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381/2010

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WIFO Working Papers, No. 381
October 2010

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2010/300/W/0

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Karl Aiginger, Margit Schratzenstaller*

Budget consolidation in a difficult environment - ten guidelines plus a preliminary reality check

Abstract

There is evidence that a budget consolidation strategy can work with only a small and short lived negative impact on growth. However, this time consolidation is taking place in the aftermath of a deep crisis which had lead to increased levels of uncertainty. In addition the financial sector, as well as its regulation is under reconstruction. Firms and consumers are deleveraging, and many countries are trying to consolidate at the same time. We develop ten guidelines for consolidation during such a difficult economic period. We compare them to other guidelines published and, to the extent possible, cross check whether the upcoming consolidation programs being implemented or revealed in various countries comply with our guidelines. We propose to follow a "high road" on cutting deficits, which includes an active growth enhancing component during the consolidation period. The "active component" should be financed by deeper cuts in subsidies, by eliminating obsolete government expenditure as well as by increasing the efficiency of the public sector. Taxes should not be raised permanently – a temporary contribution to consolidation will be needed, but tax structures in general should be made more growth and employment friendly.

JEL No: E20, H20, H30, H32,

Keywords: budget consolidation, financial crisis, tax and expenditure structure

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* We are grateful to Georg Busch, Heinz Handler, Karl Pichelmann, Hans Pitlik, Gunther Tichy and Andreas Wörgötter for valuable comments, and Dagmar Guttmann for research assistance.

1. Outline and motivation

The year 2011 will put to test the robustness of the recovery of industrialized countries following the financial and economic crisis[1]. Tailwinds from Asia will slow down a little bit. Much of the impact of the stimulus programs which have boosted growth deep into the year 2010 will fade out.[2]

Budget consolidation will definitely start in Europe and probably in the US, if the President has to cooperate with a less expenditure-inclined Congress. We believe that consolidation is absolutely necessary. It has to start after a year in which the world economy has grown by 4%, the US by 3% and Europe by 2%. In the aftermath of the Financial Crisis permanently higher growth is unlikely to be experienced soon. But the current economic situation is characterized by old and new burdens and of big disequilibria; unemployment is about 10% in Europe as well as in the US, some countries have additionally large deficits in their current accounts. Therefore it will be all the more important to fine-tune the consolidation strategy in order not to aggravate unemployment and growth. Budget consolidation is a demanding task, and it has to consider how the crisis came about and which problems were already on the economic agenda before the crisis.

We briefly underline why consolidation is necessary (section 2), which guidelines it should follow (section 3), and whether the guidelines we develop are replicated in the national consolidation plans already revealed (section 4). Section 5 summarizes.

2. The necessity of budget consolidation

The consolidation of public budgets is necessary since debt relative to GDP has reached about 80% of GDP in Europe and 95% of GDP in the US, and it will increase further. Current deficits (of general government) reached 7.2% of GDP in the EU and 10.1% of GDP in the US in 2009. In 2010 deficits will rise further. However, structural deficits existed before the crisis started. Neither Europe[3] nor the US had a single year of balanced budgets since 2000. In the EU 27 structural deficits are estimated to amount to 2% on average in 2007 (European Commission[4]), in the US it is about 3% (OECD[5]).

Those economists and politicians who are in favour of stimulus programs in a crisis ultimately also have to favour budget consolidation, if for no other reason than to bring economic policy back into a position to be able to fight the next crisis. Government expenditures over

[1] For a comparison of the Recent Crisis (called sometimes "Great Recession") see *Aiginger* (2010A).

[2] In the EU-27 the stimulus programs reached about 1.5 percent of GDP in both 2009 and 2010. In 2009 about 75 percent and in 2010 about 40 percent of the stimulus measures were and are temporary and are intended to expire by 2011 (European Commission, 2010A). In the US, of the $787 billion stimulus package about one fifth had been spent by September 2009, another $400 billion will be spent in 2010, $100 billion in 2011 and the rest in the following years (*Weber*, 2010).

[3] This holds true for the EU on average; several countries, e.g. Finland or Denmark, could realize significant budget surpluses.

[4] *European Commission* (2010A).

[5] *OECD* (2010).

