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# ◀ Austerity revisited ▶

**Warsaw, 13 June 2013**



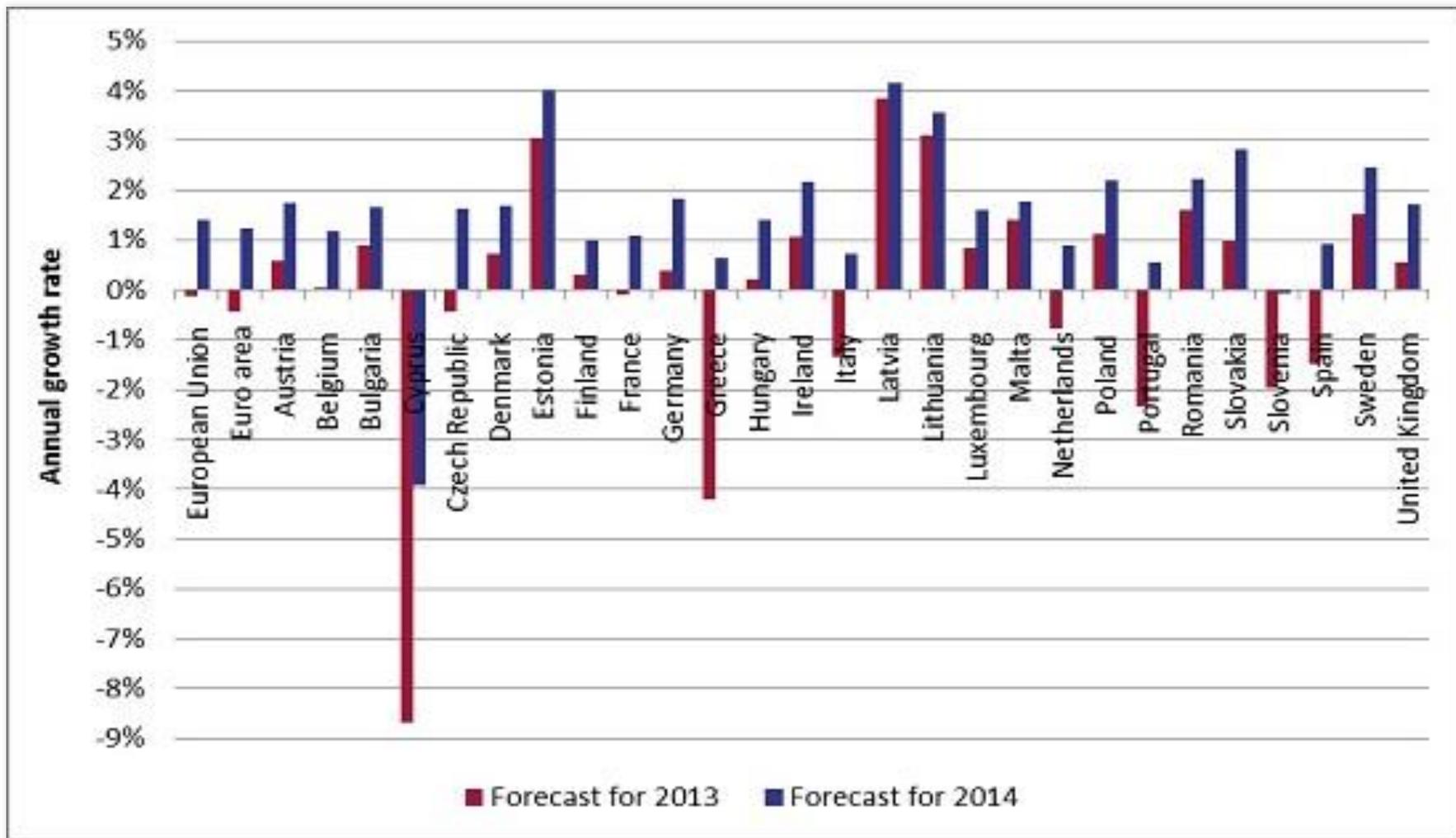
# Austerity in Europe Revisited

**Simeon Djankov**

# What is Austerity?

Austerity simply means that governments spend what they earn, or close to it. People prefer austerity when applied to a household budget. A recent poll in Bulgaria finds that only 17% of respondents want their family to live off debts during the crisis. Yet when you ask the same question for the nation, 58% want a looser budget. Someone else should pay the government's bills.

