View metadata, citation and similar papers at core.ac.uk

brought to you by CORE

provided by Directory of Open Access Journals

Annals of "Dunarea de Jos" University of Galati
Fascicle I. Economics and Applied Informatics
Years XVIII – nº1/2012 ISSN 1584-0409
www.ann.ugal.ro/eco

Anti-crisis Politics Assumed by Some Governs from Euro Area

Mioara CHIRITA[*], **Simona TOMA**[**], **Daniela SARPE**[***]

A R T I C L E I N F O

Article history:
Accepted March 2012
Available online 30 April 2012

JEL Classification
F 36, G 01, G 18

Keywords:
Financial crisis, Anti-crisis measures, Policies and reglementations anti-crisis

A B S T R A C T

Many governments from euro area continue to adopt the EU reglementations and policies anti crisis. Members of governments and parliaments of the euro area try to maintain liquidity in the economic system at this fragile moment of transition between crisis and growth and to develop exit strategies for winding down stimulus programmers once recovery has firmly taken root and to adopt medium-term measures to restore budgetary level. In this work are presented some of the most significant anti-crisis measures taken by some governments in the euro area. A comparative analysis for some representative countries from the euro area has been done in order to conclude that some anti-crisis measures had the desired effect, while others have side effects that required further actions.

© 2012 EAI. All rights reserved.

1. Introduction

The financial crises that touch the entire world economy have been a massive burden to the public budgets in nearly all countries of the world. In addition to tax revenue shortfalls and higher costs for social benefits, governments have been massively burdened by bank rescue measures and economic stimulus packages.

In the middle of 2008, the financial crisis had reached practically all countries. Governments desperately designed plans to pump huge sums into the economy, trying to rescue the banks and avoiding a complete financial collapse. In an effort to build up confidence, banks in Germany and Austria, agreed on bank rescue packages and gave a 100% state guarantee on unlimited private bank accounts. Governments in many countries had to take urgent action to prevent a collapse of the financial system. [6]. No continent or country was spared, and what had started out as a crisis of the home-mortgage and financial markets had reached many other sectors of the economy, such as the large automobile manufacturers in the US or Germany. Many banks had to be partly nationalized, with the state buying shares so as to prevent bankruptcy. [5]

The role of government in different economic systems as well as events leading to the current crisis and measures taken by governments will be reviewed. These include bailout plans for financial institutions and companies that are in danger of bankruptcy, stimulus packages mostly for investment in infrastructure projects, and measures to build consumer confidence. In different economic systems, there are varying degrees of government involvement. Adam Smith (1723-1790), who laid the theoretical foundation of the free market economy, assigns only a marginal role to the government in an economy. In his economic theory only aggregate supply and aggregate demand regulate the market. John Maynard Keynes (1883-1946) had in mind a different economic model. It includes more government involvement in the economic process. At a time of enormous unemployment in the 1930s, he argued that the economy cannot heal itself, but has to be helped by the government through fiscal policy, increased government spending and measures to create jobs. [16, 10]

A further development of this concept was the social market economy, which was established in Germany around the middle of the 20th century. Its central ideas are that large firms or monopolies endanger the productivity of the economic system and therefore have to be subjected to some state control, while still leaving a maximum of freedom. [12]

By the end of 2008, it was clear that the world had entered a period of global recession, and no longer could the devastating effects of the economic and financial collapse be seen as a temporary crisis. The governments try to bolster savings in periods of growth in order to mitigate the risk of boom and to generate savings for future economic downturns and redouble efforts to coordinate economic strategy internationally, to engage the developing world in this process and to ensure that recovery strategies are environmentally sustainable. In all this time, from 2008, some of the afflicted economies of euro zone countries have problems

[*], [**], [***] Department of Economics, Faculty of Economics and Business Administration, Dunărea de Jos University of Galaţi, Romania. E-mail addresses: mioarachirita@gmail.com (M. Chirita), simona.toma@ugal.ro (S. Toma), d_sarpe2000@yahoo.fr (D. Sarpe)

with excessive wages and prices that far exceed the competitive level, the exports are held down by the high prices, and the high incomes generate a volume of imports that is not sustainable.