GDP have risen from 46% in the EU in 2007 to 51% in 2010. Some of this hike will melt down in the ongoing recovery; the lion's share however, will have to be eliminated by cuts in discretionary expenditure if government's share of GDP is not to be permanently higher than at the start of the crisis. Particularly the rapidly increasing interest payments associated with rising debt ratios seriously restrict the government's short as well as long run room for manoeuvre.

Table 1: The public sector before and after the crisis

	2000	2007	2010	2000/2007 Average	2010/2007 Absolute change
Public expenditures/GDP					
EU 15	45,0	46,1	51,4	46,6	5,4
EU 27	44,8	45,7	51,0	46,3	5,2
USA	33,9	36,7	41,2	35,7	4,5
Budget surplus/deficit/GDP					
EU 15	0,8	-0,8	-7,2	-1,7	-6,4
EU 27	0,6	-0,9	-7,2	-1,8	-6,3
USA	1,5	-2,7	-10,1	-2,5	-7,4
Public debt/GDP					
EU 15	63,2	60,5	82,3	62,6	21,8
EU 27	61,3	58,8	79,6	61,2	20,8
USA	55,0	62,2	94,1	59,3	31,9

Source: WIFO calculations using Eurostat (AMECO).

At the same time unemployment rates are rather high and persistent in Europe. Their rise had been dampened by innovative labour market policy, relative to the US where the unemployment rate skyrocketed between 2007 and 2010[6]. Economic growth is inhibited by low aggregate demand: consumption will rise slowly due to low wage increases and high consumer debt, investment is dampened by low capacity utilization. There is a onetime loss of potential output plus the uncertainty if the lower investment in physical and human capital will not also reduce the growth of medium-term potential output. In such a macroeconomic environment budget consolidation is not an easy task, especially if we keep in mind that climate change and the ageing of societies are also important challenges which existed before the crisis and will become more and more important in the future. Against this

[6] See Aiginger (2010B and 2010C).

background we develop ten guidelines for budget consolidation.

3. Ten Guidelines for a growth- and employment-friendly consolidation

There is an extensive body of literature on the conditions for successful budget consolidations. It is on the one hand encouraging as it shows that successful consolidation is possible and that economic growth can be resumed rather quickly, on the other hand the literature tells us that the preconditions for success are not easy to meet.[7] Moreover, the more favourable results might be easier to achieve if fewer countries consolidate and in an environment where neighbour countries grow fast and boost demand. This time many countries will consolidate at the same time (and the Southern European countries even earlier and stronger).[8] Outside help may come from Asian countries (plus Africa, South America). Nevertheless, consolidation will only be successful if it incorporates past experience and follows strict rules.

Consolidation is not the only priority; a coherent strategy is needed

1. Consolidation is not the only priority at the top of the list of economic goals, and problems which existed before the crisis already should not be forgotten. Fighting unemployment is also high on the agenda; long-term oriented programs to boost innovation, to improve education, to cope with the consequences of an ageing society and environmental problems are urgently needed. If each of these priorities is pursued separately, instruments solving one problem may impair the probability to achieve the other goals. Furthermore, policy instruments would be too expensive if problems were solved independent of each other in isolated approaches. Only an integrated strategy can serve three main goals (budget consolidation, employment creation, and future-oriented investment) at a time where there are limited policy instruments and resources available.

Communicating the goal and the strategy including a vision is important

2. Successful consolidation strategies should be well communicated, follow a strict time table, be motivated positively and be seen as a chance to eliminate inefficiencies in the public sector as well as outdated expenditures and tax privileges. The time schedule should fit the problems at hand and not be dictated by financial markets. The size of consolidation packages should be ambitious and the time frame short.[9] Effective consolidation should not be frontloaded (too much reduction of deficits in the first year), while the approval of the policy measures should be frontloaded. The ultimate goal of consolidation is to regain fiscal room for manoeuvre and to ensure long-term sustainability (in an ageing society). No negative rhetoric of a long period of austerity should be used.

[7] *Alesina – Ardagna* (2009); *Afonso* (2010); *Giavazzi – Pagano* (1996). For an overview see *Gruber – Pitlik – Walterskirchen* (2010). For a cautionary evaluation of an "expansionary consolidation" see *International Monetary Fund* (2010).

[8] *Marterbauer* (2010) and *Aiginger et al*. (2010).

[9] See *Blanchard – Cottarelli* (2010).