# Austerity and Growth



# Bulgaria's Experience

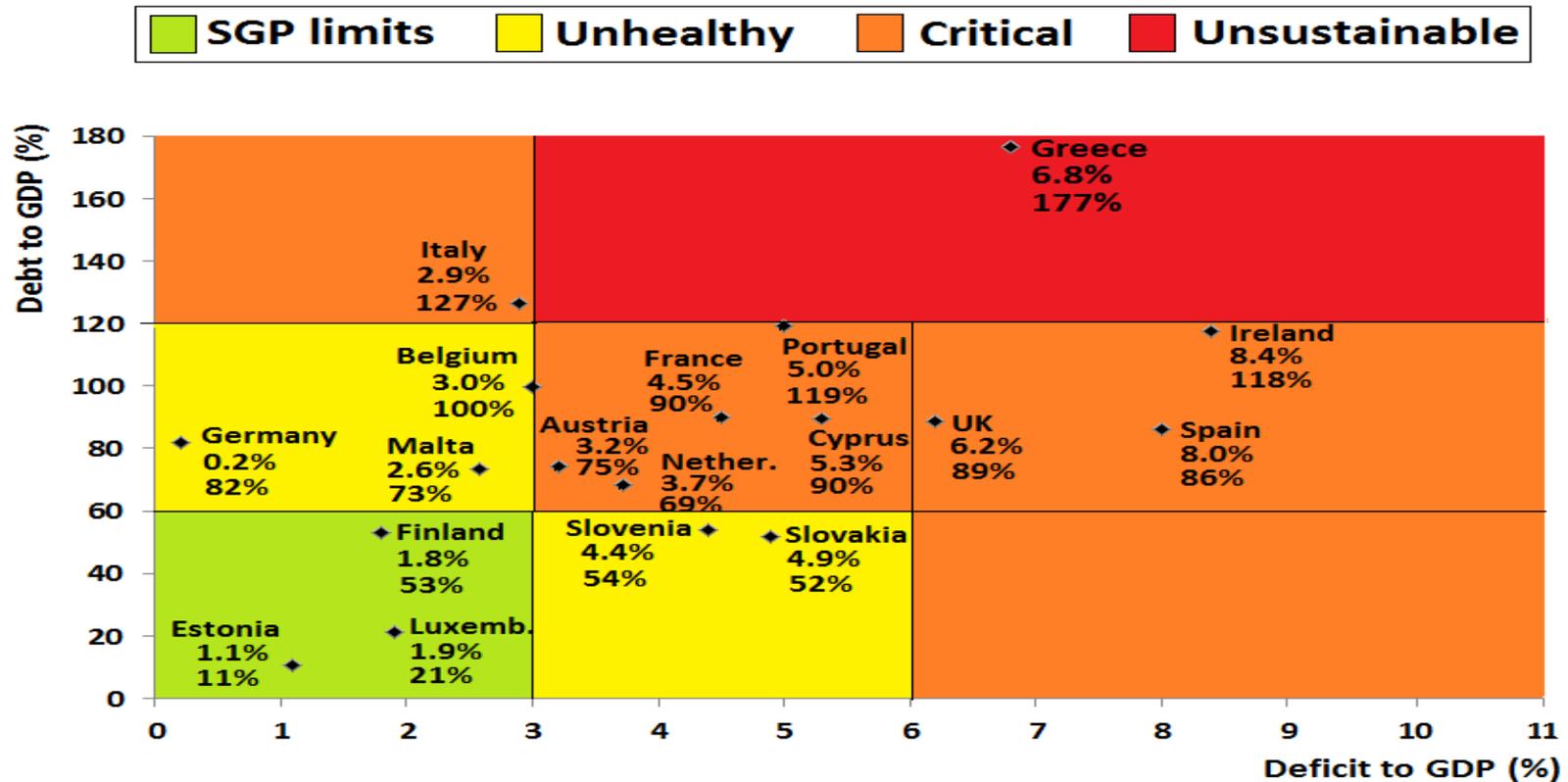
- 2009, deficit 4.4% of GDP
  - 15% across the border cut in administrative expenditures
- 2010, deficit of 3%
  - gradual increase in mandatory pension age to 65
- 2011, deficit of 1.9%
  - golden rule in organic budget law: below 2% deficit and 40% debt to GDP
- 2012, deficit of 0.8%
  - A unified law for national and municipal budgets, 2% deficit and 15% debt to GDP

# Why “Spend What You Earn”?

- Otherwise just postponing resolution
  - example: Slovenia
- Already high debt burden in Europe
- Otherwise inefficiencies go on
  - in energy sector
  - in transport
  - army and police