All the anti-crisis politics assumed by some governs from euro area are launched to construct strategies for keeping workers gainfully employed, and also to ensure that they are trained for new jobs and maintained them above the poverty line so as not to permanently undermine their employment prospects.
But, most important it is to analyze that the underlying conditions that caused the ongoing food crisis have not significantly changed and that policies are needed to ensure that food is available to the hundreds of millions living on the edge of starvation. [2]

Since then capital markets have been extremely unstable, showing signs of distrust in the creditworthiness of the GIPS countries: Greece, Ireland, Portugal and Spain. The European Union reacted by preparing a rescue plans that, have been resorted to by Greece and Ireland.

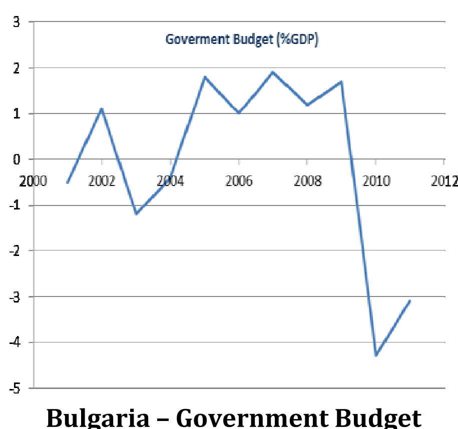
This paper presents some of the most significant anti-crisis rescue plans taken by some governments in the euro area, the efficiency and the budget of these measures as size and structure in order to reduce economic and financial crisis effects in Romania and another country from euro area.

2. Anti-crisis rescue plans assumed by some governs from euro area

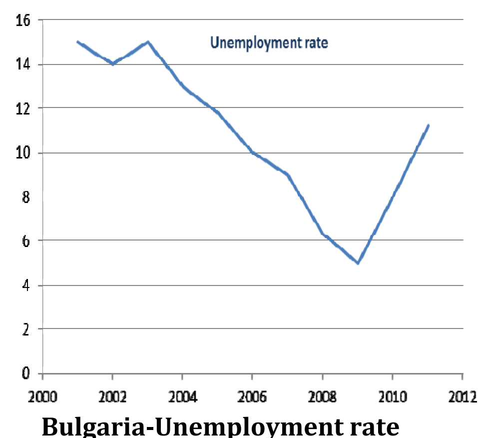
Most of the government has been forced by the crisis to apply austerity measures to cover the budget deficit. In most countries, economic programs have been highly effective, except Romania and Latvia, which will remain in the negative zone in 2010 year.

Bulgaria is one of the lowest income member states of the European Union to which it belongs since 2007. In recent years the country has experienced a fast economic growth. In Bulgaria the current economic situation is described by the new notion of 'labour market contamination' due to the fact that, in recent years a growing number of tax-subsidized workplaces and low qualified employment emerged in Bulgaria. [18]

The consequences of the crisis for the Bulgarian labour market has conducted of the unemployment rate in Bulgaria will reach about 11% in 2011 and the government will have to focus its activity on measures to combat unemployment. He highlighted that all funds of the social security systems registered a deficit.