A proactive component is needed

3. The consolidation package should incorporate a pro-active component. Future-oriented investment to stimulate long-term growth should not be stopped, but should rather be specifically enforced by extra spending as well as organizational changes to improve the outcomes. If there is a five year freeze or even cuts in expenditure on growth drivers, budget consolidation will never work since lower growth will reduce tax receipts and increase expenditure. Therefore cuts of "obsolete or inefficient" expenditure should be rather ambitious to allow room for future-oriented investment. Consolidation has to be accompanied by expansive monetary policy. If the business environment (and the world economy) deteriorates the reforms should not be stopped, but future-oriented investment including activation and requalification (active labour-market policy) should be increased.

Fair burden sharing and equity considerations are important

4. A consolidation strategy should be fair. This does not mean that "everybody should pay", but that equity issues are actively addressed. Before the crisis started income and wealth distribution changed in favour of high incomes at the expense of low incomes. This problem has been aggravated by the crisis since unemployment and income losses hit less qualified people harder. Therefore groups with lower incomes and groups with higher unemployment risk should be exempted from tax increases, and that expenditure most important for the low income groups should not be cut. Measures to combat unemployment should be continued (activation, flexicurity, improving matching). A consolidation package guided by the idea of fair burden sharing may not exclusively rely on expenditure cuts, but should also include a (smaller) share of tax increases to be perceived as fair by interest groups and the general public, specifically if there had been tax evasion, loop holes, tax exemptions favouring high income groups. Under the fairness commandment *Blanchard – Cottarelli* (2010) include fighting tax evasion, with which we agree, but they use this to implicitly advocate an increase in value added tax. We oppose the latter conclusion since the burden of value added taxes is higher for lower incomes (high consumption rate). Fairness considerations may include lowering the taxes on low incomes, and increasing taxation of property and capital gains. This stronger fairness postulate seems appropriate as the income share of labour has been decreasing for a long time and income as well as wealth distribution has become more unequal, which may have contributed to higher volatility and speculation as one of the roots of the crisis.

Consolidation should be growth-sensitive and underpinned by structural reforms

5. Consolidation has to be growth-sensitive. Non-financial measures promoting economic growth should be given a high priority, specifically promoting the creation of new businesses and fostering competition, taking advantage of globalization. Many of the countries with high budget deficits have current account deficits or too small sectors of new and innovative firms. Competition should be enhanced; labour markets reformed, new spending priorities and shifting the tax burden from taxes inhibiting economic growth strongly to taxes with a less negative impact should be enacted. The

consolidation package should be complemented by structural reforms. Government expenditure should be shifted from public consumption to expenditure on growth drivers. Incentives should be switched from unconditional transfers towards qualification and activation in the labour market. Economic growth depends, according to empirical growth equations, on human capital, innovation, R&D, good institutions and efficient innovation systems (plus good health systems). Labour market reforms may contribute to growth, but they are by far not the strongest component, and they are significant in particular if interacting with human capital and R&D expenditure.

Consolidation should be demand-sensitive

6. Consolidation has to be aware of short-run negative demand effects. If government reduces its net expenditure, private consumption, investment or exports have to substitute lost demand. Thus cutting transfers to low incomes is no part of a demand-sensitive strategy. Low income groups should be exempted from cuts of wages in the public sector or pensions. Wage increases in the private sector could be higher for low-wage groups. Incentives to save could be reduced, particularly for higher incomes. Incentives for private investment in general and for environmental investments (households and firms) in particular should be increased. In principle there will be a period of lower demand in a consolidation period but it has to be kept as short as possible. Boosting exports in growing markets in Asia will stabilize demand.

Expenditure-based consolidation is more likely to be successful

7. Consolidation is more likely to be successful in the long run if expenditure cuts dominate rather than tax increases[10]. This is specifically the case in Europe, where taxes are high already, and where public expenditure has risen considerably during the crisis (from 46% in 2007 to 51% in 2010). One problem with focusing on expenditure cuts is that some of the reforms take time, specifically those lowering long run expenditures via structural systemic changes (e.g. health care and school reforms, fiscal regime changes). In the short run taxes may help to achieve the consolidation goals more quickly. Structural reforms in the public sector which help to contain expenditure in the long run should be started even if there are upfront costs. Privatization can also lead to quick revenues if expenditure cuts are not sufficient or come into force too slowly, but here long-run considerations (dividend losses, steering capacity) should not be neglected.

