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".*

Mark Blyth, "Austerity as ideology," *Comparative European Politics*, Nov 2013, 11 (6), 737–751.

Austerity and growth–Ireland as poster child?

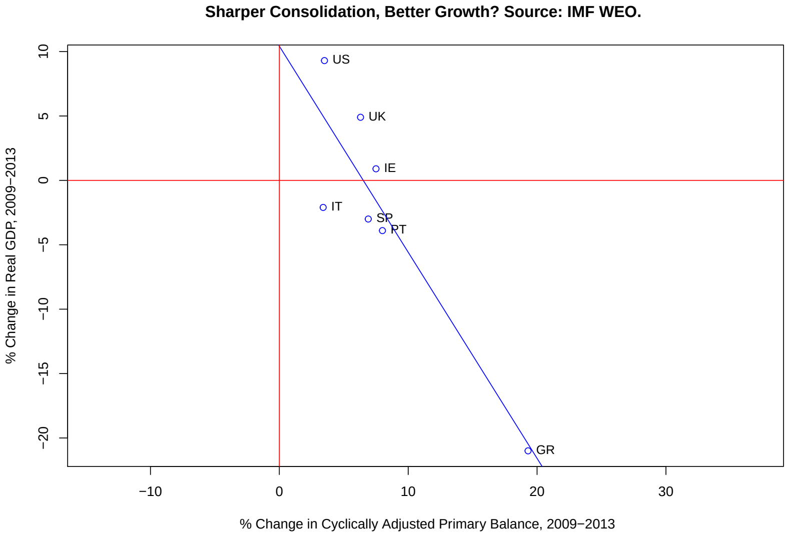
- What happened? An old-fashioned asset bubble, *pace* Minsky.
- Private debt transferred to sovereign in 2008.
- Loan facility in exchange for austerity. Minimum 18.3% of GDP extracted by government since 2008 in a near-zero inflation environment.
- Sharp Movement from foreign surplus as deposits and 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

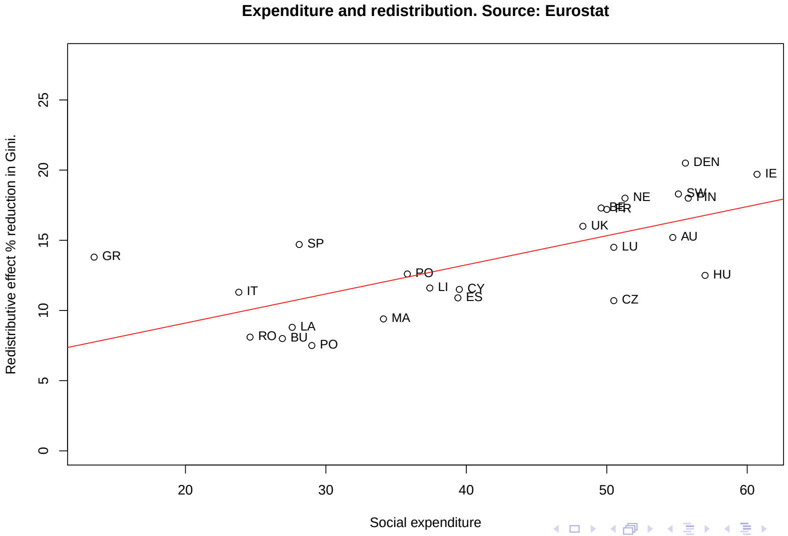
	2009	2010	2011	2012
1. Non Financial Assets	61	58	57	57
2. Financial Assets	72	65	62	73
3. Liabilities	114	138	167	208
4. Net Financial Assets (=2+3)	-41	-73	-105	-135
5. Net Worth (=1+4)	20	-15	-48	-77
Net Worth, % of GDP	12	-9	-29	-47

Source: Barnes and Smyth, The Government's Balance Sheet after the Crisis, Irish Fiscal Advisory Council, 2013, p.20

