
A quantum of solace? An assessment of fiscal stimulus packages by EU Member States in response to the economic crisis

—
Andrew Watt
with the collaboration of Mariya Nikolova

Working Paper 2009.05

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europaen trade union institute

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Executive summary

The main findings of this study are:

- The fiscal packages implemented or announced by European governments are not large enough. Given the size of the loss of output – an output gap widening by some 6-7 percentage points of GDP in 2009 – a discretionary stimulus of around 1% of GDP in the current year and, at the time of writing, provisions for some 0.6% in 2010 is too small.
- This is true even allowing for the automatic stabilisers. While they are larger than in the US the overall budgetary stimulus is greater there than in Europe. This is inappropriate because the downturn is now foreseen to be sharper this side of the Atlantic and because it would contribute to resolving global imbalances if Europe (and Asia) were to do more and America less to reflate the global economy. Not for the first time, Europe is failing to pull its weight in the global economy.
- Variation in the size of the packages is considerable. To some extent this is justified by differences between the size of the automatic stabilisers and (estimates of) the size of the downturn. There is some sign of fiscal free riding by smaller countries, but the impact appears small. More worrying is that countries appear to feel constrained by current deficits and especially government debt in providing needed stimulus to arrest the downturn. While longer-term sustainability and credibility is an issue in principle, it is argued that at the prevailing debt and deficit levels in Europe most countries should not be constrained in running counter-cyclical policies. And where they are, the solution should lie in providing European-level fiscal support so as to remove those constraints. Instead countries, especially in central and eastern Europe are being forced into contractionary policies that will worsen the situation there and also have negative knock-on effects throughout Europe.
- The packages vary substantially between countries in terms of content. Overall there is a rough balance between the spending and revenue sides, but this conceals large differences between countries. Governments have sought to tailor packages to specific national needs and structures, but have largely avoided explicitly protectionist measures. Problematic in the light of the expected rise in unemployment appear to be the paucity of measures directed at the labour market (active labour market policy). The lack of ambition on green measures is also worrying: everything that is

described as green in government programs is not necessarily so. The extent to which social and equity issues have been addressed varies widely.

- Overall the involvement of social partners (especially trade unions) is not satisfactory, although there are examples in which unions' voice, sometimes after protests, was heard. This tended to be the case in traditionally 'corporatist' countries, but the complexion of the government of the day also seems to have played a role. Unsurprisingly, where unions were involved in drawing up the programs, expert assessments of the incorporation of social and equity concerns tended to be more favourable.

Introduction

The economic crisis continues to worsen. Forecasts are still being revised downwards. The latest at the time of writing (the IMF World Economic Outlook, 20 April 2009) predicts a massive 4.2% contraction in the euro area in the current year. Previously fast-growth countries in central and eastern Europe have also been hit hard. Not a single EU country is now expected to see positive economic growth this year and prospects for the coming year are also very subdued with major downside risks. Unemployment is set to rise, pushing the average unemployment rate back above 10%.

The economic crisis requires a swift and decisive response by national governments in order to sustain aggregate demand, mitigate the risk of downward spirals and deflation and alleviate social hardship. Because of the spillovers between countries – the positive externalities of fiscal expansion, conversely the risk of fiscal free-riding, and also the risk of negative externalities from protectionist measures – such action should be coordinated. To this end the European Commission put together a European Recovery Plan at the end of last year. It set out broad guidelines for the types of measures to be adopted and, more importantly, stipulated a fiscal framework of EUR 200 bn (of which EUR 30 bn was to come from the European level) representing around 1.5% of EU GDP. In response at the European Council in December member states made commitments broadly in line with the Plan, but only to a total value of 1% of GDP.

This report describes the findings of a project to collate and evaluate information on the plans announced and the measures taken by national governments. A number of other institutions have also examined the packages (e.g. Saha and von Weizsäcker 2009) or certain aspects of them (e.g. ECOFYS 2009). The specific aims of this exercise are to take both a comparative and European perspective on the fiscal packages, and to assess not only their volume, but also qualitative characteristics. In particular we are concerned about the extent to which the packages, beyond demand-side stimulus, are oriented towards resolving the growing crisis on the labour market and how they might impact on different groups of workers (by gender, sector etc.). Also key in this study is the involvement – or lack of it – of social partners, and particularly trade unions, at national level.

Against the background of these findings national governments can be called to account in view of the commitments made and the urgent need for a

coordinated approach to arrest the economic crisis and shield workers as far as possible from its consequences.

The report is based on a survey sent out to national experts. In most cases these consisted of members of the TURI network, a European network of national trade-union related research institutes.¹ For some countries information was provided by research institutes that do not belong to TURI or by trade union experts. The ETUI is very grateful to all contributing colleagues for the information provided and their assessments. A list of those institutions and persons is provided in Annex I. The author is responsible for the evaluations made on the following pages, on the basis of this information. The author would like to thank, in particular, Mariya Nikolova, the coordinator of TURI, who managed the survey process and also assisted in drawing up the tables.

1. For information on the network please refer to <http://www.turi-network.eu/>

Methodological issues

Reports, varying in comprehensiveness, were received for eighteen of the twenty-seven EU members and from Norway. The countries are Austria, Belgium, Bulgaria, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and the UK.

