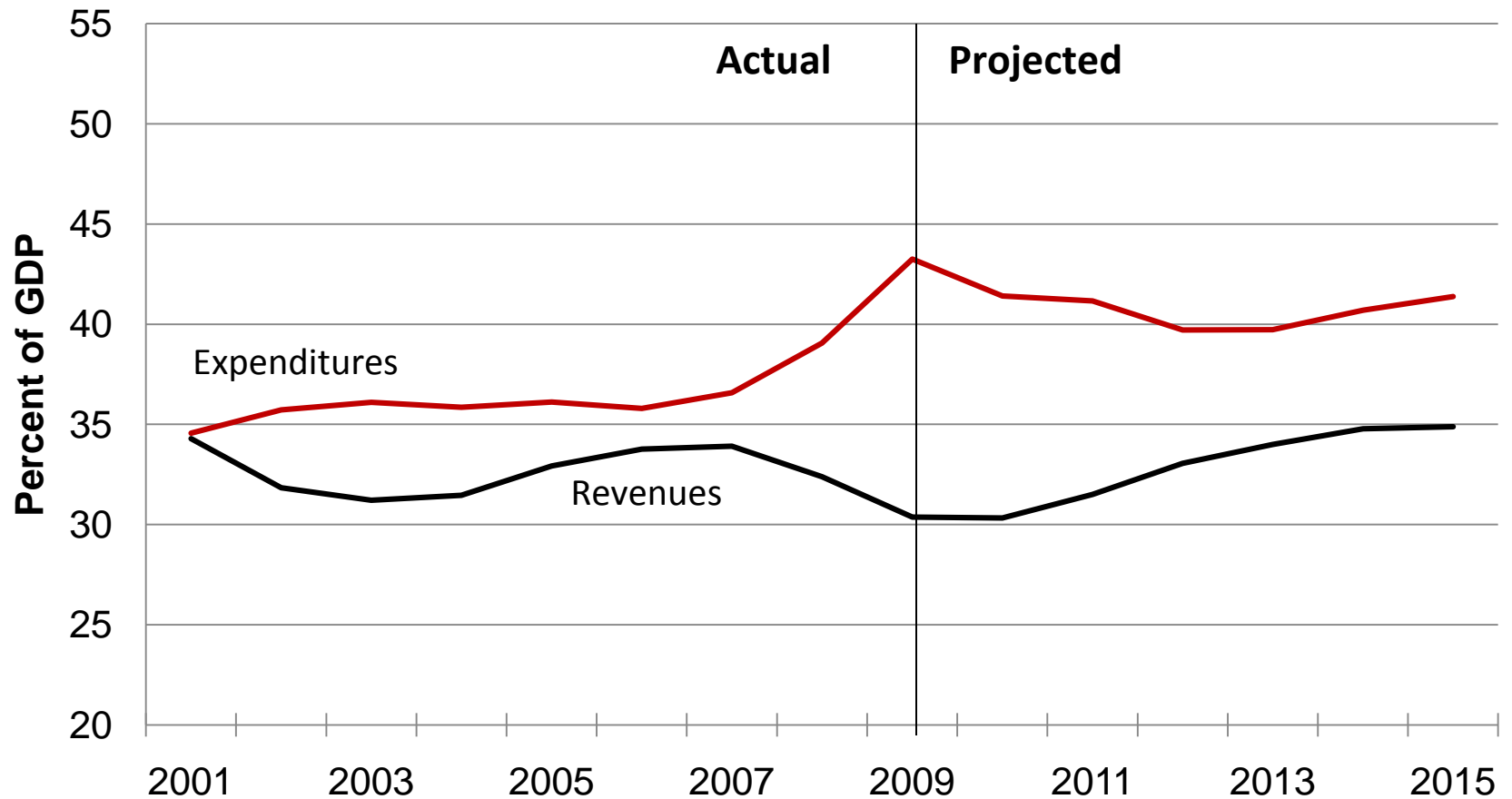
Current Account 1980-2015



General Government Revenues and Expenditures: Japan 1980-2015



General Government Revenues and Expenditures: United States 2001-2015



General Government Revenues and Expenditures: Canada 1988-2015