Bulgaria – Government Budget



Bulgaria-Unemployment rate

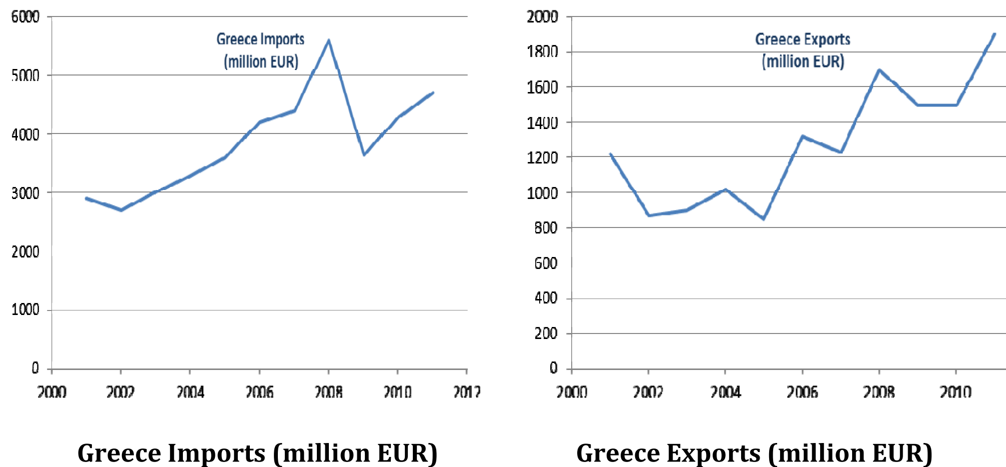
Source: adapted by Trading Economics

To combated this problems, the reglementations of the Bulgarian's govern are focused to implement an optimized package of passive and active labour market measures, which will be introduced over the next year, and it is planned to fund these measures not only from the state budget but also through the European Structural Funds under the operational programmers. Bulgaria reported a government budget deficit equivalent to 3.1 percent of the Gross Domestic Product in 2011, according with the next table. Government Budget is an itemized accounting of the payments received by government (taxes and other fees) and the payments made by government (purchases and transfer payments). [9, 18]

In 2011 in Bulgaria the taxes on property and luxury cars, withdrawal of benefits for civil servants, a VAT increased with 2%. Also was implemented as an anti-crisis measure the taxation of pensions, for the persons who continues to work full time. The Greek financial problem has been understood since 1930The Greek state never raised the issue with the persistence and intensity needed to focus all efforts toward future growth prospects. Economic and social problems in Greece shook the worldwide economy in 2009. From the birth of the Greek state in 1821 until today, Greece has suffered three other crisis of national debt in addition to the most recent one: 1830-1846, 1932-1950 and 2010. The consequence is multidimensional and develops through time. The crisis has affected almost all aspects of life of a society of 11 million people (and by extension the global economy). [1, 13] Greece does not have a viable business model. The Gross Domestic Product in Greece contracted 7.5 percent in the fourth quarter of 2011 over the same quarter, previous year. From 2001 until 2011, Greece's average annual GDP growth was 2.21 percent reaching an historical high of 6.60 percent in March of 2003 and a record low of -7.40 percent in December of 2010. This must be financed

by capital imports. But the markets are very reluctant to provide the money that is needed, and for this reason Greece must reduce its deficit by importing less and by selling more products on the world markets.

Historically, from 2001 until 2011, the difference between the imports and the exports of Greece are shows in the next table:



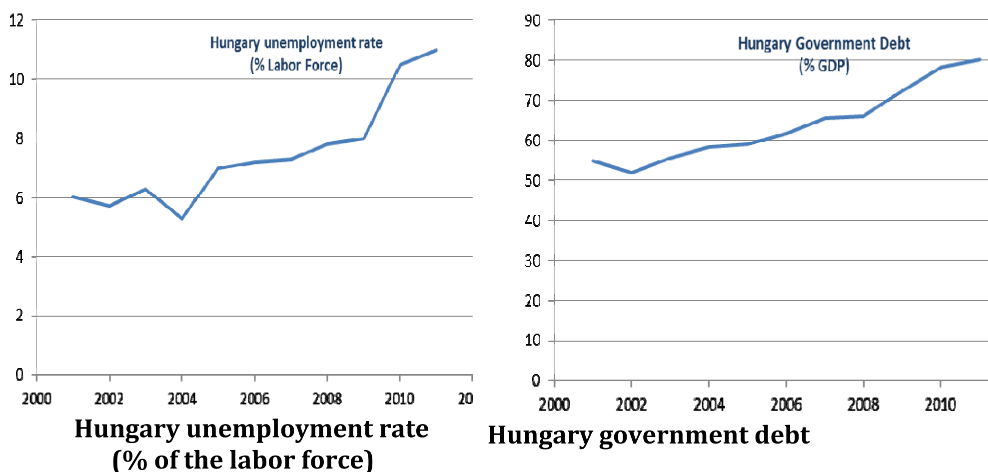
Greece Imports (million EUR) **Greece Exports (million EUR)**

Source: adapted by Trading Economics

The unpopular measures taken by Greek government include a new property tax and the suspension of 30,000 civil servants on partial pay by the end of this year. Many Greeks feel the international lenders' conditions are intolerable, condemning the country to years of painful spending cuts and job losses. The unemployment rate has risen to 18.4%. In Hungary between 25,000 and 30,000 public employees in Hungary will be laid off in 2011, but the new austerity measures will achieve a budget deficit at 2.95% of GDP froze public sector wages, saving 256 million euros. From 1996 until 2011, Hungary's average annual GDP Growth was 2.75 percent reaching an historical high of 5.45 percent in March of 1998 and a record low of -7.02 percent in June of 2009. Govern reduced income tax to 17%, reduced a social contributions (paid by employers), a VAT increased from 20 to 25%. Was eliminated the 13-th pension, a freeze on social benefits for the next two years and it increased the retirement age of 65 years.

