

Economic policy in the EU

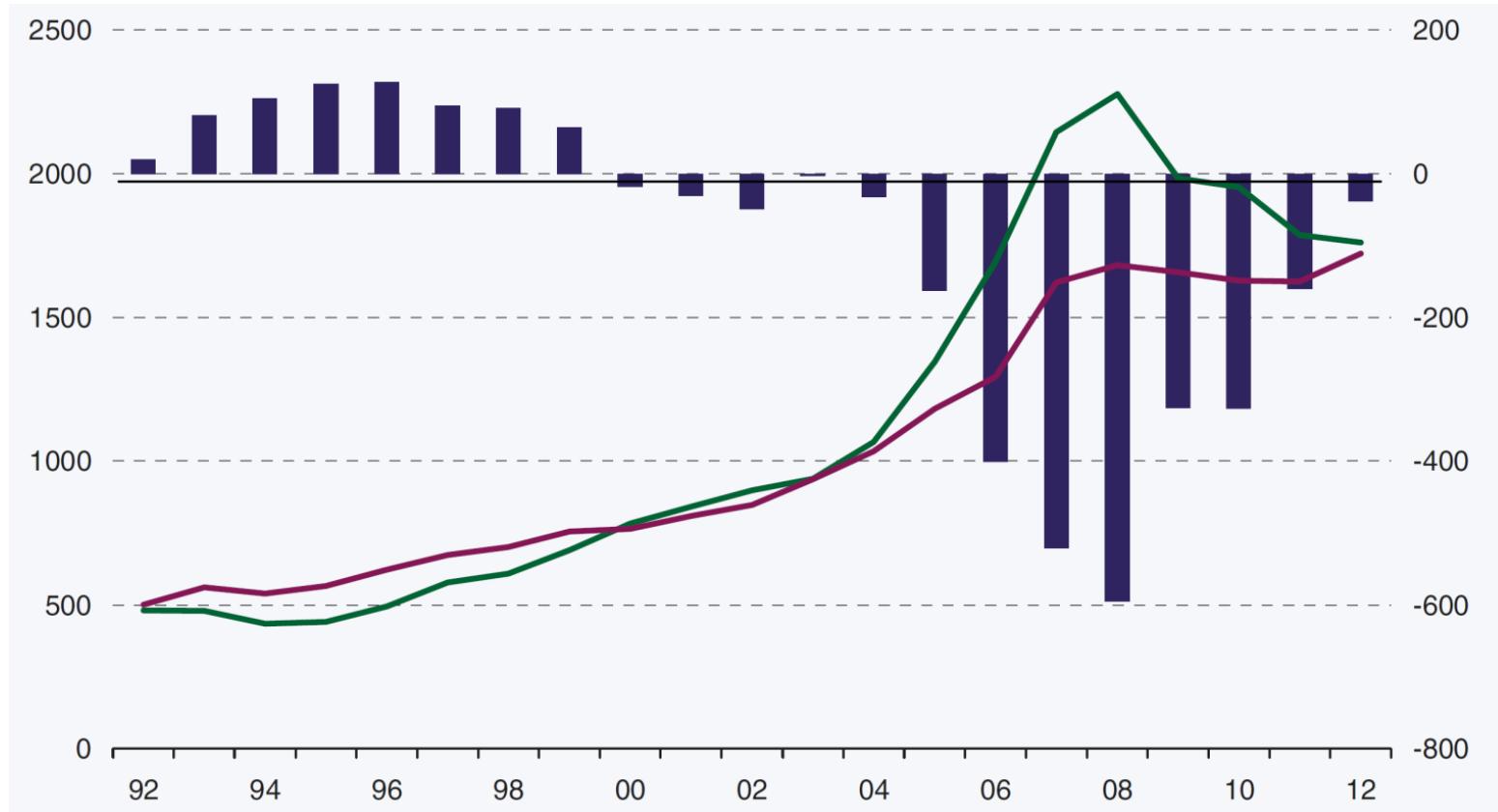
The Danish Case: Excessive Loyalty to
Austerity