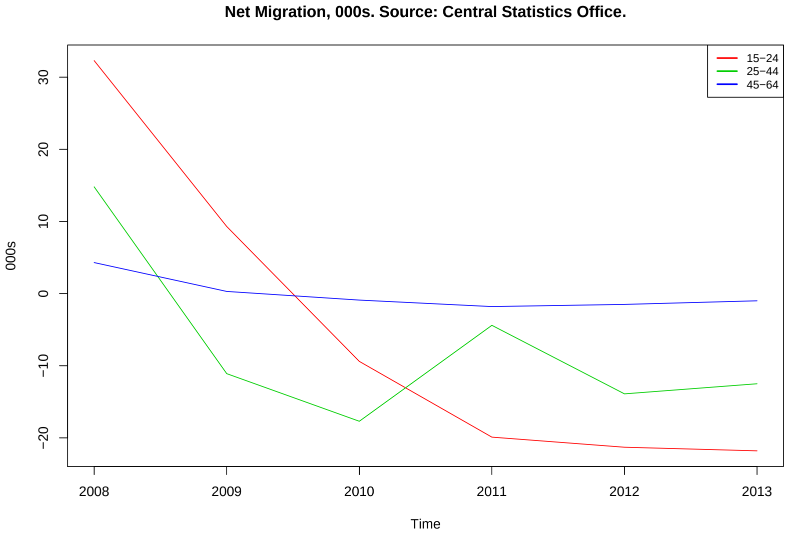
And yet, growth with austerity. How? openness



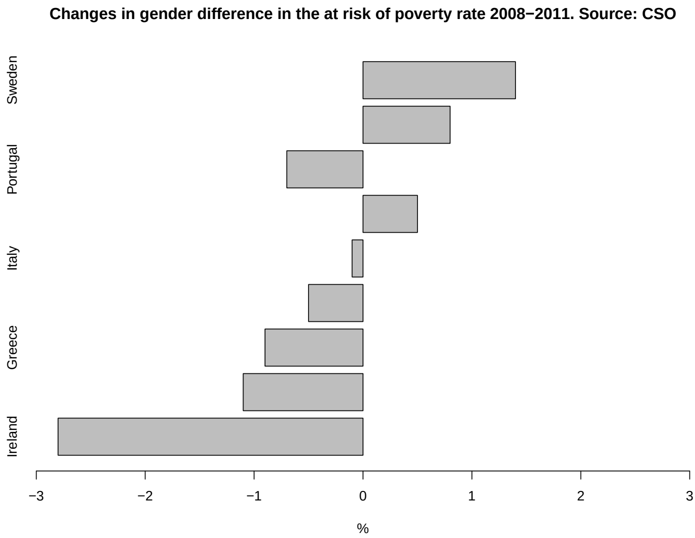
Why no riots? Gross expenditure on social protection benefits and the reduction of the share of population at risk of poverty.