Together these countries represent more than 90% of the GDP of the EU27 plus Norway (nominal GDP in euro). As not all of the information required was provided for all countries, some of the aggregate figures referred to in the text are for groups of countries somewhat smaller than the eighteen listed above. Still, particularly as the missing information was mostly from small countries², the coverage of the survey is good and permits, with appropriate caution, conclusions to be drawn at the aggregate level. This assumes that missing countries are on average not different in their characteristics from those for which we have information. This does not seem implausible, although it should be noted that central and eastern European countries are under-represented in the sample. Aggregates use estimated 2009 nominal GDP in euros to weight countries.

It is not always easy to determine what measures are to be included as part of the stimulus packages. Generally measures were excluded, even if they are expansionary in nature, if they had already been decided prior to the onset of the crisis. (Table 2 provides some additional country information).

The cut-off point for the information used in this report is early April 2009.

2. The one large country missing from our sample is Poland. Here the government is currently negotiating with social partners on a package, so that information on its size and content is currently not available or not reliable.

Main findings – the packages in aggregate

The first key question at the European level is whether the stimulus packages are adequate in terms of their overall size. The findings are summarised in Table 1 for the European level. The individual country results are presented in Table 2 (see next page).

Table 1 Based on 10-14 EU countries, depending on the indicator, representing approx. 80-90% of EU27 GDP

	Simple average	Weighted average
Total fiscal package 09/10	1.70	1.79
in 2009	0.99	1.02
in 2010	0.61	0.59
revenue side	52%	52%
expenditure side	48%	48%

Source: own calculations based on survey

The results in aggregate are not encouraging. The European countries considered³, currently have implemented or concretely foresee discretionary stimulus of only around 1.8% of annual GDP for the years 2009 and 2010 *together*.

The discretionary measures total only around 1% of GDP in the current year, with just 0.6% currently foreseen for 2010. In aggregate measures are broadly balanced between those on the spending and those on the revenue side of the government budget.

Is this enough? The short answer has to be no. Even if we assume that some additional measures may be forthcoming, particularly for 2010, and we lack figures for some smaller countries, it seems impossible to claim that the discretionary measures can substantially exceed 1 percentage point of GDP in

3. As explained above not all the information was available for the same countries for all indicators and both years, leading to some discrepancies. Notably, in the case of Spain the aggregate figure also includes measures that took effect already in 2008. See also the footnotes to Table 2.

the current and again in the coming year. As the numerous footnotes in Table 2 indicate, some national packages can only be considered genuine additional stimulus on a rather generous reading. Some estimates (e.g. for Hungary), require fiscal slippage compared with the government's intentions, and, in the case of Spain include spending in 2008. Moreover, these figures refer to the mechanical effect of measures. Particularly in the case of tax cuts and transfers to firms and households, it is unclear to what extent this will actually be spent and programmes offered by governments will be taken up⁴. In any case a proportion will also be spent on (extra-EU) imports.

Table 2

	AT	BE	DK	FI	FR	DE	HU	IT	LUX	NL	NO	PT	ES	SE	UK
Overall size of fiscal package (% of GDP)	2.4	0.9	2.2	1.5	1	2.64	0	0.2		1			4.6	2.40	1.5
in 2009	1	0.4	1.2	1	0.7	1.2	0	0.2	1.75	0.45	0.75	1.2	2.3	1.25	1.4
in 2010	1.4	0.4	1	0.5	0.3	1.5	0	0.1		0.51				1.15	-0.1
revenue side (% of package)	70	40	40	80	36	54				20			20	66	90
in 2009	72		33						50	25	16.25	25		70	
in 2010	70		50							15				61	
expenditure side (% of package)	30	60	60	20	64	46				80			80	34	10
in 2009	28		66						50	75	83.75	75		30	
in 2010	30		50							85				39	

Source: own calculations based on survey

Footnotes:

Austria: includes 3bn of tax reform which had anyway been agreed but has been brought fwd from 10 to 09

Denmark: there are some additional measures such as an ability to access private pension funds to finance consumption. They are not included as it is not clear how large the take-up will be. On the other hand the figures also include some tax reforms agreed earlier and not strictly a stimulus measure in response to the crisis.

Hungary: the situation here is currently very uncertain. Measures implemented and agreed contain both expansionary and contractionary elements. EU funds speeded up and beefed up and refocused (to SMEs and infrastructure). Contractionary measures in line with IMF agreement, cuts in social spending and public administration. And there is an overall neutral tax package (decrease of labour taxation and employer contributions, decrease of personal income tax, but increase of VAT and consumption taxes). The government actually foresees a discretionary contraction, but not clear whether will be achieved.

Luxembourg: The overall package announced by the government was estimated to be worth 3.24% of GDP in 2009. However, a substantial proportion of these measures had already been agreed to before the crisis and consisted of purchasing power increases to compensate ex post of faster inflation in 2008 due to high energy prices. The figure of 1.75% of GDP is the estimate for measures announced or introduced explicitly as a response to the crisis.

Norway: all figures refer to 2009

Spain: figure for overall package size includes 2008, the other figures refer only to 2009 (rough estimates for total revenue side and expenditure side)

Sweden: OECD estimates, converted to euros at current exchange rates

UK: IMF estimate includes 0.2% in 2008, some discrepancy with official government figures probably due to fiscal vs. calendar year.

Overall size: includes stimulus by Spain effective already in 2008.

4. The example of the German car-scrapping programme – on which more below – shows that take-up can also exceed expectations, and lead to an extension or expansion of announced programmes.

