

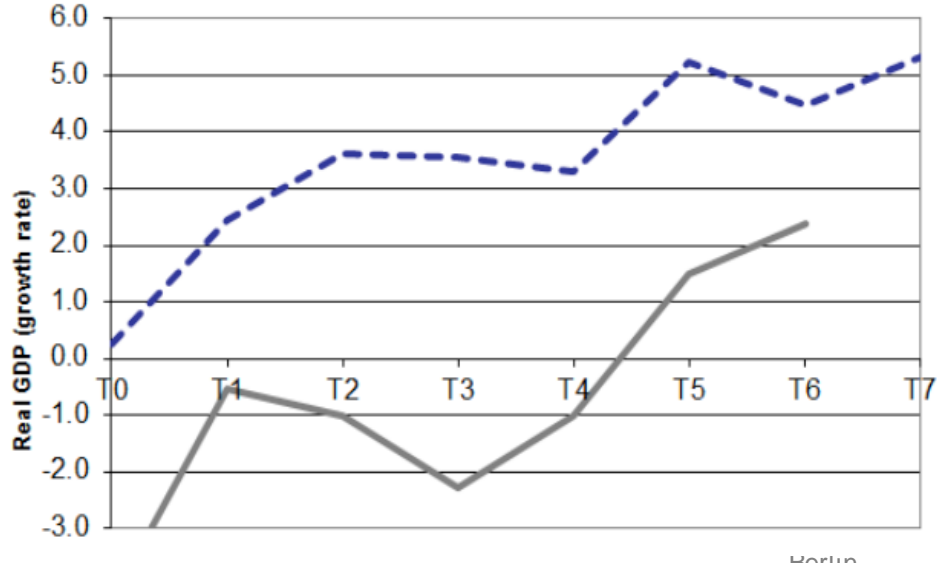
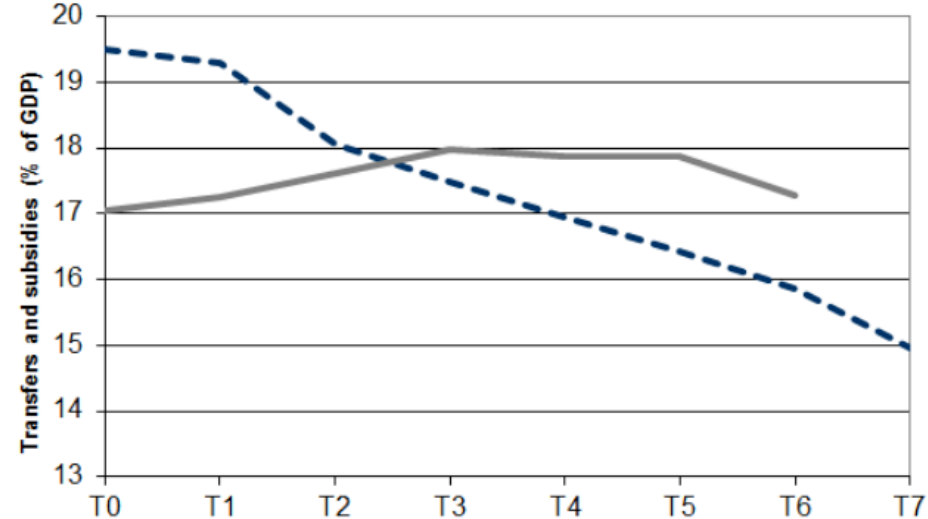
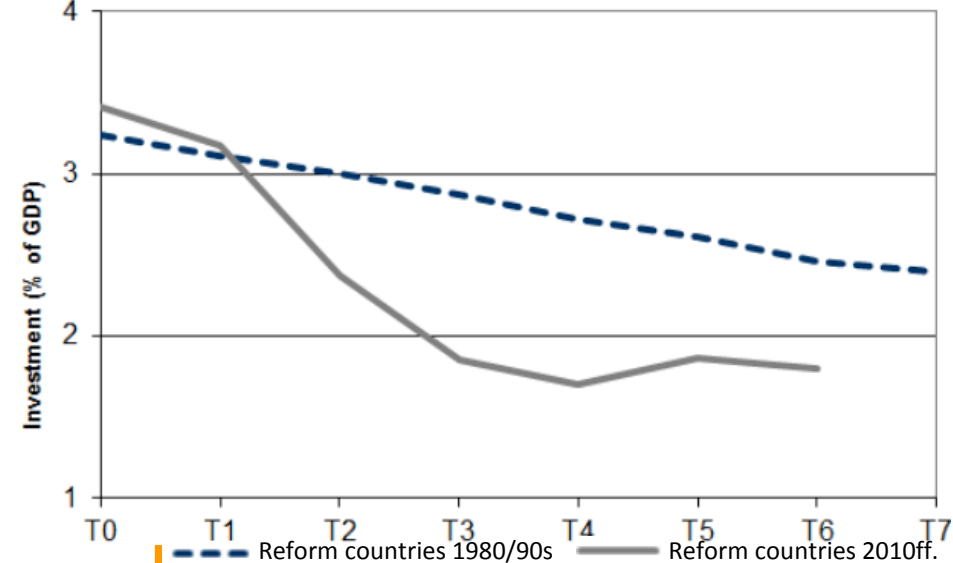