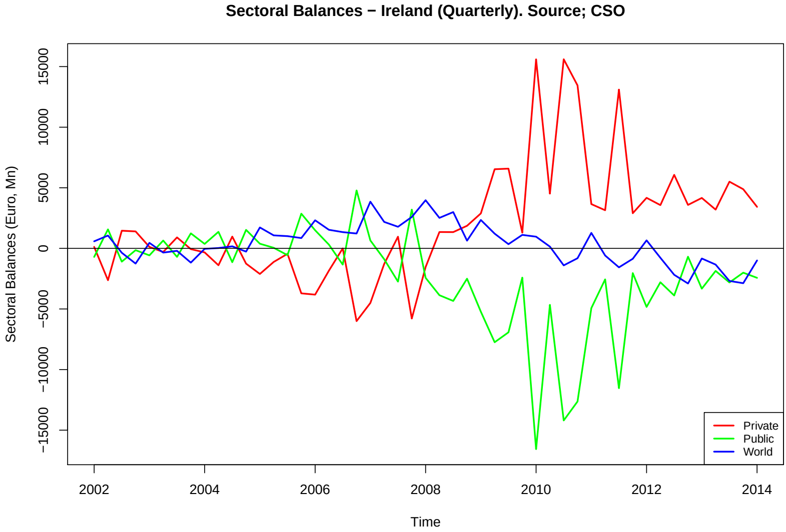
A loss of youth



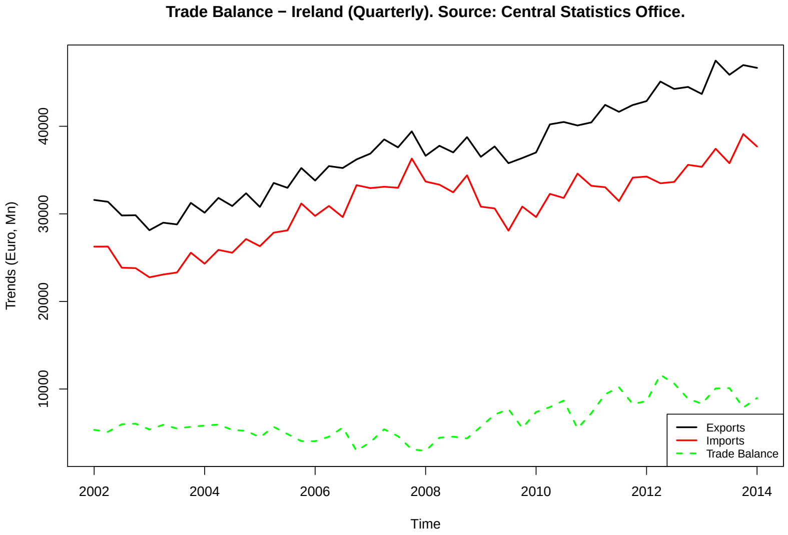
A gendered shock: women hit hardest by austerity



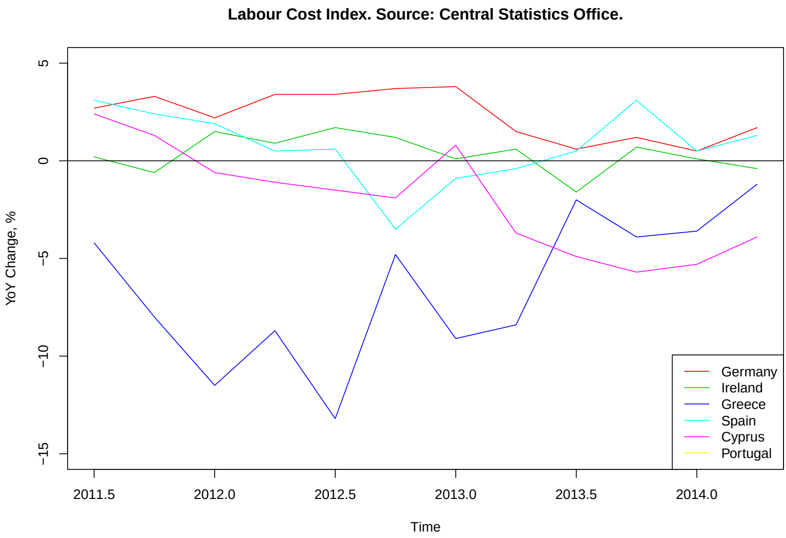
Structure of the Irish economy meant the rest of the world accommodated Ireland's deflation



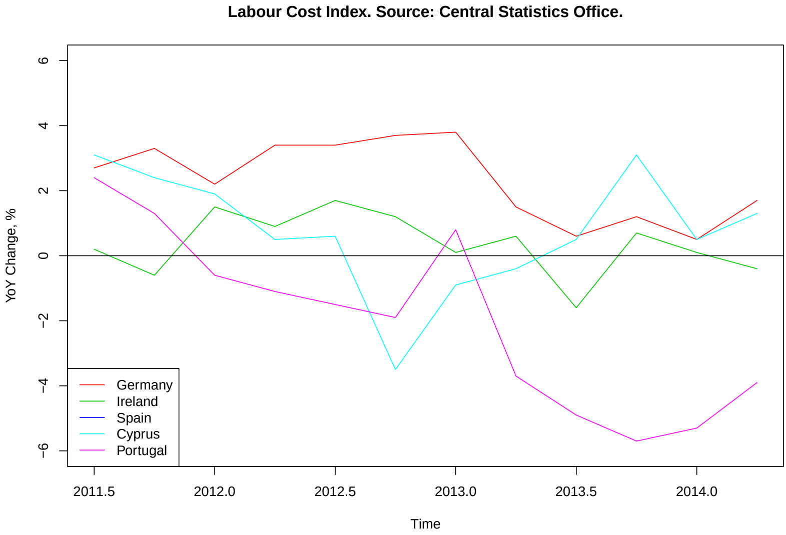
Trade balance: Large change in $X - mM$ on the m side.