The latest IMF forecast is for a contraction of more than 4% in 2009. With potential output growth somewhere above 2%, this means that the output gap – the difference between what the economy could produce without inflation and what it is actually producing – will open up by a massive 6-7 percentage points of GDP in the current year. And this forecast already allows for the cushioning effects of the fiscal measures under discussion and the automatic stabilisers (see below). In such a context a discretionary stimulus of 1% a year is simply inadequate. It is below what was called for by the European Commission at the end of last year, at a time when the short-run economic outlook was decidedly less dire.

It is true that the automatic stabilisers – in a downturn the automatic declines in tax and social security revenue and increases in government expenditure that occur without any change in existing policies – are larger in Europe than in the US.⁵ However, even allowing for this, the discretionary stimulus packages in the US are estimated to push the total fiscal boost (i.e. discretionary measures plus automatic stabilisers) higher in the US than in Europe (cf. IMF 2009). In view of the global imbalances – specifically the massive current account deficit in the US and its low savings – this is not an appropriate policy response in global terms (Watt 2008, Wolf 2009). Given the now-expected steeper downturn in Europe compared with the US it is also inadequate in purely European terms.

5. According to OECD estimates the total elasticity of the public sector (the change in the fiscal position in response to a one percentage point change in GDP growth) is 0.48 in the euro area and 0.42 in the new member states that are members of the OECD, implying an overall EU27 figure somewhat below half. By contrast the OECD estimate for the US is around one third.

Main findings – the stimulus effort across countries

Turning to the distribution of this overall stimulus between countries, considerable differences between the countries emerge. Hungary's fiscal policy will at best be neutral over the period.⁶ Italy and Belgium have also announced packages that amount to less than 1% of their respective annual GDP over the two-year period, while France and the Netherlands just manage 1%: In evaluating the performance of all the above countries it should be recalled that the European Council of December 2008 called for Member States to provide 'timely' – i.e. not specifying the time period over which it was to be measured – support of 1.2% of GDP.

The UK and Finland both manage an additional half a percentage point (1.5%). There is then a substantial gap to a group of countries (Denmark, Austria, Sweden and Germany) providing an impetus of 2.2-2.6% of their respective annual GDP. The field is led by Spain at 4.6%, although around half of this figure relates to measures effective in 2008. The high figure for Germany (2.64% of GDP) plus its large economic weight – accounting for almost 23% of the GDP of the 14 countries for which we have an estimate of the total fiscal package – means that Germany alone is providing around 0.6 percentage points of the total stimulus expressed as a percentage of annual GDP.⁷

The EU aggregate figures discussed above implied that most countries have front-loaded their fiscal stimulus packages, with measures concentrated in 2009. Of course this may change if subsequent measures are implemented with effect in 2010. (For Spain, the biggest stimulus country, in terms of share of national GDP in 2009, we do not have an estimate for 2010, which affects the comparison between the two years.) Yet the national estimates suggest that the picture is less clear. The UK, France and Finland conform to this pattern: British fiscal policy, according to these figures, plans to return to a neutral stance already in 2010. Yet in a number of countries the difference between the two years is marginal, while in Austria and Germany the impact of the

6. See footnote in Table 2. The fiscal situation is very much in flux at the time of writing. The government has recently announced a further austerity package. The rough 'zero' estimate here is almost certainly too favourable.

7. With these 14 countries accounting for around 90% of EU27 GDP, Germany's contribution to the total EU27 figure (assuming all the missing countries make an 'average' contribution) would therefore be around 0.54 percentage points of total EU27 annual GDP.

packages announced so far will already be larger in the coming than the current year. For the EU level this means that the impact of the quantitatively most important package, that of Germany, will be delayed.

Table 2 also reveals that the average result of a broadly even split between expenditure and revenue-based measures conceals substantial variation between the countries. In the UK, Finland and Austria measures are highly concentrated on the revenue side (i.e. tax cuts of various sorts are the main focus). The opposite is true of Norway, the Netherlands and Spain, where it is government spending that is being ramped up. In the remaining countries for which we have information, the revenue-expenditure split is rather even.

In assessing this split it should be recalled that direct government spending on goods and services is generally considered to have a greater actual impact on domestic demand per euro of ‘mechanical’ shift in the government budget position (which, it is recalled, is what is reported here). This is partly because less of the effect is ‘leaked’ to imports. Moreover, tax cuts and additional spending in the form of transfer payments are partially saved by households (especially if they are known to be temporary). Their effectiveness in terms of demand depends primarily on the income groups towards which they are directed. Other things equal, low-income (in the jargon: credit-constrained) households will spend more of any government largesse that comes their way. An advantage of tax cuts and transfer payments is that they can often be initiated very quickly, whereas it takes time to increase government spending, especially on infrastructure, because of the planning and implementation lags involved. A rational government strategy would therefore be to enact tax-cuts (revenue side) to benefit from effects in the short run and begin implementing infrastructure and other investment projects (spending side), whose impact is likely to be larger but falling more in the medium run.

These policy options are unfortunately not perfectly reflected in the revenue-expenditure split, and thus cannot be fully evaluated here. Yet it seems likely that the overall split in Europe between spending and revenue side measures is not optimal: greater recourse to spending side measures would be likely to generate a larger ‘bang for the euro’ (i.e. a larger multiplier). This concern would be mitigated to the extent that we could identify a shift in the pattern of spending over time, with revenue side measures giving way to those on the spending side. Unfortunately our data is very limited here. Only for four countries (all small) do we have a split by year: of these the Netherlands and Sweden appear to be following the recommended strategy; in Austria there is virtually no change over time, while in Denmark the policy path over time goes in the opposite direction.

What can be said about the distribution of the stimulus effort across EU countries revealed by our figures?