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Disposition

- Global crisis 2008 – Danish version 2010ff
- Austerity - the Danish political consensus version
- Austerity is a dangerous idea - even in Denmark



Risk in Danish financial sector

Deposits, lending and deposit deficit

Global crisis the Danish version: Politically initiated debt bubble

- **Housing credit bubble:** Mortgage lending to owner-occupied homes and holiday homes rose from 40 to 80 per cent 1995-2012;
- **Private debt:** The Danes are the world's most indebted households. In 2009, a gross debt of 147 per cent of GDP (Portugal 106 per cent, Germany 65 per cent)

Austerity the Danish political consensus version: An investment in future financial markets

Strictly budget management

- one way or another

- Acceptable, that austerity measures will reduce the GDP growth in the short term;
- *If* Austerity will on the medium and long term be able to benefit and prosper GDP growth;
- In theory:
 - Countries with healthy debt levels will in return be rewarded by the financial markets with higher confidence and lower interest rates;
 - Austerity will increase structural employment on the medium and long term, especially in the private sector;
 - Austerity will strengthen competitiveness (put pressure on wages)

Austerity is our way out of crisis

- 1) Public expenditure in 3 years = 13½ mia.
- 2) Unemployment benefits = 11 mia.

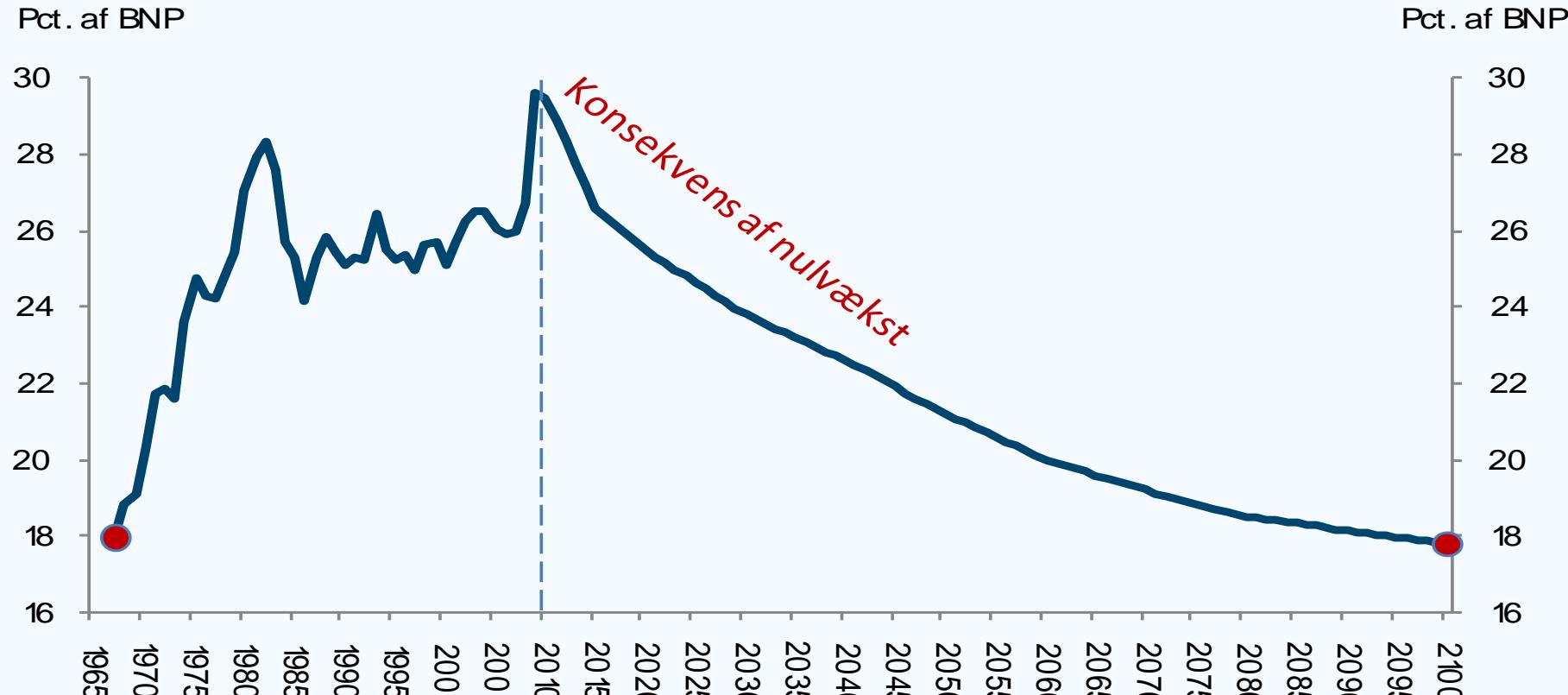