The unemployment rate in Hungary was reported at 11.6 percent from December of 2011 to February of 2012. From 1999 until 2010, Hungary's Unemployment Rate averaged 7.13 percent reaching an historical high of 11.80 percent in March of 2010 and a record low of 5.5 percent in October of 2001. According to public opinion Hungarians feel unemployment is the country's most serious problem. In contrast, it appears that the unemployment rate (the percentage of employable adults currently out of work) has stabilized, and recently has even declined. In fact, the current unemployment rate, when compared to the rest of Europe, does not seem exceptionally high. [8]

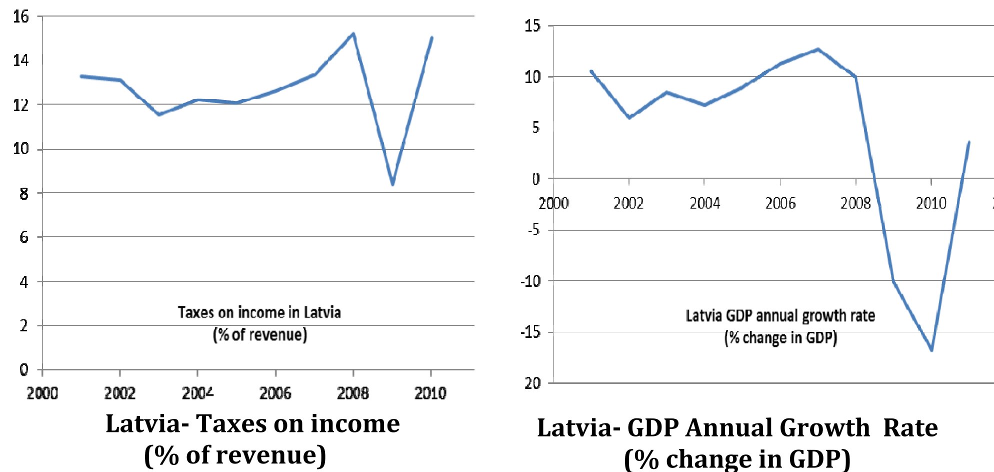
Compared with the Hungarian unemployment rate, the government debt as a percent of GDP is used by investors to measure Hungary's ability to make future payments on its debt, thus affecting Hungary's borrowing costs and government bond yields. The Government Debt in Hungary was last reported at 80.2 percent of the country´s GDP. From 1995 until 2010, Hungary's average Government Debt to GDP was 55.25 percent reaching an historical high of 80.20 percent in December of 2010 and a record low of 0.00 percent in December of 1996. The difference between the unemployment rate and the government debt in Hungary are shows in the next figure.



Hungary unemployment rate (% of the labor force) **Hungary government debt**

Source: adapted by Trading Economics

Latvia has one of the highest GDP growth rates in Europe, mostly driven by expansion in consumption and credit. In Latvia the public-sector salaries were also cut by 28% and the tax income from 23 to 26%. The taxes on income; profits and capital gains (% of revenue) in Latvia was reported at 15.21 in 2008, according to the World Bank. Taxes on income, profits, and capital gains are levied on the actual or presumptive net income of individuals, on the profits of corporations and enterprises, and on capital gains, whether realized or not, on land, securities, and other assets. Intergovernmental payments are eliminated in consolidation. [18]



Latvia- Taxes on income (% of revenue) **Latvia- GDP Annual Growth Rate (% change in GDP)**

Source: adapted by Trading Economics

The capital gains, dividends and interest income are also taxed, new tax - 15%. Also a new tax was created and applied in the case of gifts that exceed $ 1,179 per year. Increase in excise duty for Latvia has affected not only fuels, tobacco and alcohol, but coffee, soft drinks and natural gas used to heat homes. Was implemented a new tax on agricultural land fallow. [15]

For more than ten years before the current crisis, Spain was as a success economy story. Unemployment to above 20 percent and a severe contraction of GDP has generated large budget deficits in Spain, but it still less affected in comparison with financial markets from Greece, Ireland or Portugal. As anti crisis planned rescue, in Spain was reduced with 5% of salaries of the budgetary staff, reduced with 15% for dignitaries (in 2011) and suspended the aid to each family on the birth of a child (2.500 euros).