A first point to note is that the simple average of the overall total is somewhat lower than the weighted average (Table 1): this implies that larger economies are imparting a bigger fiscal push, relative to output, than smaller ones. This

is in line with concerns about the potential for fiscal free-riding (e.g. Watt 2008: 12ff.). On the other hand, the effect does not seem to be very large (and if we just consider 2009, for which the mix of countries is slightly different, the effect virtually disappears).

We can test this more formally by comparing the size of the stimulus packages with the size of national GDP. (These data, and those underlying the following paragraphs are brought together in Table 3, which also indicates the definitions and sources. The interested reader is also referred to the scatter plots in Annex II.) In line with the finding based on the comparison of simple and weighted average, we do find a positive correlation between size of economy and size of stimulus (as a share of national GDP), suggesting that larger economies are 'pulling more than their weight'. However the correlation is extremely weak (about 0.1) and statistically insignificant. Free-riding does not appear to be an important determinant of the size of discretionary stimulus in Europe.

It would also seem plausible to assume that countries facing a larger shock to demand and output will launch larger stimulus packages. We test for this by comparing the size of the packages with European Commission estimates of the change in the size of the output gap between 2008 and 2009. We find quite a strong negative correlation here (-0.4), indicating that those countries in which the economic downturn has been strongest between 2008 and 2009 – more specifically: was perceived as having declined most sharply in the spring of 2009 – have indeed tended to implement larger stimulus packages.

It may also be that countries in which the automatic stabilisers are relatively small are more likely to opt for more substantial discretionary policies, thus evening out the total cushioning effect of fiscal policy between countries (for a given speed of economic downturn). Our data provide some confirmation of this hypothesis, although at just over -0.2, the negative correlation is rather weak.

Lastly it might be supposed that countries with more fiscal 'room for manoeuvre' might be more inclined to run expansionary fiscal policies to counteract the downturn. Here we take outstanding government debt and the fiscal deficit in 2008 (in both cases as a share of GDP) as two standard indicators for this 'fiscal room for manoeuvre'. Our presupposition is born out for both indicators for the twelve countries for which we have the data. In particular the level of outstanding debt serves (statistically) as a good predictor of the extent of fiscal stimulus (negative correlation above 0.5); the effect of (last year's) fiscal deficit is also clear – large deficits reduce the willingness or ability to implement discretionary stimulus packages, but the correlation is rather weak.

We can summarise as follows: EU countries that are: large, have faced a larger negative shock, have weak automatic stabilisers, and have greater fiscal room for manoeuvre (low debt and deficits) have tended to implement the largest stimulus packages.⁸

How can this distribution of stimulus efforts across EU countries be evaluated from a European perspective?

Table 3 Correlation of size of stimulus with other variables

	AT	BE	DK	FI	FR	DE	HU	IT	NL	ES	SE	UK
Total discretionary stimulus (% GDP)	2.4	0.9	2.2	1.5	1	2.64	0	0.2	1	4.6	2.4	1.5
Nominal GDP 2009 (EUR bn)	292.12	357.77	243.57	197.46	1995.00	2566.36	110.18	1621.36	605.87	1117.62	325.24	1890.25
Size of automatic stabilisers	0.47	0.52	0.59	0.48	0.53	0.51	0.47	0.53	0.53	0.44	0.55	0.45
Change in output gap 2008-2009 (p.p. GDP)	-1.3	-1.7	-1.3	-1.5	-1.4	-1.4	-1.2	-1	-1.4	-1.9	-1.8	-2.4
Fiscal deficit 2008 (% GDP)	-0.6	-0.5	3.1	5.1	-3	0	-3.4	-2.5	1.2	-1.6	2.6	-4.2
Govt. debt 2008 (% GDP)	55.80	84.38	20.53	30.49	64.19	63.00	63.98	101.76	46.86	36.87	34.47	46.19

Sources: The estimates of the total discretionary stimulus is our own; the estimates of the size of the automatic stabilisers are by the OECD; the remaining data is taken from the AMECO database and in the case of the output gap estimates is based on the European Commission's spring forecast.

Country size should not, in economic terms, be a factor for the extent of fiscal stimulus. It is easy to understand from a political-economy perspective however: the incentive for smaller countries to free-ride on the stimulus of others is greater than for big countries. On the other hand, despite this clear political-economy incentive, the quantitative importance of the effect is certainly very limited; indeed it cannot be excluded that it is just a statistical artefact. The link between extent of the downturn and the size of discretionary stimulus is both plausible in political-economy terms and desirable, from a European perspective, in economic terms. The same is true of the negative relationship between automatic and discretionary stimulus. More difficult to evaluate is the desirability of the constraining effect of existing fiscal deficits and government debt. A full assessment would require a more detailed country-by-country analysis, but a number of points should be made.

8. A multivariate regression analysis was conducted to estimate the sensitivity of the size of the stimulus to each of the five 'explanatory' variables, holding each of the other four constant. However, the small number of data points leads to huge standard errors. The same idea can be shown while avoiding this technical problem and in an intuitive way by ranking the countries according to the size of the stimulus and on the five indicators. The ranking by stimulus and across the five indicators can then be compared. The table is in Annex II. It shows that the overall ranking on the five indicators together (equally weighted) corresponds quite well to the extent of discretionary stimulus.