Austerity: Investment in future financial markets

The basic reason why Denmark chose the path of austerity measures:

- As a small open country with healthy debt levels we will in return be rewarded by the financial markets with higher confidence and lower interest rates. Good for business. Good for employment – and housing;

European Austerity becomes Danish ‘starwing the beast’



Kilde: Finansministeriet

Ensure sustainability+++ in the Danish economy

- "Men den socialdemokratiske lektie oven på finanskrisen går videre end det. Gæld og de finansielle markeders magt og ageren sætter uudslettelige aftryk i en verden, hvor hele stater bukker under herfor. Tidligere tiders acceptabel gæld bliver pludselig til uacceptabel gæld, og stater må ty til drastiske og ødelæggende økonomiske indgreb for at holde de finansielle markeder stangen. Læren er, at hvor vi tidligere kunne tillade at have et mål om langsigtet økonomisk holdbarhed og en høj belåning, er vi nu nødt til at skærme os mod pengemarkedernes lunefuldhed med økonomisk overholdbarhed og lavere låntagning.

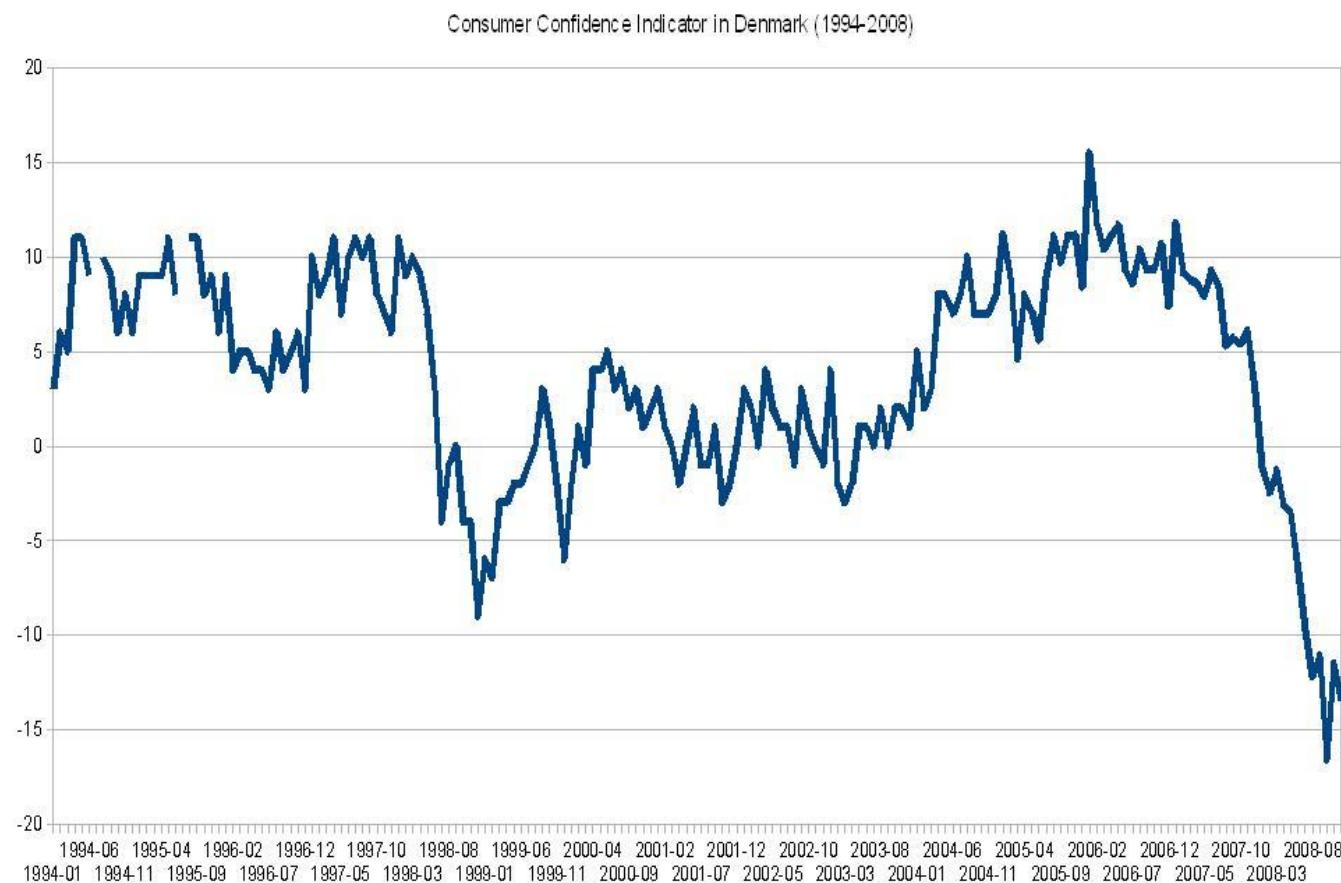
Aldrig mere må vi udsætte os for, at de finansielle markeder kan kuldkaste en velfærdsstat. Efter den finansielle krise er det blevet et selvstændigt socialdemokratisk mål for den økonomiske politik at begrænse gældsoptagelsen – privat såvel som offentligt – i sikker afstand fra at blive sat i markedets vold. "