Boosting domestic demand specifically in countries with external surplus is required

8. During consolidation domestic aggregate demand should be stimulated, specifically in countries with low growth and high surpluses in trade. In case investment remains sluggish (cash flows are not used for investment due to unused capacities), wage increases and/or in-work benefits would stimulate consumption. Following a strategy that wages are raised less than productivity has lead to a decreasing wage share in national income. This makes no sense if extra profits are not used for investment. Strategies to boost domestic aggregate demand may differ according to the situation in individual countries; tax credits for green technologies could help, too. Export-promoting strategies should concentrate on countries which do not have to consolidate.

[10] *Alesina – Ardagna* (2009); *Giavazzi – Pagano* (1990).

The structure of expenditure cuts matters

9. Linear cuts of expenditures are clearly suboptimal, even if they are easier to get through politically. Expenditure on individual activities should be treated very differently. Those for bureaucracy should be reduced and inefficiencies have to be eliminated, while future-oriented expenditures should be increased at rates significantly higher than nominal growth. This implies rather deep cuts where state intervention is no longer necessary and where inefficiencies exist. Public sector studies (e.g. using frontier analysis) show that there are abundant efficiency reserves in the public sector of most countries and large subsidies to be cut. The social system can and should be fine-tuned (terminating early pension schemes, encouraging preventive health investment), but there should be no across-the-board cuts which would endanger the basic elements of the European Welfare State and which would harm aggregate demand.[11] Cuts in transfers as well as in the public wage bill should be structural, i.e. reductions in expenditure on public employees should not simply stem from wage cuts and/or just reducing the number of public employees, but should rather be effected by efficiency-enhancing reorganizations within the public sector. In order to contain expenditure on transfers, particularly in the pension system, structural measures with a long-term impact (e.g. adjusting the pension age to changes in life expectancy or abolishing special entitlements of specific interest groups) should be favoured over short-term cuts.

The structure of tax increases matters

10. Any tax increases have to be growth- and demand- sensitive. If there are tax increases, taxes with double dividends should be the first choice (financial transaction tax, levies on public bads including environmental taxes). Some taxes inhibit growth strongly (taxes on labour and business), some far less (taxes on consumption, property, financial transactions). Shifting taxes from labour to property and from distorting taxes to those on "public bads" increases the long-term growth potential. However increasing potential growth is not the only goal. Aggregate demand is another one, reducing unemployment and strengthening social cohesion and equality are all important for the acceptance of the consolidation. This shifts the balance against a general increase of the value added tax as part of a consolidation package. The value added tax will burden specifically the lower incomes and will reduce consumption, which up to now is a relative stable component of aggregate demand (as compared to investment). Specifically important would be to reduce the tax wedge for lower incomes (for reasons, lowering unemployment and increasing equality). After the consolidation period any additional tax revenues raised for reducing the deficits now should be used to decrease taxes on labour and investment. This improves the overall tax structure and provides investors and consumers with the long-run perspective of a constant overall tax ratio.

4. A first (preliminary) evaluation of budget consolidation plans for Europe

Up to now, no comprehensive overview of the consolidation measures already taken and

[11] See *Aiginger – Pitlik – Schratzenstaller* (2010).

planned exists despite of the fact that consolidation measures were taken already in late 2009 and 2010 (*European Commission*, 2010)[12]. In 2009, in ten countries the volume of consolidation exceeded that of the stimulus packages. This was the case for 12 countries in 2010. Thus any attempt to evaluate the consolidation packages in individual countries based on our ten guidelines is preliminary and will necessarily lead to incomplete results only. We are also well aware that each and every guideline is not equally valid for all countries, and that there are important tradeoffs depending on the country-specific fiscal and macroeconomic situation. If the necessity to consolidate is extremely pressing it is difficult to finance the proactive component.

Expenditure-based measures look to dominate revenue-based ones

We are not yet able to come up with a quantitative assessment of the structure of consolidation packages concerning the shares of expenditure- and revenue-related measures. From the information available, however, we think we can safely draw three tentative conclusions. Firstly, almost all countries are relying on a mix of expenditure- and revenue-based measures. Secondly, expenditure cuts seem to have a larger weight than revenue increases. Thirdly, revenue increases almost exclusively consist of tax increases, whereas proceeds from privatization hardly play any role (with Greece as one – and as far as we know the only – exception).