The assessment depends on views about the likely duration of the downturn, at what point the credibility of fiscal policy comes under strain, and other factors, on which there is no consensus amongst economists. In my view, given the massive deleveraging by the private sector, resolute discretionary fiscal loosening is called for also in those countries in which either the level of outstanding debt (Italy, Belgium) or current deficits (UK, Hungary) are considered 'high'. It is both indicative and troubling that the size of the stimulus in all four countries is below the – inadequate – European average and certainly sub-optimal, also from a wider European perspective, in terms of limiting the downturn. In historical terms neither the debt nor the deficit ratios of these countries are in fact particularly high. Deficits were much higher in many European countries prior to the recession of the early 1990s, while countries have shouldered 'national' debts far greater than annual GDP. Clearly, low interest rates are decisive for the ability of governments to finance deficit spending. This emphasizes the need for monetary policy to do all it can to drive interest rates down as low as possible. More generally the possibility of fiscal constraints on individual European governments points to the need for 'European fiscal solidarity', which could take various forms. We return to this issue in the conclusion.

Assessing policy priorities within the packages

Many but not all of the national questionnaires provide a wealth of detail on the individual measures announced or already implemented by national governments. We have quite a detailed breakdown for fifteen countries. Precisely the variety, together with the different amount of detail available, from country to country, makes it difficult to summarise and render comparable – much less aggregate – this information. This section seeks briefly to draw out some of the main qualitative features that emerge when comparing the different national programmes.⁹

Most governments have put together quite complex packages containing a whole series of measures, each correspondingly small in terms of aggregate effect on demand, on both the spending and revenue side of the budget, rather than opting for a couple of measures with large effects. In principle this is a sensible approach. As discussed in more detail elsewhere (Watt 2008: 16), different fiscal measures have different strengths and weaknesses and a wide range of measures may help to hit additional targets that can or should be pursued alongside that of arresting the downturn.

Member States also vary considerably in terms of factors such as their product specialisation, their openness to trade and their institutional structures. In view of this, substantial differences in the measures enacted by Member States are to be expected. Except where there are major negative or positive spillovers, there is no compelling reason, from a European perspective, for all governments to pursue one specific measure (such as a cut in VAT rates¹⁰).

On the revenue side governments have a limited number of basic options. They can cut direct taxes, indirect taxes and social insurance contributions, either by reducing rates or making the various thresholds, allowances and exemptions

9. More developed analyses of specific policy areas, particularly in the area of 'green' measures will be produced subsequently by the ETUI. The Bruegel study cited earlier (Saha and von Weizsäcker 2009) did attempt to classify measures and thus arrive at a breakdown for Europe as a whole. Concerns about data reliability and difficulties of delineating measures and assessing their 'value' led us not to attempt such an accounting exercise, but rather to make a more qualitative assessment.

10. This had been recommended earlier by the BRUEGEL institute for example (Pisani-Ferry et al. 2008).

more generous. In doing so they can target specific sections of the population (high or low incomes, families, etc.), also direct measures more towards households or business incentivise certain types of behaviour, etc. In some cases this targeting is explicit, in other it results indirectly from the different incidence of the tax or contribution that is reduced.

Income tax changes are an obvious choice for governments, given their generality and the comparative ease of changing rates or thresholds; and indeed more than half of the fifteen countries for which we have sufficiently detailed information availed of this option. Unless carefully designed, such measures tend to favour the better-off, however, as they pay most in income tax. By definition they fail to benefit those at the bottom of the income scale who pay no income tax. France, notably, – after massive social protests – targeted its income-tax measures to low-income groups. In Italy the income tax cuts were targeted at families.

What is striking is the large number of countries that have cut business taxes, either temporarily reducing rates or at least making various provisions for delayed tax payments. In a number of countries (e.g. Norway, Belgium, Netherlands) such cuts in the corporate tax burden were the only or quantitatively by far the most important measures on the revenue side. It seems that governments perceive such support to employers as a way to limit bankruptcies and redundancies. To what extent this is effective remains to be seen: what is clear is that such tax cuts will not lead directly to additional spending to the same degree as if they had been targeted at low-income households. In some cases the revenue-side support for business was tied to firms' acting in ways to promote wider social and economic goals, such as R&D or investment in green technology (Netherlands) or conditional on recruiting new workers (Spain).

Various social insurance contributions have been cut in different countries. Again, in some cases these have been targeted exclusively at employers. While this reduces labour costs, easing financial constraints on business, it seems unlikely in the current context to have much impact on the propensity to hire. In most cases the measures are temporary. Where this is not the case issues arise about the longer-term financing of social insurance systems.

A rather smaller number of countries – we have reports for five of the fifteen – have made changes in VAT rates. It is notable though that in two cases, Hungary and Latvia, the change has been to *raise* rates as part of broader stabilisation packages (in the case of Hungary offsetting expansionary changes in the area of income tax). In some cases the VAT reductions were targeted by sector (construction in Belgium) or product type (food in Finland). VAT being a regressive tax, cuts in VAT will tend to have favourable distributional impacts, all the more so if, as in the Finnish case, they are targeted at an area on which the poor spend a larger share of their income. An advantage of VAT cuts is that they cannot be 'saved': their positive impact only accrues to those actually spending.

Obviously government options on the spending side are much more varied, not to say limitless. Nevertheless some pan-European trends emerge if the measures are categorised broadly. Ramping up public investment, especially in infrastructure has been the most popular choice by European governments in terms of volume. In at least two out of three countries this is the most important area of spending. This is readily understandable. The construction sector has been hard hit by the crisis in many countries. Well-designed infrastructure spending has been shown to have high multipliers (induces knock-on private spending), can promote longer-term growth potential and also address ecological issues (energy efficiency, transport etc.). It is also a way for governments, even in small countries, to keep a large part of the fiscal boost within the domestic economy. An important downside of such measures is that in many cases they require substantial time lags before they can be implemented.¹¹ In the context of the evaluation of the packages announced by governments the issue of time lags translates into concern that the measures that actually are carried out in the current and coming year will to some extent have already been planned and also budgeted for prior to the crisis, and thus, however welcome, do not actually represent additional stimulus.