In United Kingdom, the government will do everything possible to protect education and health budget; the research will be protected by the wave of cost reductions. Was implemented the reduction of 7.8 billion euro budget for social assistance and the elimination of 490,000 employees by public sector, and also was raising the retirement age from 65 to 66 years, since 2020.

Germany has developed various plans to secure long-term stability and reinvigorate the social market economy, which consist in imperative consolidation of the public budget, and this was the most important and decisive task of the government for the next ten years. Consolidation will only be successful if the government’s expenditures and subsidies are lowered.

In Austria as anti crisis plans was extended unemployment aid and encouraging part time work, professional retraining and was approved a subsidies on energy bills.

Romania has been hit particularly hard by this unprecedented financial storm due to the large size of the banking sector in comparison to the overall economy.

In 2010, real economic activity declined by -1.3%, after -7.1% in 2009. The long duration of the recessionary period was a result of a sharp downward adjustment in domestic demand, which in the run-up to the crisis had been fuelled by expansionary fiscal policy and a boom in credit growth, mostly in foreign currencies. With the onset of the crisis, new fiscal measures were implemented to rein in government expenditure to bring down the government deficit. Most of these measures were implemented in the second half of 2010, thus prolonging the economic downturn while most of the euro area was already recovering. The Romania Government has taken measures and is working hard to resolve the situation, both independently and in cooperation with other parties. [7]

Romania is cooperating with the European partners and is currently consulting with the IMF on measures toward further stabilization of the Romania economy. In Romania the mainly measures adopted, affect the labor market, either directly or indirectly. The Romanian government proposed 2 scenarios as anti crisis rescue plans:

- 1st scenario: (the initial version of government) reduction by 25% in public sector wages, pensions by 15% and 15% of the unemployment fund,
- the 2th scenario: (version adopted by the government) reduction by 25% in public sector wages by 15% of the unemployment fund and increase VAT by 5 percentage points.

The solution adopted by the authorities in June 2010 was to reduce expenditures while broadening the tax base. Since July 2010, wages administration public decreased by 25% and VAT increased by 5 percentage points to 24%. [19] This solution requires a cost increase of taxes throughout the economy, and hence on

private sector already been adjusted in response to stronger economic crisis. It has a counterproductive effect, delaying recovery. In addition, lead to a loss of competitiveness in the economy in a time when export volume growth would could provide support for economic recovery.

3. The efficiency of anti crisis plans

The anti-crisis measures adopted in Romania and in another country from euro area didn't give the expected results, and some of them were close to the inefficient rescue plans from Europe. [4]

In the bellow figure we observe the marks for anti crisis measurements for Europe countries. 1 point represents inefficient measures as size and structure to reduce crisis effects, 5 indicates more or less sufficient measures and 9 represents absolutely sufficient initiatives. [3]

Figure 1. The marks for anti crisis measures (Europe countries)
Adapted from source: www.agenda.ro

As we can observe, Norway obtained the highest mark of 7.4 in the world. The other countries whose anti-crisis measures exceeded 7 are Denmark, and then are Sweden and Finland. We observe that Romania, with 1.3 points, is among the countries with the fewest juridical and administrative restrictions for foreign companies and the political instability factor can deteriorate the business environment for foreign investors.

4. The budget - a tool to finance investments needed during a period of fiscal consolidation

Until now the Europe Union has taken a series of severe and bold measures to restore confidence, stability and sustainability in the financial markets. But, to enforce government budget in Europe zone, the capital markets must receive credible signals that in the case of one country's over-indebtedness, the creditors bear liability before help from European Union or other member states can come into play. The current crisis calls for concerted action at both the European and the international level. [19] On December 2010 the European Parliament voted the EU budget 2011, which is related in the following figure:

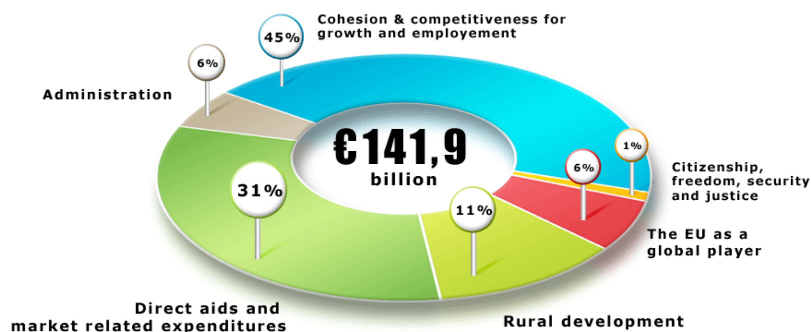


Figure 2. The EU adopted budget from 2011
Source: www.ec.europa.eu

In the following table we observe the summary of financing of the general budget by class of own resources, in million euro. The distribution between Member States of the total own resources payments needed to finance the 2011 budget is the result of the budgetary forecast of traditional own resources, of the VAT and GNI bases.

Table 1. The summary of financing of the general budget by class of own resource

	VAT own resource	Gross national income (GNI) own resource	Total national contributions
BE	447.1	2 726.5	3 342.9
BG	50.0	262.4	328.7
CZ	198.4	1 054.3	1 318.1
DK	288.0	1 844.9	2 247.6
ES	1 194.1	7 938.4	9 625.7
FR	2 687.3	15 429.7	19 075.6
IT	1 865.2	11 912.3	14 517.6
HU	130.7	745.8	922.9
LV	20.3	129.0	157.2
NL	297.2	4 548.6	4 263.7
AT	292.6	2 173.0	2 505.3
PT	245.0	1 231.3	1 552.8
RO	145.3	965.1	1 170.3
FI	241.2	1 380.2	1 707.2
UK	2 567.4	13 313.3	12 918.3

Adapted from source: www.ec.europa.eu

In global figures, the money from the budget comes from contributions of euro counties, unspent amounts from previous years; from a uniform rate applied to gross national income of euro countries, and a rate applied on all EU countries value added tax. With issues such as energy, the environment, climate, trade, growth and financial stability best tackled at European than national levels, this budget was essential to start the year 2011 with the required tools. It will allow continuing to invest in the EU's future through growth and employment enhancing measures. [7] In figure 3 are presented the relations of the taxes.

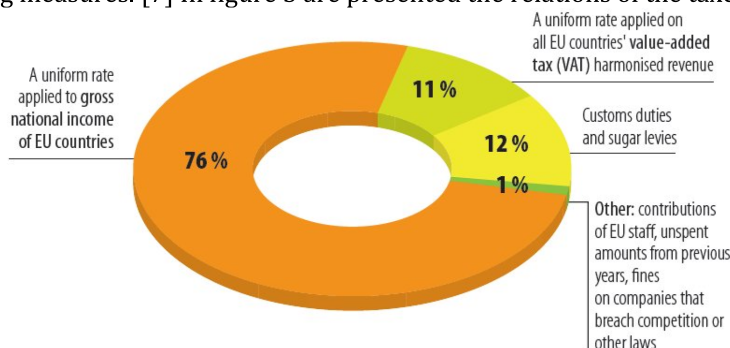


Figure 3. The source of budget money

Source http://ec.europa.eu

According with the specialist's opinions, the 2012 draft budget will also address the objective of smart, sustainable and inclusive growth, as identified by the Europe 2020 strategy. The following priorities have been established for the 2012 Draft Budget. The total expenditure requested in the draft budget (DB) 2012 is EUR 147 435,6 million, corresponding to 1,12 % of GNI, that is EUR 5 324,3 million more than in 2011 (+ 3,7 %). In the next figure is presented one of the draft budgets for 2012:

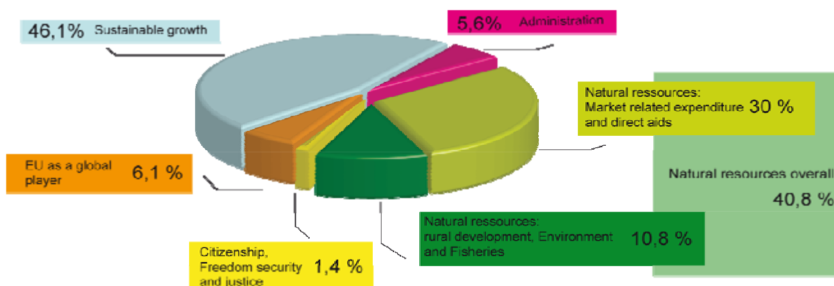


Figure 4. The EU draft budget from 2012

Source: http://ec.europa.eu/

The EU budget is also a tool to finance investments, particularly needed during a period of fiscal consolidation in the Member states. Within an overall level of commitments set at EUR 147.4 billion, 46.1 % is dedicated to sustainable growth.