Expenditure cuts focus on public wages and pensions

Many countries announced cuts in the public wage bill. Most common seem to be general wage freezes (e.g. Greece, Ireland, Italy, United Kingdom, Lithuania) or across-the-board cuts of public wages (Spain, Romania, Germany, Portugal (new austerity package for 2011)). Demand-sensitive and equitable cuts of public wages targeted specifically to higher incomes are planned e.g. in Portugal (first consolidation package), Italy, and Greece.

Regarding cuts in social transfers, the focus is on pensions. Here two approaches can be found. On the one hand, there are short-term attempts to contain spending by freezing or only moderately increasing pensions (Greece, Romania), which is suboptimal from an equity as well as from a structural perspective. On the other hand, several countries plan or discuss improving long-term fiscal sustainability of their pension systems by increasing the pension age (e.g. France, Romania, Greece, UK, Lithuania, Germany, and The Netherlands). Across-the-board cuts in social transfers are nowhere to be found. However, some countries (Germany) explicitly cut selected transfers for the lower incomes, which demonstrates a lack of demand-sensitivity and goes against our guideline of fair burden sharing. The United Kingdom tries to cut benefits for the higher income households.

Rare signs of proactive components

Germany plans to increase spending on education and R&D. The US discusses an extra tax

[12] *European Commission* (2010A). Thus not only those countries with very severe fiscal problems started consolidating their budgets already during the crisis. Overall, consolidation measures reached 0.4 percent of GDP (in the EU-27 in 2009), compared to stimulus measures amounting to 1.5 percent of GDP. In 2010, consolidation measures amounted already to one half of the volume of stimulus packages.

credit for R&D and additional depreciation for new investment. Finland is discussing the implementation of a tax credit for research expenditures (not solely in response to the crisis). Greece removes some obstacles for market access in specific sectors (road transport etc.). The majority of the consolidation packages revealed up to now do not include measures and reforms to support long-term growth. Countries with large current account deficits (Greece, Portugal) have definitely not started programs to encourage new firms, foreign direct investment or other programs to increase the production base.

Only few countries plan cuts in expenditure on growth drivers. Among them are Austria, where the envisaged across-the-board cuts in public spending also include education, R&D and infrastructure; Greece, which will spend less on education and public investment; Ireland, Portugal and Spain, where investment expenditure is reduced; and France which announced a freeze on all expenditure with the exception of pensions, and thus also expenditure on growth drivers.

Structure of tax increases

The most wide spread and – with respect to the revenue effect- most important tax measure is an increase in the standard VAT rate. It took place or is planned in 12 countries since 2009, raising the average VAT rate in the EU by one percentage point to 20.4% between 2008 and 2010. Though it may be less distorting and growth reducing than other taxes, it is a burden to aggregate demand in the short run and regressive.

Table 2: Potential negative effects of various tax categories

Negative for …	Growth	Employment	Demand	Equity	Side effects
Transaction tax	No	No	No	Positive	Positive[1]
Property	No	No	No	Positive	-
Environment	No	Somewhat	Somewhat	Compensation?	Positive
Value added	Generally no	No	Yes	Yes!	Negative[2]
Business	Yes	Yes	Yes	No	-
Labor	Yes!!	Yes!!	Yes!!	Yes	-

Source: own compilation. – [1]) Speculation, short-run focus. – [2]) Consumption is main stabilizer today.

Many countries are increasing excises on public bads, mainly environmental and tobacco taxes, some on gambling or alcohol. No compensation is planned to reduce the regressive effects, some of these taxes are sharing with value added taxes in general.

A few countries are raising property related taxes, primarily taxes on real estate. A few countries will tax capital gains at a higher rate, other are planning a tax on luxury goods (e.g. Bulgaria). Spain is re-introducing its wealth tax just abolished in 2008.

Measures to combat tax fraud and evasion barely features at all, with the notable exception of Greece, and some attempts in United Kingdom and Lithuania.

Cyprus, Hungary and Lithuania are increasing the corporate income tax rate. Seven countries are raising the top personal income tax rate; a special tax on bonuses has been introduced (temporarily) in Greece, France and the United Kingdom, and some tax on the financial sector will be introduced in Hungary, Germany, Portugal and Austria.