After public investment, the relative importance of other measures varies: some countries have targeted businesses, offering either sectorally specific measures in support of threatened industries or (as on the revenue side) incentives to invest, including in green technology. Companies have also received financial support to encourage them to keep workers on the pay-roll, sometimes with a training commitment (see also labour market policy below; for a more detailed analysis of plant-level measures see Glassner/Galgoczi 2009). The sectoral support has been heavily concentrated on construction and manufacturing, and here in particular the automobile industry.

The sectoral orientation of these measures, which is sometimes explicit as in automobile industry packages, sometimes implicit, as in public infrastructure which *de facto* implies a boost to the construction sector, implies that government programmes will tend to favour male over female workers. Further analysis of the differential gender effect should be carried out. In evaluating this finding it does need to be recognised, however, that this is in line with the much more substantial rise in unemployment among men, than women.¹²

Some governments have opted to focus business support cross-sectorally on small enterprises, reflecting a belief that they may have greater difficulties in accessing working capital and thus that in this segment the risk of potentially viable companies going under is greater.

11. As with other sectoral measures, they also risk, unless carefully designed, artificially maintaining unsustainable levels of capacity.

12. Over the last year unemployment in the euro area has risen by just under a third for men and just over one tenth for women.

Various social measures and benefits have been increased in a number of countries. Measures have been taken to increase welfare benefits for low income groups (e.g. France and Germany), In a number of cases these were explicitly targeted to families with children (Austria, Germany, Italy). With unemployment rising sharply countries might have been expected to increase the generosity or duration of unemployment and related benefits. However, this does not seem to have been an option exercised in Europe: Bulgaria is an exception. It may be that pressure to extend entitlement duration will grow only later as those made redundant by the crisis increasingly are faced with entitlement fall-offs or terminations.

Based on our survey it seems that, in spite of all the political rhetoric about the need to promote 'green' growth and a low carbon economy, such measures very much take a back seat in the stimulus packages adopted to date. Sometimes green concerns are incorporated, as indicated above, in broader measures to support business. A number of countries have announced specific green measures. Popular are subsidies for households and firms investing in green technology such as more efficient heating systems, insulation etc. (e.g. Austria, Belgium). Part of the additional spending on infrastructure is in the area of public transport and to that extent can claim green credentials.

Particularly controversial have been schemes to encourage car-drivers to trade in old vehicles for new ones ('cash for clunkers'). Schemes have been introduced in Austria, France, Germany Italy and Luxembourg and are under discussion in others. These are routinely described by governments as 'green' measures in that they encourage the modernisation of the vehicle fleet. Such schemes have been widely criticised, however, on a number of grounds. They promoting private (rather than public) transport, and offer no reward to those who never owned a car in the first place. Depending on the design of the scheme, they often fail to distinguish between those (old) cars that are actually environmentally harmful and also between those (new) ones that are fuel efficient. The German media, in particular, have reported numerous stories of economically and ecologically perverse scrapping of perfectly serviceable vehicles and subsidised purchases of new 'gas-guzzlers'.

More generally the stimulus packages require detailed analysis because even genuinely green measures can be offset by other components of the packages that encourage environmentally destructive practices. All this suggests that the various government estimates of the proportion of their packages that are 'green' should be taken with a large pinch of salt (see for instance ECOFYS 2009 and HSBC 2009 which make very different assessments). There are also difficult policy trade-offs: measures to help poorer households pay their fuel bills can be criticised on ecological grounds.

As noted above, it is not always easy to separate 'labour market policy' measures from support to employers (or sometimes worker households). A number of governments have announced plans to expand the coverage of various already existing active labour market policies. In particular, schemes to discourage redundancies and thus limit the rise in open unemployment have been ramped

up in a number of countries. In some new member states they have been instituted for the first time. Such short-time working or partial unemployment schemes are based on the idea of 'burden sharing' between workforces and employers and seek to retain skilled workers in the companies, and thus, at the macro level, future growth potential. Increasing financing for such schemes often makes sense for governments as it avoids otherwise even costlier redundancies. Such schemes are, however, by their nature limited in time and also often in coverage. Part-timers and workers on fixed-term contracts, including agency workers, are often not covered: some governments have sought to expand the coverage of these programs in response. The impact of the schemes would be improved if government support were tied more closely to a requirement to offer training; for more details on such schemes see Glassner/Galgoczi 2009).

Overall, given that the most worrying manifestation of the crisis is a sharp rise in unemployment, which is certain to continue, and probably accelerate, into the coming year at least, the relative paucity of labour market policy measures is surprising. For the reasons indicated I am cautious about ascribing percentages to different spending categories and tax measures. According to the classification by Bruegel labour market policy measures account for just 5% of the total (Saha/von Weizsäcker 2009). Almost certainly some of the measures relating to unemployment and other benefits and some support for employers should be added to this. Even so, policies aimed at easing the burden on labour markets and helping those most tangibly hit by the crisis – those who have been made redundant or are threatened by job loss – are clearly dwarfed by more general tax cuts, by public investment measures and by various forms of sectoral and other support for business. This can be criticised not only on equity grounds. Actual redundancy and fear of job loss are important propagators of the crisis as they lead to debt default and precautionary saving.