(Bjarne Corydon og Henrik Sass Larsen, kronik Politiken 20. august 2012)

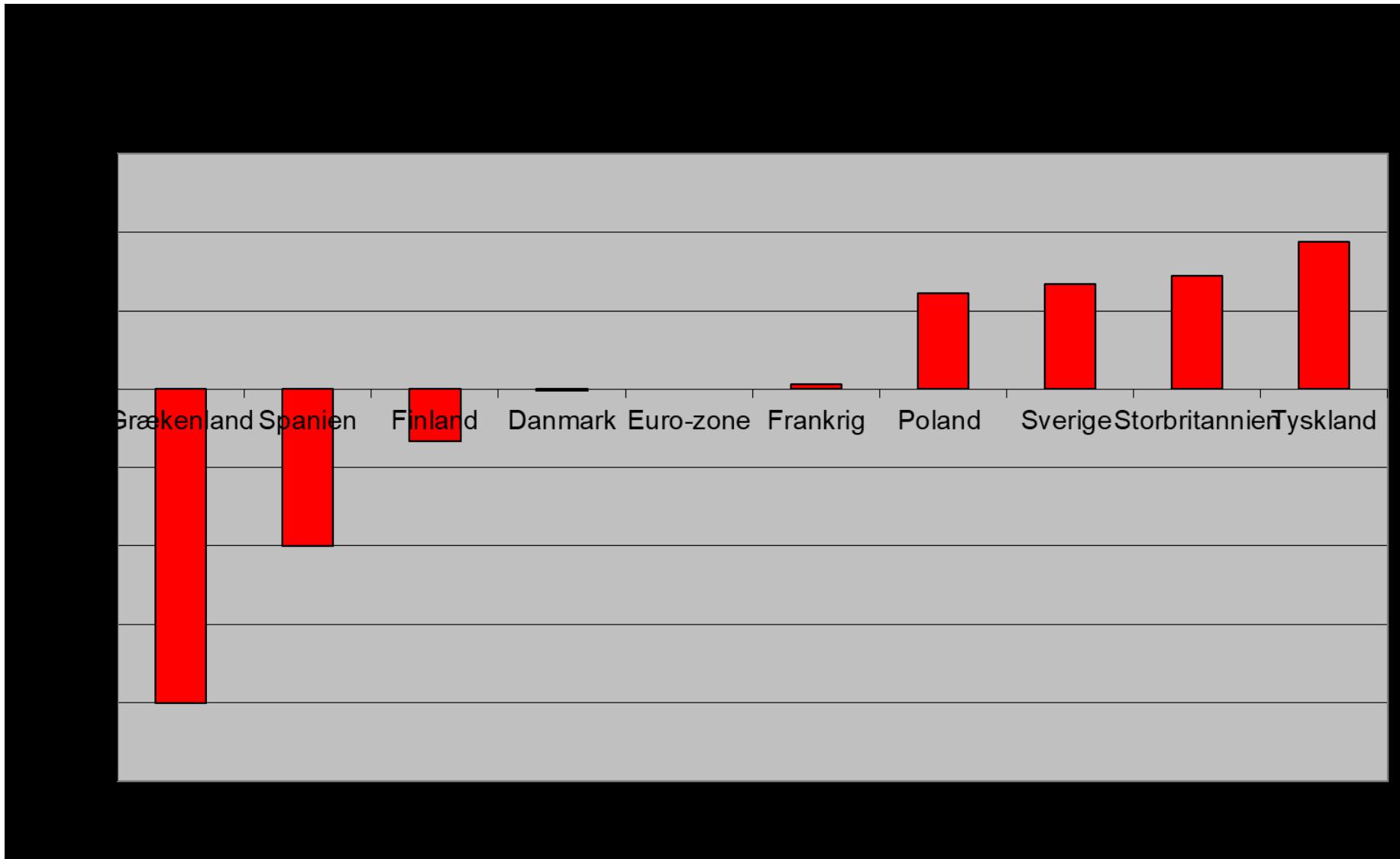
But, how should growth be created, when...