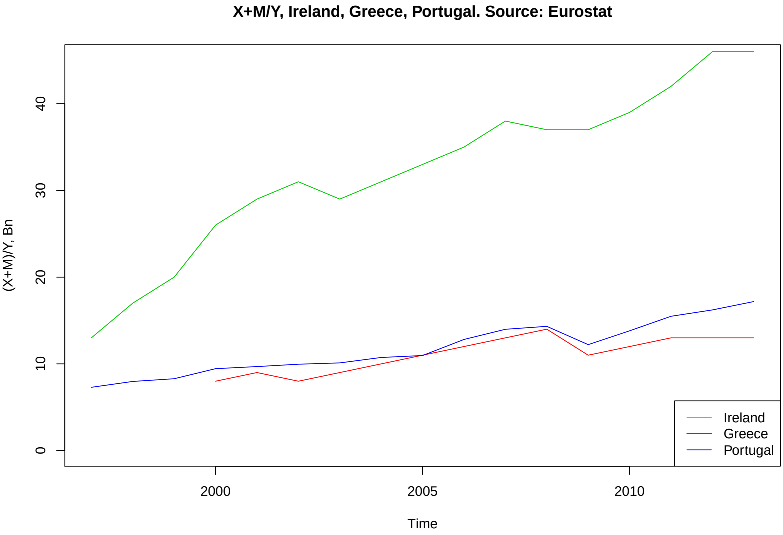
Labour costs: Is the story really wage flexibility?



Labour costs story sans Greece



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



Openness indicators

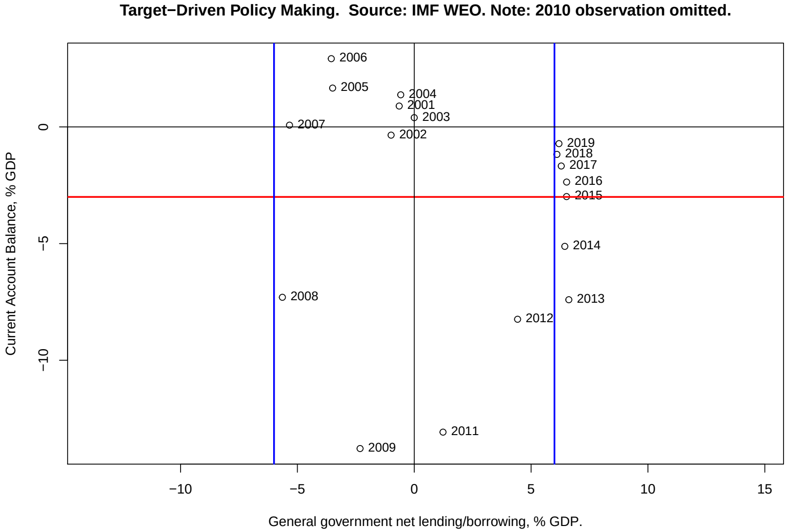
ICC scale is read as: 5-6 Most open, excellent; 4-5, Above average openness; 3-4, Average openness; 2-3, Below average openness.

Country	(X+M)/Y	FDI Openness
Ireland	4.2	3.5
Italy	2.5	3.3
Germany	3.6	3.0
Greece	2.1	2.6
Portugal	2.5	3.4
Spain	2.5	3.8

Source: ICC Open Markets Index, 2013.

Policy making as target-setting?

Red line: Maastricht/SGP Rule. Blue Line: MIP Scorecard.



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.
4. Absence of 'structural' reforms in the Irish case probably prevented societal meltdown.
5. Target driven policies provide more, not less, uncertainty, with an uncertain outcome and a descreased fiscal space.