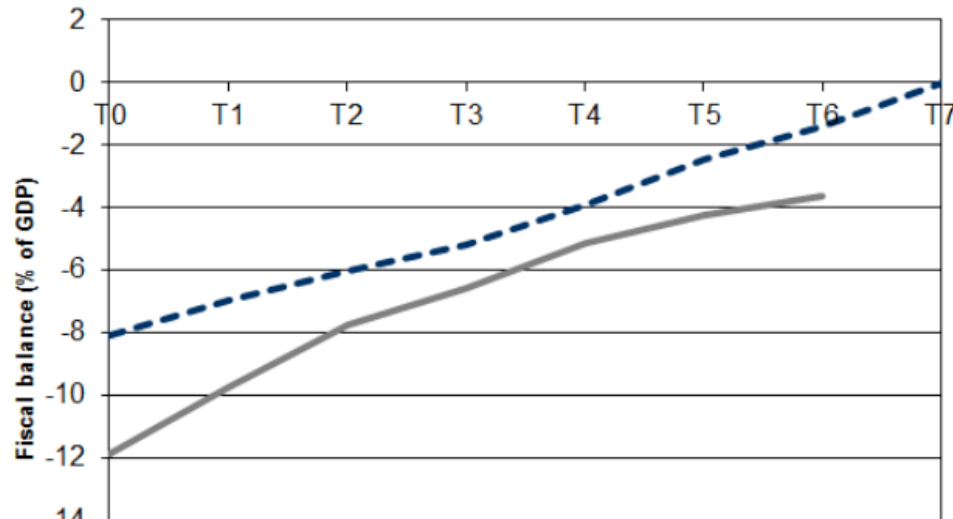
# The role of fiscal policy in advancing structural reforms in Europe

