Ireland, Europe’s Poster Child for Austerity Post Crisis?

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Europe at the Crossroads: A Union of Austerity or Growth Convergence? Athens, November 22, 2014
Austerity (for me) is:

“...cutting the state’s budget to stabilise public finances, restore competitiveness through wage cuts, and create better investment expectations by lowering future tax burdens”.

Austerity and growth—Ireland as poster child?

- Private debt transferred to sovereign in 2008.
- Loan facility in exchange for austerity. Minimum 18.3% of GDP extracted by government since 2008 in a near-zero inflation environment.
- Sharp Movement from foreign surplus as deposits and equity 2002-2007 to foreign surplus as loans and equity 2007 to today.
- Unemployment peaked at 15.1% in 2011, has been falling, largely due to emigration, since.
- That said, nominal GDP forecasted to exceed pre-crisis peak in 2016. Ireland’s economy is expected to outperform the rest of the euro area in 2014 and 2015.
- So did austerity work?
From fiscal star to a balance sheet crisis

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Non Financial Assets</td>
<td>61</td>
<td>58</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>2. Financial Assets</td>
<td>72</td>
<td>65</td>
<td>62</td>
<td>73</td>
</tr>
<tr>
<td>3. Liabilities</td>
<td>114</td>
<td>138</td>
<td>167</td>
<td>208</td>
</tr>
<tr>
<td>5. Net Worth (1+4)</td>
<td>20</td>
<td>-15</td>
<td>-48</td>
<td>-77</td>
</tr>
<tr>
<td>Net Worth, % of GDP</td>
<td>12</td>
<td>-9</td>
<td>-29</td>
<td>-47</td>
</tr>
</tbody>
</table>

And yet, growth with austerity. How? openness

Sharper Consolidation, Better Growth? Source: IMF WEO.
Why no riots? Gross expenditure on social protection benefits and the reduction of the share of population at risk of poverty.
A loss of youth

Net Migration, 000s. Source: Central Statistics Office.
A gendered shock: women hit hardest by austerity

Changes in gender difference in the at risk of poverty rate 2008–2011. Source: CSO
Structure of the Irish economy meant the rest of the world accommodated Ireland’s deflation.

Sectoral Balances – Ireland (Quarterly). Source: CSO

Time
Sectoral Balances (Euro, Mn)
−15000 −10000 −5000 0 5000 10000 15000
Private
Public
World
Trade balance: Large change in $X - mM$ on the $m$ side.


<table>
<thead>
<tr>
<th>Time</th>
<th>Exports</th>
<th>Imports</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2006</td>
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<td>2008</td>
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<tr>
<td>2010</td>
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<tr>
<td>2012</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
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</tbody>
</table>
Labour costs: Is the story really wage flexibility?


Time
Y-o-Y Change, %
2011.5 2012.0 2012.5 2013.0 2013.5 2014.0
−15 −10 −5 0 5

Germany
Ireland
Greece
Spain
Cyprus
Portugal
Labour costs story sans Greece

Measures of openness (\(X+M/GDP\)), 2013

\[\frac{X+M}{Y}, \text{Ireland, Greece, Portugal. Source: Eurostat}\]
Openness indicators

ICC scale is read as: **5-6** Most open, excellent; **4-5**, Above average openness; **3-4**, Average openness; **2-3**, Below average openness.

<table>
<thead>
<tr>
<th>Country</th>
<th>((X+M)/Y)</th>
<th>FDI Openness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>4.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Italy</td>
<td>2.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Germany</td>
<td>3.6</td>
<td>3.0</td>
</tr>
<tr>
<td>Greece</td>
<td>2.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Portugal</td>
<td>2.5</td>
<td>3.4</td>
</tr>
<tr>
<td>Spain</td>
<td>2.5</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Source: ICC Open Markets Index, 2013.
Policy making as target-setting?


Ireland is not the poster child for austerity.

1. Experience of the 1980s is a story about capital expenditure reduction, not current expenditure.
2. Structure of the economy, particularly with respect to multinational presence, is anomalous.
3. One size fits all policies simply won’t work, either in Greece or elsewhere.
5. Target driven policies provide more, not less, uncertainty, with an uncertain outcome and a decreased fiscal space.