Initiatives to shift the tax burden to a significant amount from growth-inhibiting taxes (particularly taxes on labour) to more growth-friendly ones have not been announced so far by any country. Moreover, no country has addressed the question how to use the additional tax revenues after the consolidation period.

Consolidation needs defeat equity and growth aspiration

Expenditures are cut for rather broad categories (all pensions, total public wage bill) with little differentiation between high and low incomes. Some taxes are raised which fill loopholes, target at higher incomes (or banks, or bonuses or property), but the lion's share of new tax receipts stems from regressive hikes in value added tax. If green taxes or taxes on public bads are added, no government cares to compensate low incomes for the specific burden. Thus polarization between high and low incomes, which emerged before the crisis, will not be dampened by the consolidations strategies seen so far, neither on the revenue side nor on the expenditure side.

Programs are not embedded in strategy

The integration of budget consolidation in a long-run economic policy concept addressing the great challenges of the future is not visible in the consolidation plans at hand. Budget consolidation is pursued as an isolated strategy which is not linked to any other long-term oriented policy strategies (like Europe 2020). Neither demand sensitivity seems to be high on the agenda, nor an active component to foster long-term growth. Very few national strategies include a proactive component aiming at increasing the growth potential fostering new firms and competitiveness or better regulation.

5. Summary

Consolidation is not an easy task. The bad news is that aggregate demand decreases in the short run. The good news is that this period can be kept short and its effects may be mitigated by appropriate policies flanking any consolidation. In the long run growth has not to be affected negatively (or in some favourable cases it is even positively affected). This is the case only (i) if consolidation is based on a coherent strategy, (ii) which is followed consistently, (iii) if it is well communicated and accepted as fair, (iv) if growth and demand aspects is addressed, and (v) if complementary reforms are implemented.

Consolidation is not an isolated task and not the only priority of an economy. It has to be embedded in a comprehensive strategy for growth, employment creation and solving the long run problems and challenges of an economy. National fiscal frameworks should be adapted and budgetary rules to maintain budgetary balance and debt sustainability should be established.

Against this background we propose ten guidelines for consolidation. These should help to consolidate in a growing economy, stimulating long term growth drivers, making the system ecologically more sustainable and correct the trend of higher divergence of incomes and persistent unemployment. We cannot forget climate change, Europe 2020, R&D, education and the ageing of our society for a long period of consolidation.

Consolidation programs as published so far are going for the "low road" of consolidation: easy cuts in expenditures like pensions and public wages, plus the taxation of the largest demand component i.e. consumption. Both is done without restructuring taxes or expenditure structures and without solving the problems that had existed before the crisis or even contributed to the crisis. A few items are added to increase the support for the strategy (banking tax, taxes on bonuses, and surcharges for high incomes), but they do not dominate. No connection exists in the programs so far between consolidation and fighting persistent unemployment, or better matching of qualification, combating climate change. The consolidation programs do not include a proactive component, increasing the growth potential, the creation of new firms, nor are they reducing inequality or preparing for ageing society. Consolidation strategies are not internationally coordinated (with the exception of some recommendations of the EU-Commission), therefore potential "smart" tax revenues from a financial transaction tax or from kerosene (aviation gasoline) are foregone. We do hope that this first preliminary assessment is too critically and that it may change during the consolidation, perhaps marginally following our guidelines.

Going for the "high road" would imply trying to increase the growth path during the consolidation period. Economic growth was low in Europe before the crisis, potential output had been lost and if there is anaemic growth, consolidation will never work. Such an activation component in any consolidation would mean fostering research, education, but also qualification of the work force, and boosting energy efficiency and alternative energy. Going for the high road would further mean reducing rather than increasing income differentials. These widened before the crisis and contributed to the instability of demand and of the financial sector. No transfers to low income groups should be cut and the activation component should be increased. Going for the high road in a period in which the share of the government sector has soared in the EU from 46% to 51% means primarily expenditure should be cut by screening subsidies, streamlining administration and making the public sector more efficient. Increasing some taxes might help, but this should be done as much as possible only temporarily; and the taxes raised should be those which yield double dividends for the environment or health. On the other hand the tax structure should be changed boldly to focus less on growth inhibiting taxes and more on growth, employment and investment friendly expenditures.