# Can Anyone Afford to Spend More?

## Budget Deficit and Public Debt to GDP - 2012



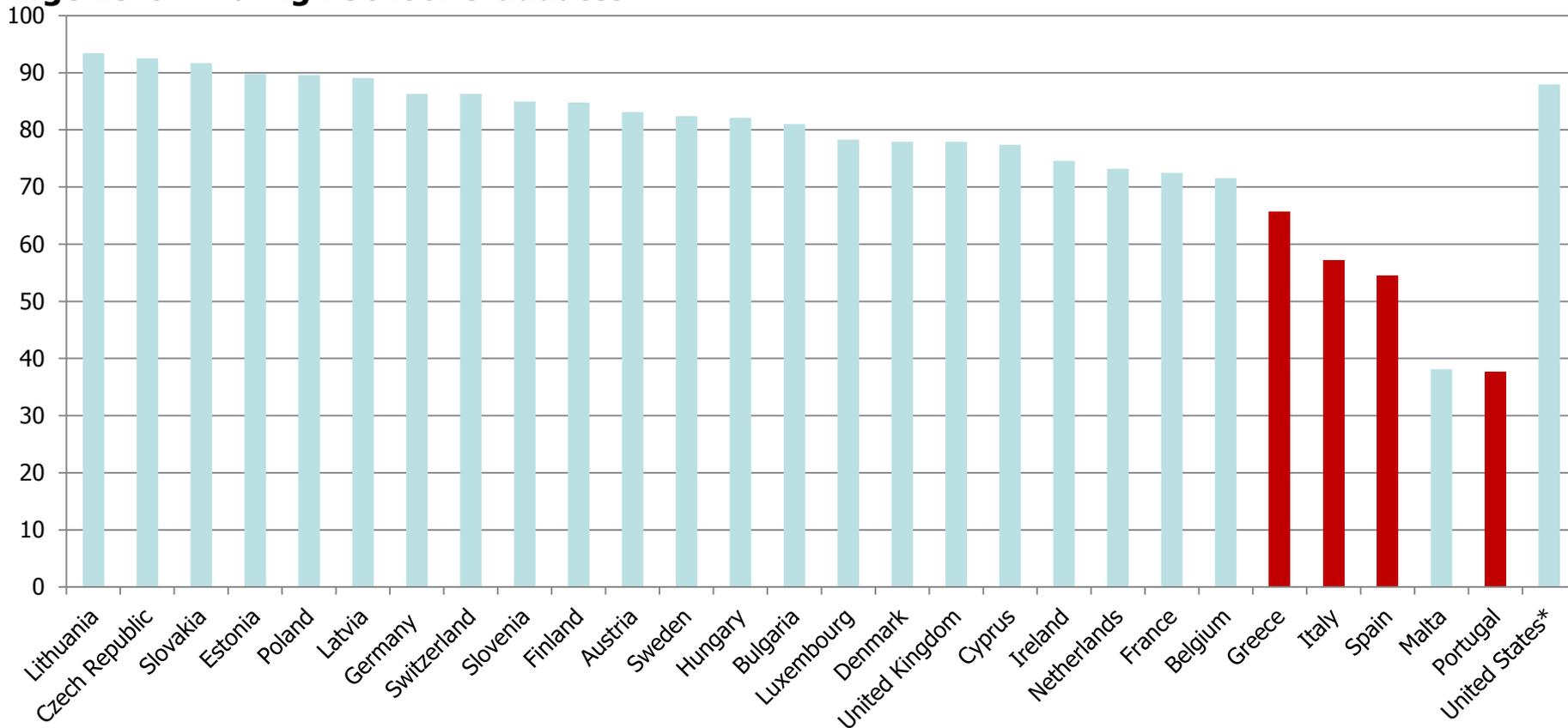
Source: Eurostat

# Europe Needs a Competitiveness Boost

- Many European countries produce and export too little and at too high a cost. This is seen in the external trade data. In 2012 France ran a current-account deficit of €82 billion, Spain €32 billion, Greece €20 billion, Portugal €11 billion and Cyprus €4.3 billion.
- According to the World Bank data, it takes 11 procedures and €9,000 to open a small business in Athens. It takes 735 days and 43 procedures to resolve a simple commercial dispute in Larnaca, Cyprus. And it takes 59 days and visits to eight different offices to register a small piece of property in Paris. It is cheaper and faster to do all this in Berlin.

# What Else Europe Needs: Education

Age 25-64: % High School Graduates



# Europe's Growth Plan

- What can Greece, Portugal and Spain export?
  - agriculture, fashion
- Focus on bringing manufacturing back
- Involving more people in economic activity
  - women, elderly people



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Thank you  
for your attention

