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Austerity and Growth

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The Great Recession is going on

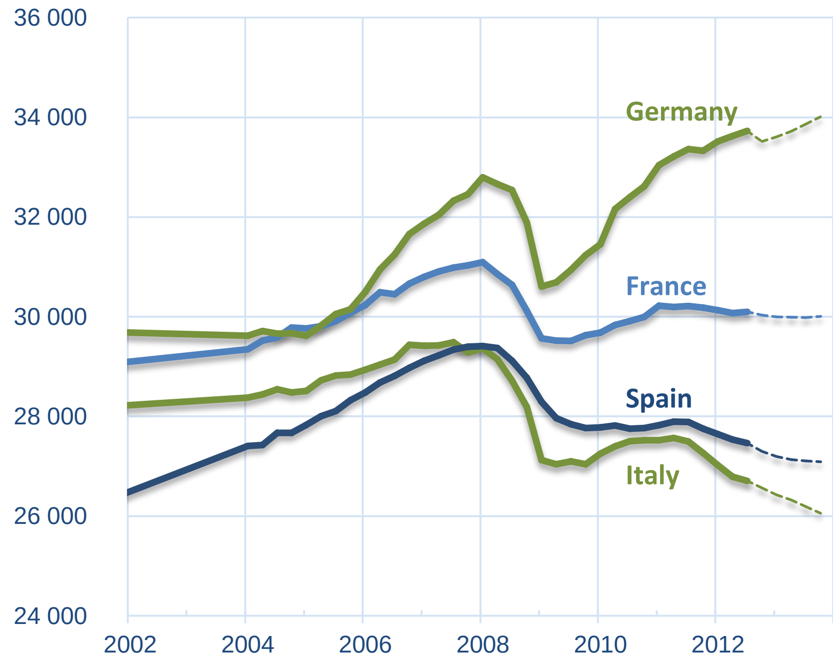
- **Despite encouraging sign on financial ground, the crisis is going on**
  - Euro banks stabilized; Spain and Italy near full financial markets access
- **The light at the end of the tunnel may be the train coming the other way**
  - No growth, unemployment, social crisi s ahead, long term consequences of the slump in Europe

GDP growth forecast

GDP yearly growth	2011	2012	2013
Germany	3.1	0.8	0.6
France	1.7	0.1	0.1
Italy	0.6	-2.1	-1.5
Spain	0.4	-1.3	-1.3
Netherlands	1.1	-0.9	-0.4
Belgium	1.8	-0.2	-0.2
Ireland	1.4	-0.4	-0.4
Portugal	-1.7	-2.8	-2.2
Greece	-6.2	-6.2	-3.7
Austria	2.7	0.5	0.1
Finland	2.7	0.4	0.4
Eurozone	**1.5**	**-0.4**	**-0.3**