The 2012 draft budget want to combines targeted reinforcements of EU policies and priorities, as set out above, with a rigorous approach towards administrative expenditure, at a time of austerity measures in Member States. The Commission has made a particular effort by freezing its running costs, excluding pensions and European schools, by significantly reducing expenditure linked to buildings, information and communication technology, studies, publications, missions, conferences and meetings. More than that, for the third year in a row, the Commission does not request any new post. The Commission's strict approach to administration is to a large degree followed by most of the other Institutions, leading to an overall increase for heading 5 of 1.3 %, below expected inflation.

The economic growth investments of the Europe's countries will remain at the heart of European Union activity in 2012, building on a more positive economic outlook. The European Union, while pursuing its support to investment and to actions in favor of growth and employment in 2012, will act in a new frame established for economic recovery and economic governance. In the context of the recovery gaining ground, the European Union budget will have an important role to play as a leverage tool to Member States' recovery policies, which will impact on final beneficiaries.

This draft budget for 2012 is therefore proposed at the level of EUR 147.435,6 million in commitment appropriations, corresponding to 1.12 % of GNI and EUR 132.738,6 million in payment appropriations, corresponding to 1.01 % of GNI. The decisions of the European Union countries' decisions propose a three stage crisis mechanism, based on in principals for:

- first, if a country cannot service its debt, a mere liquidity crisis will be assumed, a temporary difficulty due to a surge of mistrust in markets that will soon be overcome,
- second, if the payment difficulties persist after the two-year period, an impending insolvency is to be assumed,
- third, should the country be unable to service the replacement bonds and need to draw on the guarantees from the ESM, full insolvency must be declared for the entire outstanding government debt. [4]

Problems of some members of the euro area (Greece, Ireland, Portugal) have different origins; however, all of these states have been struggling with serious fiscal consequences that have forced them to request external financial assistance. Temporary stability mechanisms that were set up in May 2010 (EFSM and EFSF) gave the EU the necessary instruments to support troubled euro area members. However, there have been some doubts among analysts and experts about whether the total amount of these facilities is sufficient to safeguard stability of the euro area in case of a further contagion of the sovereign debt crisis. The other issue is whether the euro area members most affected by the crisis (especially Greece) will be able to achieve long-term sustainability of public debt and to avoid restructuring their debt. The factor that has a detrimental impact on financial stability of the euro area is the situation in the EU banking sector. Some problems in the EU banking system (such as undercapitalization of some banks and toxic assets) still have not been solved, which can hinder restoring sustainable economic stability in the euro area. The new round of stress test, which will be finalized in June 2011, probably will give more credible picture of the situation in the banking sector than the previous one (concluded in July 2010), and its outcomes would trigger further recapitalizing and restructuring of banks. [11]

The people's satisfaction with their national leadership is strongly related to economic conditions in the country. If leaders from debt-laden countries in eastern and southern Europe are unable to find new ways to boost local economic conditions -- a huge task considering the potentially adverse effects of austerity measures on short-term economic growth -- anti-government protests and social unrest are likely to continue. New governments in Italy and Spain have pledged to make the recovery of their struggling economies a top priority, but if they fail to do so, they may meet the same fate as their predecessors. [17]

In conclusion, governments around the world have introduced emergency measures to protect their financial system and rescue their banks, as they suffer from a severe liquidity shortage, in order to increase confidence.

5. Conclusion

After a year of fragile recovery, the global economic growth started to decelerate on a broad front in mid-2010. According with the specialists the slowdown is expected to continue into 2011 and 2012 as weaknesses in major developed economies continue to provide a drag on the global recovery and pose risks for world economic stability in the coming years. The unprecedented scale of the policy measures taken by Governments during the early stage of the crisis no doubt helped stabilize financial markets and jump-start a recovery.