Responses to a question in the survey about explicitly protectionist measures implemented by national governments were consistently negative. On this basis it seems that global trading rules and, in particular, those underpinning the European single market are holding up well and constraining governments that might be tempted to deploy explicitly beggar-thy-neighbour policies. At the same time some countries (e.g. Austria, Portugal) are targeting exporting companies for support. More generally it is evident that governments are doing all they can to tailor schemes in such a way that the demand leakage abroad is minimised. Given the lack of binding fiscal coordination and the associated risk of free-riding, however, this can be seen as not only as economically rational from a national perspective, but also desirable from a European point of view, as it enhances the incentives to implement stimulus packages which have positive externalities for other (European) countries. Of course it remains a 'second-best' solution compared with fiscal coordination.

Let us draw some conclusions from the analysis in this section.

As argued at greater length elsewhere (Watt 2009) the pattern of revenue and spending measures in the fiscal stimulus packages raises concerns about social equity and distribution. The crisis had its origins in the excesses of the financial

sector and has led to massive bailouts of financial institutions (not discussed in this report). On top of this comes the broader issue of rising inequality during the years preceding the crisis, the scandals about executive pay etc. Ordinary workers are now losing their jobs in industries not directly linked to the sources of the crisis. As tax-payers they are at the same time being forced, now or subsequently, to pay for the bailouts and make good the fiscal losses from the automatic stabilisers and discretionary programmes. In the light of all this it is worrying that European governments appear only to a limited extent to be taking account of such ‘social concerns’ – income inequality, supporting those actually losing their jobs – when designing their packages.

There do appear to be some attempts to take account of some medium-term economic policy issues at the same time as supporting aggregate demand in the short-run. The focus on public investment and support for R&D in many countries is testimony to this. However, in the area of education and training there are few signs that the crisis is being grasped as an opportunity to raise skills and promote medium-run productivity and labour market participation. The evidence on green measures is at best mixed: behind the rhetoric the findings do not seem encouraging. Finger-wagging about the risk of protectionism appears exaggerated on the basis of the evidence here, though.

A final conclusion can be drawn from this assessment of the quality of the measures adopted with a view to further research. Measures are hard to classify and also to rank in terms of size and effectiveness. Governments and other policymakers may have incentives to exaggerate the likely impact, and take-up of some measures may be inherently difficult to predict. All this suggests that caution is required in estimating the proportion of packages being ‘spent’ on different areas. This justifies the more qualitative appraisal given here.

A political evaluation by national experts

All national experts were asked to provide an evaluation of their country's fiscal package against eight criteria considered to be desirable characteristics of stimulus packages. These dimensions were: 1. the effectiveness of the package in arresting the slowdown; 2. the timeliness of the measures; 3. their reversibility (once the crisis is over); 4. their 'targeted' nature (in terms of maximizing the effect on demand); 5. their sensitivity to 'social' concerns; 6. their 'greenness'; 7. their contribution to longer-term productivity growth; and finally 8. the incorporation of social partners in designing the programmes. The programmes were rated against each criterion on a standard 1-5 scale (to what extent does the fiscal policy package meet the criterion? 1= not at all, 2 = inadequate, 3 = to some extent, 4 = to a considerable extent, 5 = well designed to meet this criterion). The subjective nature of this assessment by the national correspondents should be emphasised.

The scores are presented in Annex II.

Starting with the overall country scores – the columns in the annex table – of course these are sensitive to subjective differences between respondents and should not be over-interpreted. Nevertheless, the low scores for the two Baltic countries and Hungary are striking. It is surely no coincidence that these countries are – not least under the influence of the International Monetary Fund – deploying at very best neutral, if not actively contractionary fiscal policies in the face of massive falls in output. Also highly critical are the Greek, Swedish and French respondents. It is noteworthy that in five of these six countries (Hungary being the exception) the involvement of the social partners in the design of the package was considered wholly or partly inadequate. This was also the case in the UK, whose overall score, though, was close to average.

Turning to the other end of the spectrum, our national experts gave relatively high marks to the stimulus packages in Norway and Belgium and to a lesser extent, Portugal, Finland and Austria.

Likely to be rather less affected by subjective differences is the comparison between the different characteristics of the national packages (the rows in the annex table). The ratings on all eight characteristics were decidedly mediocre. Rather worryingly in terms of the effectiveness of the packages in addressing the ongoing crisis, the only assessment which on the (unweighted) average of the countries was somewhat above the mid-point of 3 was with respect to the 'temporary' nature of the stimulus measures. While it is in principle desirable

for measures to be readily reversible, in the context of the deepest economic crisis in Europe since the Great Depression of the 1930s, the fact that the measures' reversibility was seen more favourably than the other characteristics, would appear to be rather a dubious compliment. All the other seven characteristics were rated on average between 2 and 2.5. Worryingly, the worst average marks were given for the assessment of how well targeted the measures are. The reader is reminded that the above assessment is based on the mechanical effect of, say, change in tax rules. If these are poorly targeted the actual impact on demand will be considerably reduced. Also of concern is the apparent lack of attention to green measures (see also previous section): in ten out of 16 countries respondents disagreed or strongly disagreed with the statement that the fiscal measures promoted 'green growth'.