Ludger Schuknecht

Director General „Economic and Fiscal Policy Strategy,  
International Economy and Finance”  
Federal Ministry of Finance, Germany

DIW Berlin  
Berlin, 13<sup>th</sup> March 2017

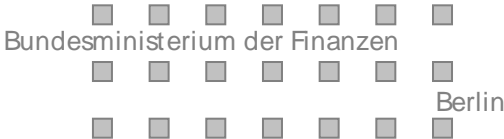
# Structural reforms, fiscal consolidation are complements: quality matters



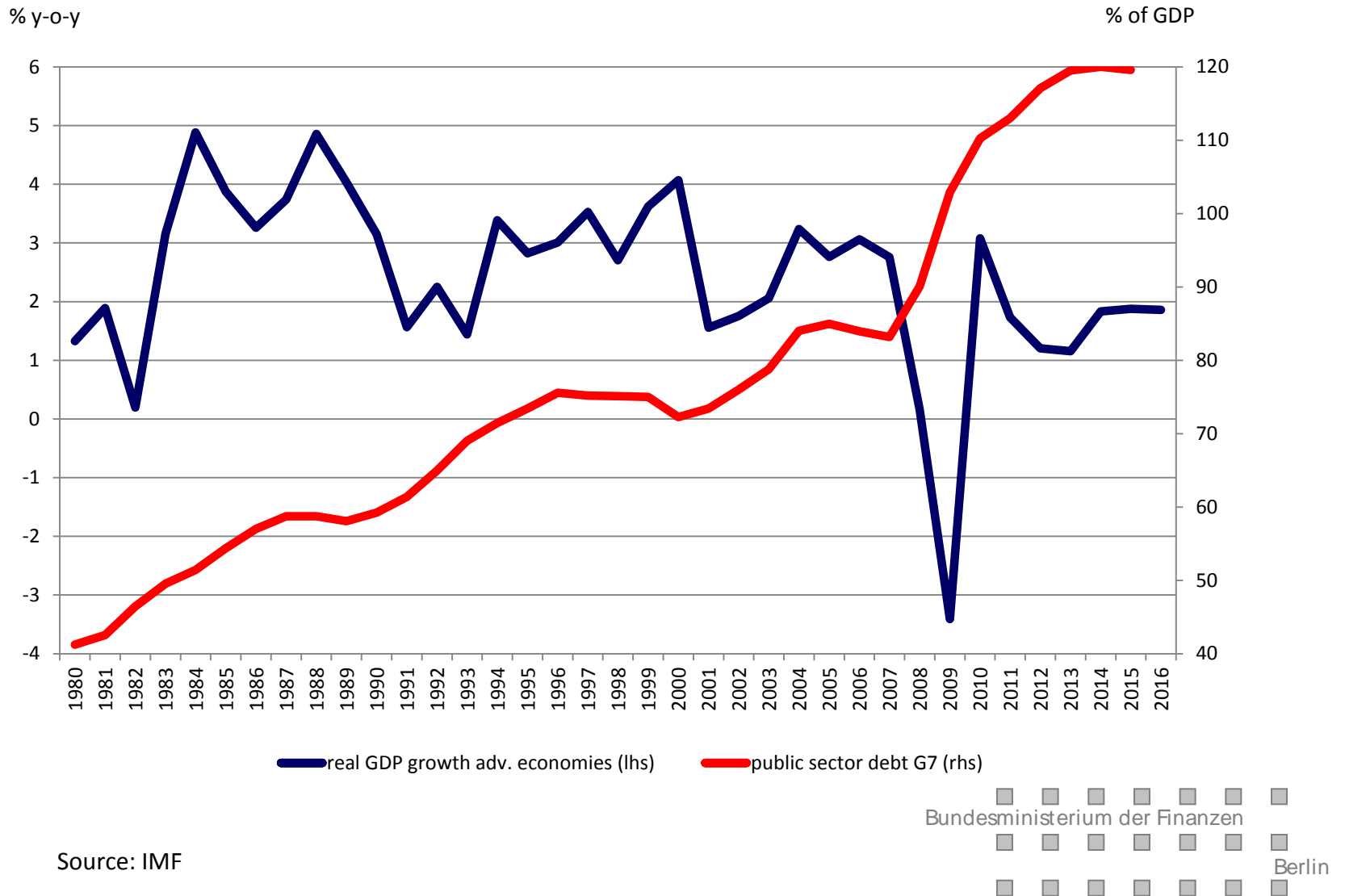
# Public sectors are big, esp. social expenditure

	Total spending	Social spending
Euro area	47.9	30.0
Germany	44.3	28.4
France	56.5	35.4
Italy	49.4	31.4
Spain	42.7	26.3
UK	42.4	26.0
US	37.7	19.3
Korea	32.0	10.4

Source: EU Commission for EU countries (2016), OECD for USA and Korea (2015).