The EU economy is gradually recovering, and certain cooperation between these countries has made recovery easier, while leading to sustainable growth. Actions, each of them are important as they may have great influence on the responses and evolution of other countries. The economic crisis induced governments

all over the world to pursue expansionary fiscal policies; consequently, the public finance situation in the member countries of the European Union has deteriorated sharply. The financial crisis has had an exponential effect on the deterioration of the situation that low income countries had already been starting to experience.

The policy response weakened during 2010, however, and is expected to be much less supportive in the near term also, especially as widening fiscal deficits and rising public debt have undermined support for further fiscal stimuli. Many Governments, particularly those in developed countries, are already shifting towards fiscal austerity. This will adversely affect global economic growth during 2011 and 2012.

In this context, the European Union will have a hard time redressing these imbalances. The solution for European Union can be to overcome its regime of soft budget constraints, resorting to a regime exhibiting more prudent investment behavior, based on the principles of liability and responsibility.

It also needs a system of generally accepted supervision and codes of practice in the financial industry, as well as tight public debt constraints so as to tame the excessive and unhealthy capital flows that caused the crisis. Once such a system has been established, the current difficulties of the European Union zone may turn out to be more easy to solve, and in final will become a success story in the process of redressing of these imbalances. [10] In conclusion the crisis should be used as an opportunity: structural reforms to enhance growth in general and fiscal frameworks in particular. In the context of the recovery gaining ground, the European Union budget, in next years, will have an important role to play as a leverage tool to recovery policies of countries member, which will, in final, a strong impact on final beneficiaries.

Acknowledgement:
The work of Chirita Mioara was supported by Project SOP HRD – EFICIENT 61445/2009.
The work of Toma Simona was supported by Project SOP HRD – TOP ACADEMIC 76822/ 2010.

References

1. *Angelopoulos, A., "Stabilisation and Recovery of the Greek Economy", Athens, 1990*
2. *Cangiano, M, "Sovereign Balance Sheet and Accounting for the Fiscal Response to the Global Financial Crisis", 10th Annual OECD Public Sector Accruals Symposium, Paris, 2010*
3. *CESifo Group, "Economic Facts and Figures", 2010, http://www.cesifo-group.de*
4. *CESifo Group, The EEAG Report on the European Union Economy "A New Crisis Mechanism for the European Union Area", Munich 2011, http://www.cesifo-group.de*
5. *Cooper, G. "The Origin of Financial Crises, Harriman House", 2008*
6. *Guillén, M. G. "The Global Economic & Financial Crisis: A Timeline", The Lauder Institute, Wharton, University of Pennsylvania, 2009*
7. *Economic and Financial Affairs, "European Economic Forecast", 2010, 2011, http://ec.europa.eu*
8. *Hammer, F., Gergely, L., Weaver, B. W., "Critical Choices for Hungary", 1994*
9. *International Monetary Fund (IMF) - World Economic and Financial Surveys- Global Financial Stability Report, Sovereigns, Funding, and Systemic Liquidity", http://www.imf.org/external/pubs/ft/gfsr/2010/02/pdf/text.pdf, October 2010*
10. *Keynes, J.m., "The General Theory of Employment, Interest and Money", 1936*
11. *Koczor, M., Tokarski, P., "The EU Economy Response To The Crisis And Prospects For The New Decade", Polski Instytut Spraw Międzynarodowych, Warsaw, 2011*
12. *Mathur, V. K., "The role of government in a free market economy", 2010*
13. *Petrakis, P., "The Greece Economy and the Crisis", Springer, 2012*
14. *Questions and answer on financial assistance to European Union-area Member States, www.europa.eu, 2010*
15. *Riet, A., "Euro area fi scal policies and the crisis", April 2010*
16. *Smith, A., "An Inquiry into the Nature and Causes of the Wealth of Nations", 1776*
17. *Sonnenschein, J., "EU Leaders See Low Job Approval", Gallup, 2012*
18. *Trading Economics, "Economics indicators", 2011, www.tradingeconomics.com*
19. *United Nations, "World Economic Situation and Prospects 2011", New York, 2010, 2011, http://www.unctad.org*
20. **** www.agenda.ro*