- Banks consolidate
- Consumers consolidate
- Companies consolidate
- The government consolidate – and creates insecurity by ‘reform going berserk’

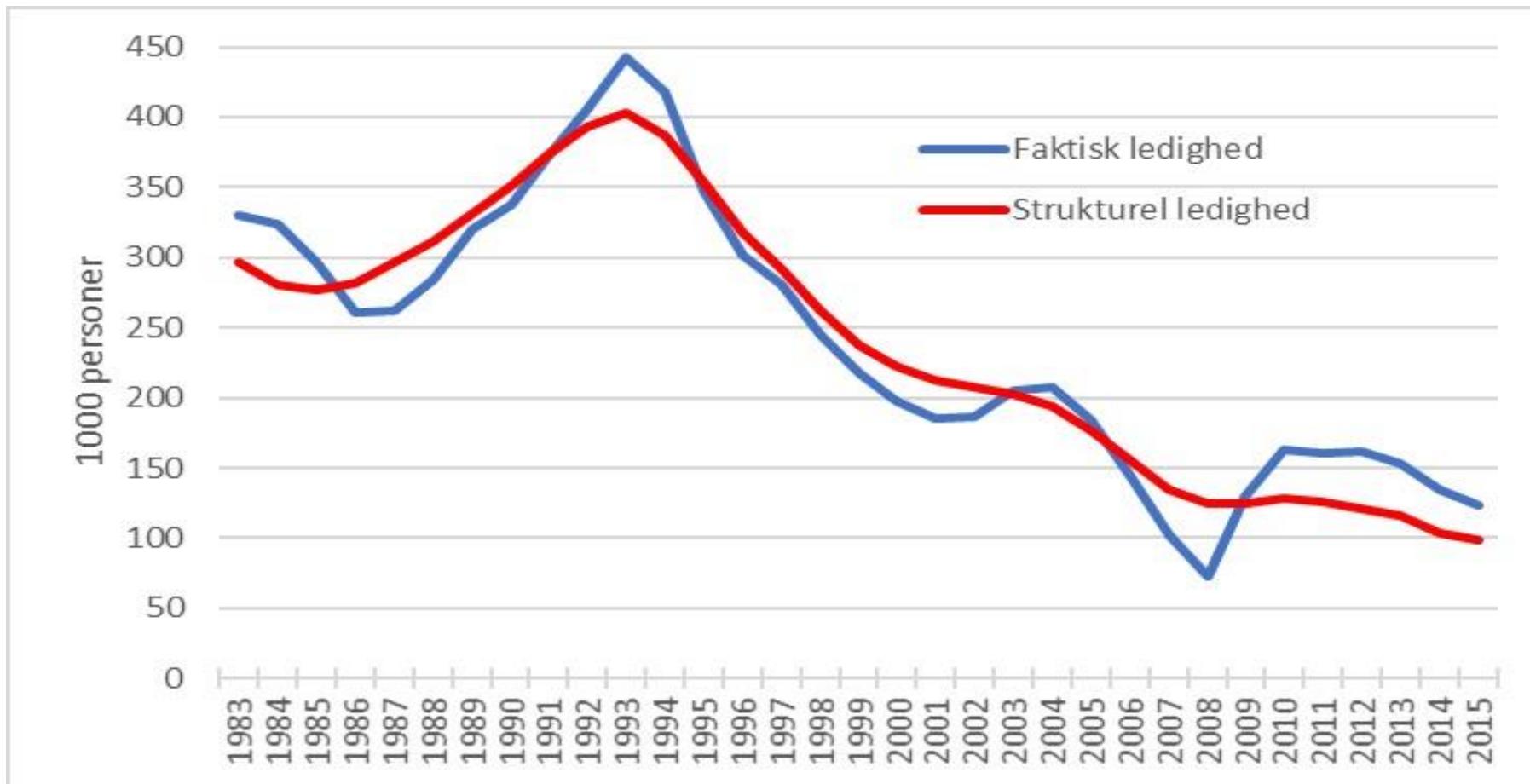
Insecurity and crisis awareness



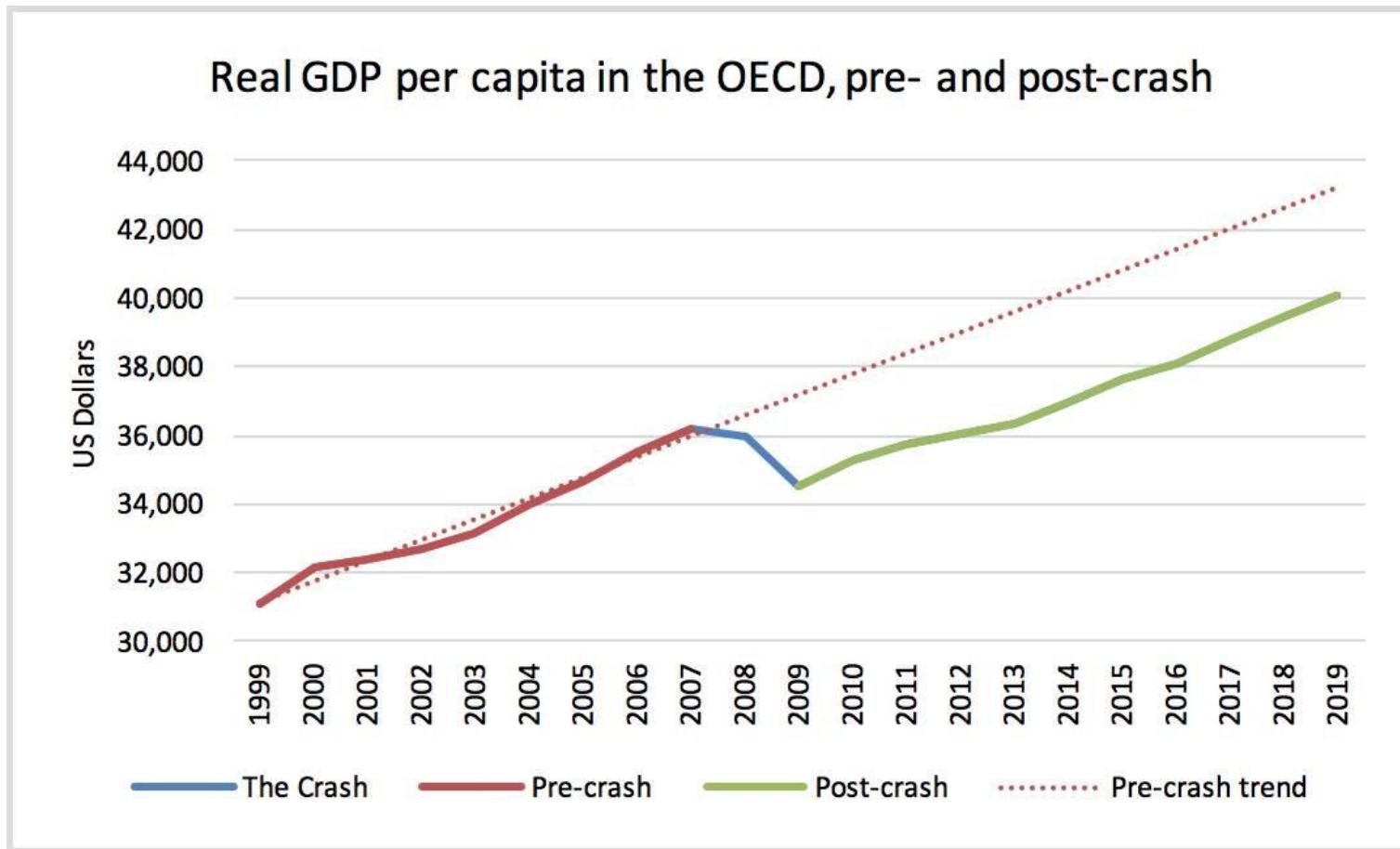
Stigning i beskæftigelsen 2008-2016



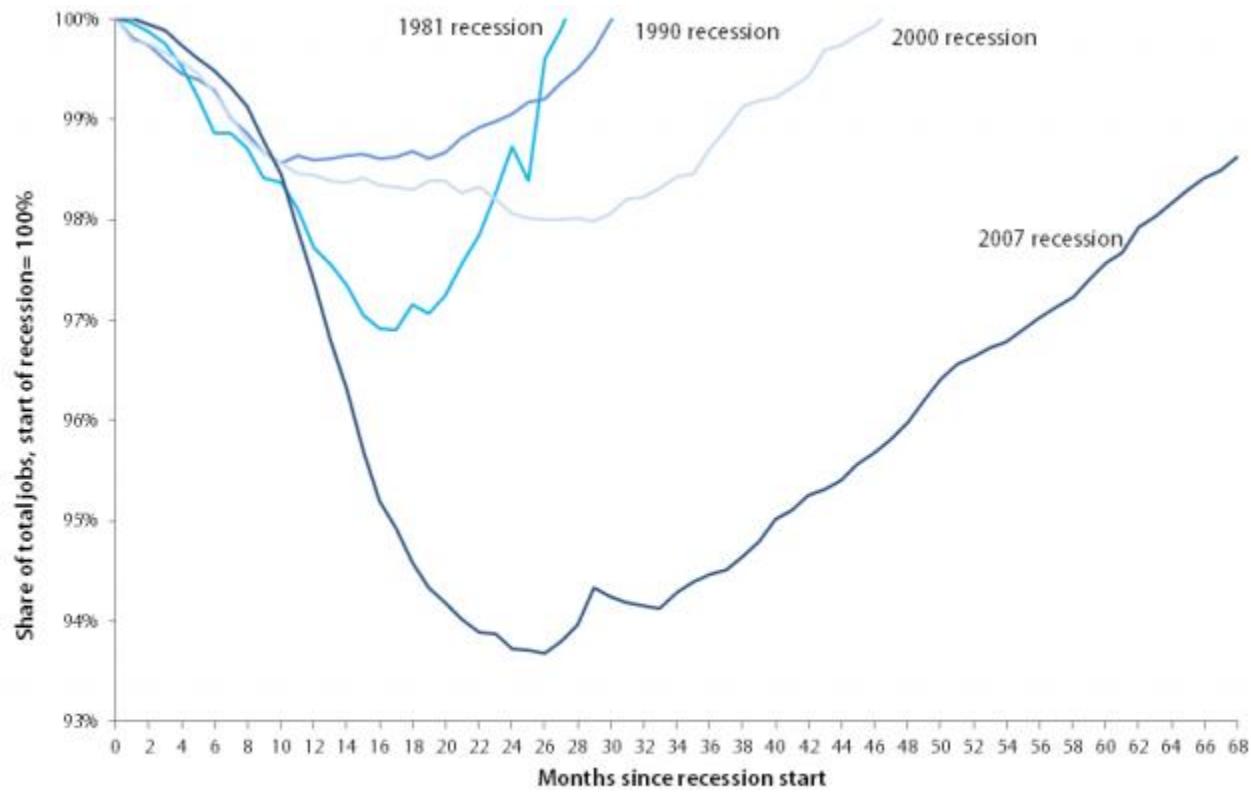
The lost 10 years



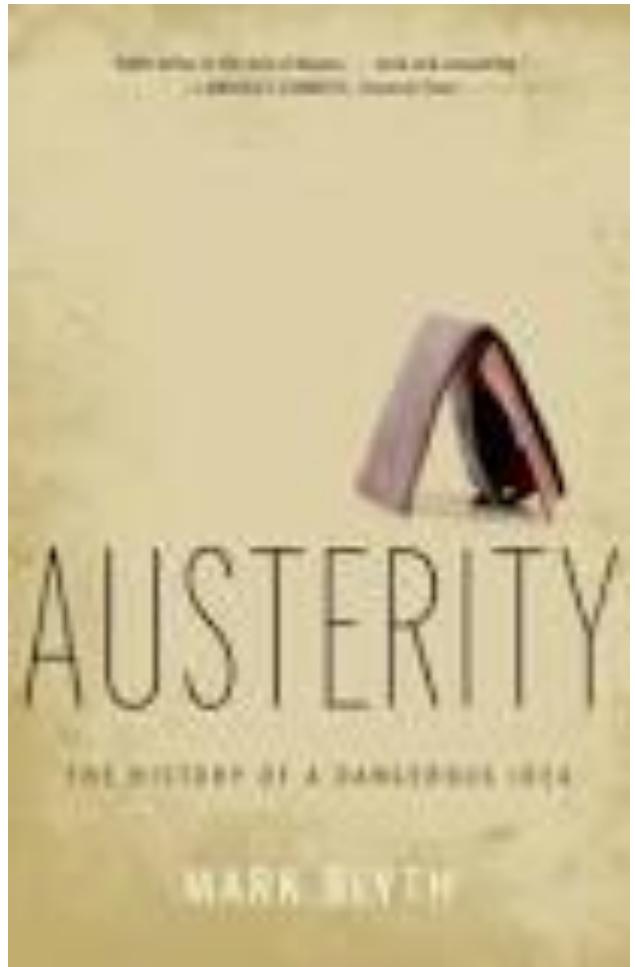
Global waste of growth



Recessions last longer and longer



Note: The line for each recession begins at the official start of the recession, so the length of the line to the left of zero indicates the length of each recession.
Source: Authors' analysis of Bureau of Labor Statistics data, Current Employment Statistics public data series



Austerity is a dangerous idea - even in Denmark

- Debt brakes, tax and spending cuts have been doing more damage than expected
- ‘Growth-friendly austerity’ requires confidence in the future of businesses and consumers, but creates crisis awareness and insecurity among the citizens -> limited stimulation of investments and employment
- ‘Protect Wall Street first, worry about Main Street later’. Socializing finance risk, ensuring capital gains
- Even in center left versions

But there are alternative ways...

- Changing the EU Austerity policy and its structures. From Wall Street first – Main Street later to Main Street first – Wall Street later.
- Socializing risks. Pushing risks and losses down to the international investors, who try to profit from the banks unsustainable business models.
- Give national and European political priority to employment, welfare and sustainability in (a changed) European framework

NOT THE FEW
The West is red