# Debt has not induces higher growth trend



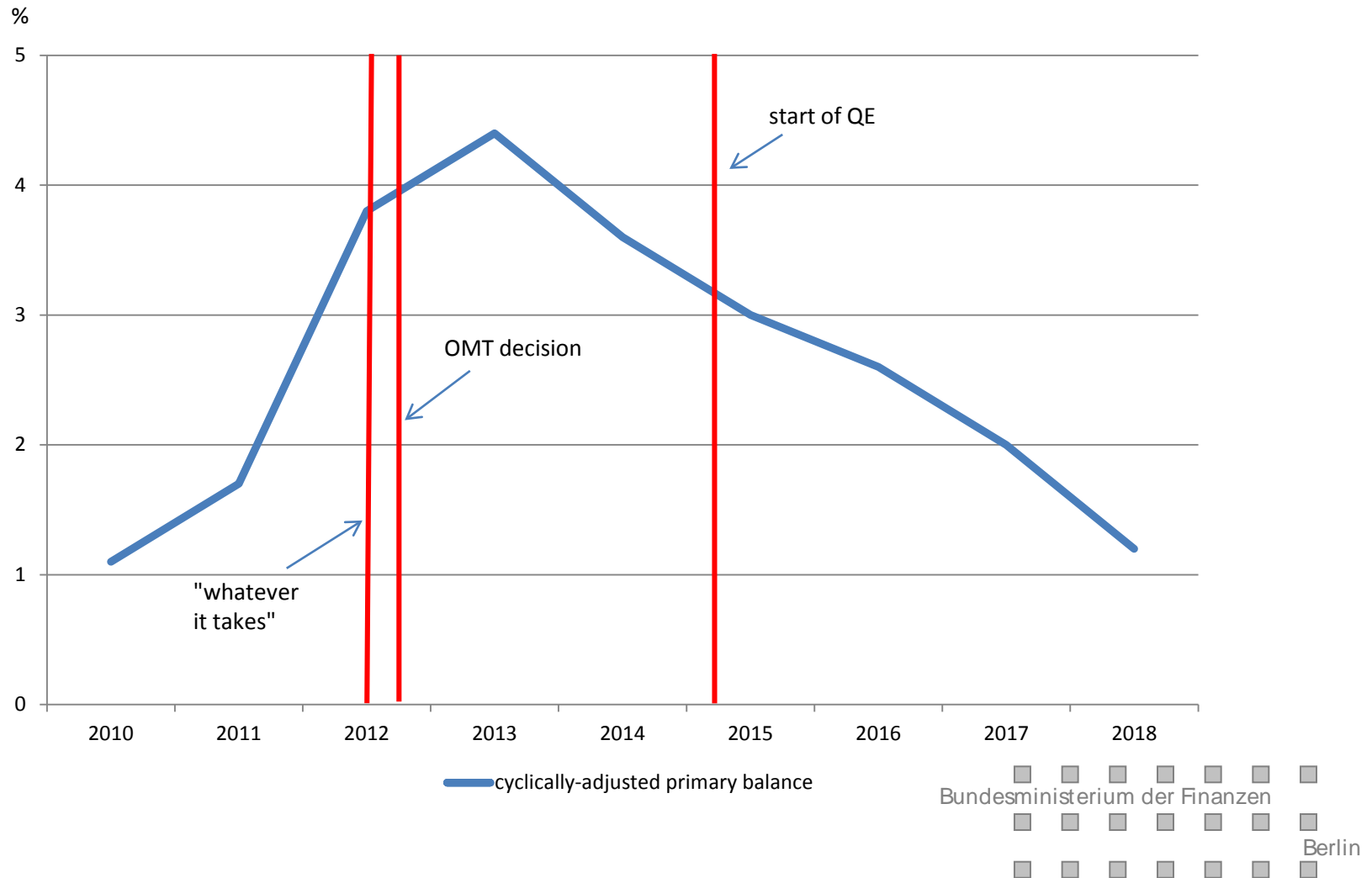
# Austerity? Consolidation effort decreasing

Cyclically adjusted primary balances as a percentage of potential GDP

	2014	2015	2016	2017	2018
<b>Germany</b>	2.5	2.5	2.1	1 <sup>3</sup> / <sub>4</sub>	1 <sup>1</sup> / <sub>2</sub>
<b>Spain</b>	1.3	0.3	-1.0	-0.8	-1.1
<b>France</b>	-0.8	-0.7	-0.7	-0.5	-0.9
<b>Italy</b>	3.6	3.0	2.6	2.0	1.2
<b>Portugal</b>	-0.7	1.0	2.4	2.3	1.7
<b>Greece</b>	6.2	1.4	7.0	5.5	5.5
<b>Ireland</b>	0.3	0.2	0.4	0.8	1.1

# Political economy: reform pressure needed

## Italy: fiscal effort decreases with relief from monetary policy



---

# Back-up

# Expenditure reforms in the 80s and 90s

- **A number of countries mastered the challenge of very large expenditure ratios with ambitious reform programmes in the 1980s and 1990s (Hauptmeier, S., Heipertz, M. & Schuknecht, L. (2007))**