Table 3: Stimulus packages and consolidation measures 2009 and 2010

Country	2009			2010		
	Stimulus	Consolidation	Budget balance	Stimulus	Consolidation	Budget balance
Belgium	1.1	0.0	-6.0	1.1	-0.9	-5.0
Denmark	0.7	0.0	-2.7	1.5	0.0	-5.5
Germany	1.7	0.0.	-3.3	2.4	0.0	-5.0
Ireland	0.7	-5.4	-14.3	1.0	-10.2	-11.7
Greece	0.6	-1.0	-13.6	0.0	-1.8	-9.3
Spanien	2.4	-0.3	-11.2	0.8	-0.9	-9.8
France	1.6	0.0	-7.5	1.4	-0.1	-8.0
Italy	0.8	-0.9	-5.3	0.8	-0.8	-5.3
Luxembourg	3.4	0.0	-0.7	2.2	0.0	-3.5
Netherlands	0.9	-0.2	-5.3	1.0	-0.1	-6.3
Austria	1.5	0.0	-3.4	1.8	0.0	-4.7
Portugal	1.1	0.0	-9.4	0.6	0.0	-8.5
Finland	1.6	0.0	-2.2	2.7	-0.4	-3.8
Sweden	1.7	0.0	-0.5	2.7	0.0	-2.1
United Kingdom	1.9	-0.2	-11.5	0.5	-0.6	-12.0
Bulgaria	0.3	-3.3	-3.9	1.0	-3.3	-2.8
Czech Republic	2.3	0.0	-5.9	1.2	-1.1	-5.7
Estonia	0.0	-9.2	-1.7	1.2	-10.7	-2.4
Cyprus	2.7	0.0	-6.1	2.4	0.0	-7.1
Latvia	1.5	-4.5	-9.0	0.1	-11.7	-8.6
Lithuania	0.0	-7.6	-8.9	0.0	-12.5	-8.4
Hungary	0.5	-2.2	-4.0	2.1	-5.5	-4.1
Malta	0.7	-1.7	-3.8	1.1	-2.2	-4.3
Poland	1.6	-0.6	-7.1	3.2	-0.5	-7.3
Romania	0.2	-0.6	-8.3	0.3	-2.7	-8.0
Slovenia	1.5	-1.0	-5.5	1.8	-1.7	-6.1
Slovak Republic	0.4	-0.5	-6.8	0.5	-1.1	-6.0
EU-27	1.5	-0.4	-6.8	1.4	-0.7	-7.2

Source: *European Commission* (2010A).

Table 4: (Planned) tax increases since 2009

Country	VAT	Environmental taxes	Tobacco Tax	Alcohol taxes	Top PIT rate	capital taxes	property-related taxes	Social security contribution	Others
Belgium									
Denmark		X	x						Several health-related taxes, tax on candy
Germany									flight ticket tax
Ireland		X			x	Capital gains tax tax on interest income			
Greece	x	X	x	X	x		Real estate tax inheritance and gift tax levy on luxury goods		Bonus tax CO2 emission tax tax on non-alcoholic beverages
Spanien	x	X	x			Tax on incomes from interest, dividends and capital gains	net wealth tax		
France									Bonus tax
Italy									
Luxembourg					X				
Netherlands									
Austria									
Portugal	x				X				
Finland	x		x					x	Tax on sugar and soft drinks
Sweden									
United Kingdom	x		x	X	x				Bonus tax
Bulgaria		X	x				Tax on luxury assets real estate tax		Tax on gambling
Czech Republic	X								
Estonia	X	X	x	X	X[1)]			X	

Cyprus								X	CIT rate
Latvia	X	X	x	X	x	Tax on incomes from interest, dividends and capital gains	Real estate tax		Tax on coffee and non-alcoholic beverages
Lithuania	X	X	x	X					CIT rate[2)]
Hungary	X	X	x	X					CIT rate
Malta									
Poland									
Romania	X	X	x	X				X	
Slovenia		X	x	X					
Slovak Republic	X								
EU-27	13 countries	11 countries	12 countries	8 countri es	7 countries	3 countries	4 countries	4 countries	-

Source : European Comission (2010), own compilation. – [1)] Deferral of planned tax rate cut. – [2)] Temporary.

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