OFCE IMK ECLM joint forecast, iAGS 2013, nov. 2012

Euro Area: GDP per head



Memo : Commission forecasts

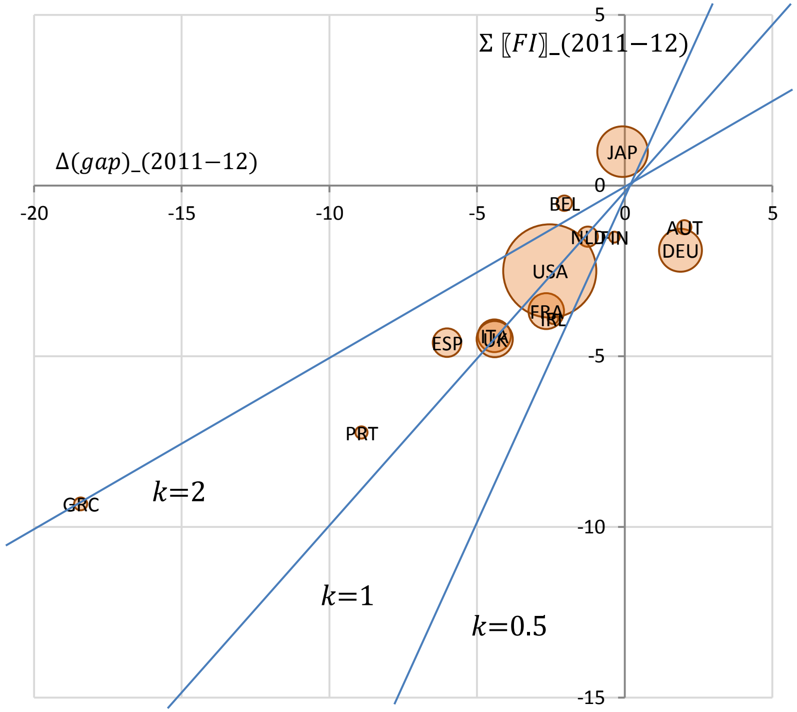
2012: -0.4%

2013: +0.1%

Fiscal multipliers in time of recession

Fiscal impulsion 2010-2013

	2010	2011	2012	2013
Germany	1.5	-0.9	-0.5	0.0
France	-0.5	-2.0	-1.6	-1.8
Italy	-0.4	-1.2	-3.2	-2.1
Spain	-2.5	-1.1	-3.4	-2.4
Netherlands	-1.1	-0.2	-1.0	-1.2
Belgium	-0.3	-0.1	-1.1	-0.8
Ireland	-4.4	-1.5	-2.4	-1.8
Portugal	-1.7	-3.7	-3.7	-1.8
Greece	-8.0	-5.3	-5.0	-3.9
Austria	0.6	-1.6	-0.1	-0.9
Finland	1.5	-1.6	-0.4	-1.3
Euro area	**-0.3**	**-1.3**	**-1.7**	**-1.4**

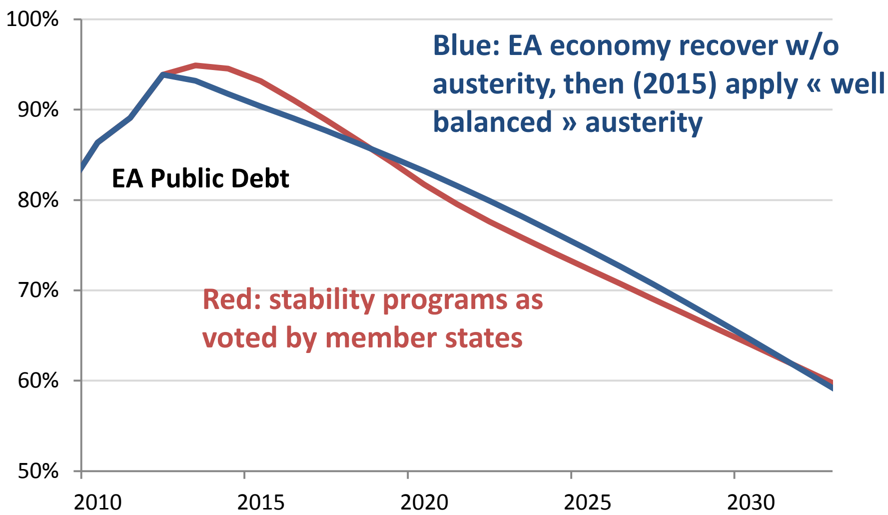


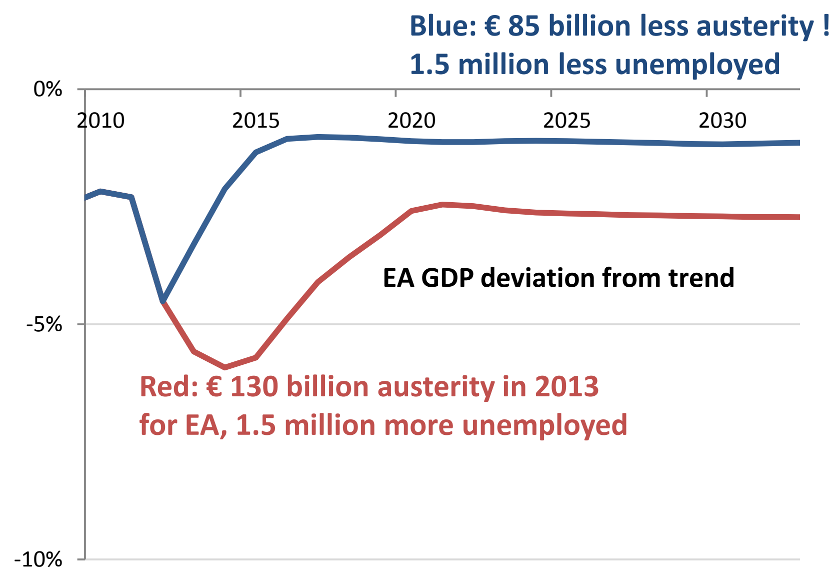
Fiscal impulsion is the opposite of the primary structural public deficit variation

- **Strongest austerity plans ever, for 3 to 4 years**
- **Due to degraded outlook, fiscal multipliers are high**
  - Low multipliers are met when economic agents are able to smooth over foreseeable future
  - Recession makes smoothing harder and costlier, future more gloomy and difficult to forecast
- **Austerity is ill-designed: it causes recession instead of curing it**

An other way is possible

- **“well balanced” austerity is the solution**
  - Waiting for better time to reduce public deficits
  - Delayed austerity would allow debt reduction to 60% GDP in most countries in 2032, with more growth and less unemployment
- **Addressing the “financial market pressure” needs a clear involvement of ECB**
  - OMT is a step, conditionality shall state delayed austerity and commitment to medium term
- **All that is compatible with existing treaties…**
- **… but in need of a strong commitment of countries to long term public finance stability**
  - Fiscal sovereignty transfer to democratic EU institutions





Have a look to iAGS 2013 report (www.iags-project.org) !