	<i>Max. primary expenditure in year</i>	<i>Change maximum to T7</i>
<i>Ambitious' reformers</i>		
<b>Finland</b>	1993	-14.0
<b>Sweden</b>	1993	-14.0
<b>Ireland (Phase 1)</b>	1982	-12.4
<b>Belgium (Phase 1)</b>	1983	-12.3
<b>Canada</b>	1992	-9.5
<b>United Kingdom (Phase 1)</b>	1981	-8.2
<b>Netherlands (Phase 2)</b>	1993	-7.5
<b>United Kingdom (Phase 2)</b>	1992	-7.2
<b>Spain</b>	1993	-6.4
<b>Ireland (Phase 2)</b>	1992	-6.2
<b>Luxembourg</b>	1981	-5.7
<b>Netherlands (Phase 1)</b>	1983	-5.1

- **Two reform waves in industrialised countries**
- **Ambitious reformers managed to reduce public primary (non interest) expenditure by more than 5pp of GDP from their peak within 7 years.**



# Expenditure reforms in the 80s and 90s

## Composition of adjustment

Change T0-T7	Total expenditure	Interest Spending	Primary expenditure	Government consumption	Government investment	Transfers and Subsidies	Health	Education	Pensions
<i>Ambitious' reformers</i>									
<b>Finland</b>	-15.7	-1.6	-14.0	-3.8	-0.3	-9.4	-1.3	-1.8	-1.5
<b>Sweden</b>	-15.7	-1.8	-14.0	-2.8	-0.9	-8.0	-0.4	0.2	-1.7
<b>Ireland (Phase 1)</b>	-13.3	-1.0	-12.4	-5.2	-3.2	-2.2	-1.7	-0.9	-0.7
<b>Belgium (Phase 1)</b>	-10.9	-4.8	-6.2	-3.9	1.0	-4.7	-0.5	-0.9	-1.6
<b>Canada</b>	-11.4	-1.7	-9.5	-5.3	-0.5	-3.3	-1.1	-1.9	-0.2
<b>United Kingdom (Phase 1)</b>	-10.5	-2.3	-8.2	-2.5	-0.3	-2.0	-0.3	-0.8	-0.5
<b>Netherlands (Phase 2)</b>	-9.8	-2.3	-7.5	-1.9	0.1	-6.5	-0.8	-0.4	-1.2
<b>United Kingdom (Phase 2)</b>	-7.1	0.1	-7.2	-2.7	-1.1	-2.6	-0.1	-0.8	-0.4
<b>Spain</b>	-8.2	-1.8	-6.4	-1.5	-1.0	-4.1	-0.4	0.0	0.2
<b>Ireland (Phase 2)</b>	-10.9	-4.8	-6.2	-3.9	1.0	-4.7	-0.5	-0.9	-1.6
<b>Luxembourg</b>	-5.9	-0.4	-5.7	-1.4	-2.1	0.0	0.1	-1.6	-0.8
<b>Netherlands (Phase 1)</b>	-5.0	0.2	-5.1	-2.0	-0.2	-2.2	-0.1	-1.1	0.4

- **Around 2/3 of the expenditure cuts came from transfers and subsidies and also from government consumption.**
- **In most case, government investment and public education expenditure did not decline disproportionately.**

# Expenditure reforms in the 80s and 90s

## Spending adjustment as part of broader economic reform programme

	Expenditure reform		Institutional reform	Other macroeconomic reform	Structural reform		
	Public consumption 1/	Transfers & subsidies 1/			Labour market incentives	Taxation	Privatisation
Ireland 1	XX	XX	X	X	X	X	X
Ireland 2	X	XX	X		X	X	X
Sweden	X	XX	X	X	X	X	X
Canada	XX	XX	X		X	X	X
Finland	XX	XX	X	X	X	X	X
Belgium	XX	XX		X	X		
Netherlands 1	X	X	X	X	X	X	
Netherlands 2	~	XX	X		X	X	X
Spain	~	XX	X		X	X	X
UK 1	X	X	X	X	X	X	X
UK 2	X	X	X		X	X	
All	9	11	10	6	11	10	8

1/ Decline in 7 years by:  
 more than 1% of GDP: ~  
 more than 2% of GDP: X  
 more than 3% of GDP: XX

# Expenditure reforms in the 80s and 90s

## Fiscal and macroeconomic effects