A number of interesting individual results deserve mention. The involvement of social partners and particularly trade unions was praised by the national experts in the case of Belgium, where a social partner agreement was actually the backbone of the package. This reflects, on the one hand, a long-standing tradition of social dialogue in that country, but also the current weakness of the federal government. High marks were also accorded in Norway and Austria, two countries with a well-established social partnership. Perhaps not surprisingly, there is a close correlation between the reported involvement of social partners/unions and the degree to which 'social' concerns have been taken on board in the packages.

A political evaluation by national trade unions

On the basis of our correspondents' questionnaire responses we can assess the position of national trade union centres for all nineteen countries except Portugal. The information is summarised in Table 4. To our knowledge this is the only attempt made so far systematically to collate and assess the views of national trade union organisations in Europe to the measures launched by national governments in response to the biggest crisis since the Great Depression.

Trade union attitudes to their respective government's stimulus plans vary widely between countries. On the other hand, with the exception of Italy it appears that different trade union centres within each of the eighteen countries considered take a broadly similar view.

Table 4

	Supportive	Critical	Mixed	Additional details of TU positions
Austria	X			Union movement has been broadly favourable, but critical of specific measures. It has called for additional measures for the labour market, including higher unemployment benefits, and an additional package if the crisis worsens.
Belgium	X			Social partners were involved in drawing up the package, which therefore enjoys broad union support as a social compromise. Still, not all measures are supported. The FGTB has put forward its own Alliance for Sustainable Growth.
Bulgaria			X	While broadly welcoming the implementation of stimulus measures, they have been sharply critical of inadequate attention to social concerns. Government support for short-time working was welcomed. However, there is a major conflict with the government over the setting and level of the minimum wage.
Denmark		X		Unions are critical because tax cuts are too oriented towards high income groups, the tax cuts come too late and more generally because public investment measures would generate higher employment effects than the envisaged tax cuts.
Estonia		X		Unions have opposed cuts in benefits and other public spending. The government accepted demands not to change the pension insurance scheme, but union health insurance proposals have been rejected.
Finland	X			Unions are generally favourable but would like to see a shift in emphasis in favour of public investment.
France		X		French unions were united against the first stimulus package because of the lack of a social dimension.

	Supportive	Critical	Mixed	Additional details of TU positions
Germany			X	German unions were relieved that the second and large stimulus package was passed, which had seemed unlikely. However, they criticise the still inadequate size of the package, certain measures (tax cuts), not least due to the lack of consideration for equity issues, and lastly, the lack of European coordination.
Greece		X		The government measures are insufficient. The social partners have proposed a list of measures, including higher unemployment benefit entitlements, support for housing and tourism, wage subsidies for new recruitment by SMEs. The union movement is also calling for government loan guarantees to be tied to a social clause.
Hungary		X		Unions are critical of proposed changes to income tax and VAT on basic foods and energy. Tripartite negotiations at macro level are under way.
Italy			X	The three main confederations are quite divided on the issue and have proposed different measures. All are calling for social partner consultations. CGIL has been most critical of the government approach, has proposed a series of measures to address the crisis and demanded an early tripartite meeting. The criticisms of CISL and UIL have been focussed on specific measures.
Latvia		X		Unions have criticised both tax changes and sectoral support measures. They have made their own proposals (together with social partners) some of which have been accepted by the government. Trade union resistance prevented the introduction of some measures.
Luxembourg		X		Unions have criticised the inadequacy of measures to boost purchasing power. In addition more efforts are needed to concentrate support on low-income households and on those directly affected by the crisis.
Netherlands	X			Social partners were involved in drawing up the package, which therefore enjoys broad union support as a social compromise. However, the FNV is, in particular, firmly against increasing the retirement age. Unions are also concerned about proposed wage freezes in the public sector.
Norway	X			Unions were involved in discussions about the package and a number of their proposals (e.g. on temporary lay-offs) were taken on board.
Portugal				No information provided.
Spain			X	Unions have broadly supported spending increase but have been critical of tax cuts. An overall lack of coherence in the plan and specific measures (such as subsidies to take on part-time workers) have been received critically.
Sweden			X	While welcoming the measures announced, LO has criticised their overall size and called for reorientation towards government spending. It has proposed a series of additional measures to maintain industrial employment, boost active labour market policy (training) and provide subsidies to those municipalities raising spending to save local jobs.
UK	X			Unions welcomed the report setting out the government's plans, although they remain sceptical about some elements. They are convinced that a larger fiscal package may be necessary and have criticised the employers (CBI) who have opposed this.

Source: own calculations based on survey responses.

Overall there appears to be a fairly even split between countries whose unions take a generally supportive, critical or neutral/mixed stance. What clearly emerges is that where unions have had a voice in designing the packages governments have benefited from their political support for the package as a whole, even though they may be critical of specific measures or would have wanted a greater level of ambition. Unsurprisingly such consultation and

support has tended to be most common amongst countries with a strong social partner tradition, especially in northern Europe, but also Austria, Belgium and more recently Spain; the fact that Denmark and Sweden currently have right-of-centre governments may explain the critical reaction of unions there. In contrast unions are critical in countries with more adversarial industrial relations traditions.

At the same time there is clearly some link between the willingness of governments to engage in expansionary measures and trade union reactions: in particular, governments in those countries enacting contractionary measures or which unions see as failing to meet their responsibilities to underpin economic activity are being roundly criticised by union confederations. Conversely, although unhappy with individual measures, unions have offered broad support to those countries which have enacted sizeable packages. Having said that, it is important to note that no union movement has accepted the view that the size of national packages is adequate in view of the dimensions of the downturn, and even in those countries with sizeable packages, unions are demanding the implementation of additional measures, or at least their preparations should the economic situation not improve.

Irrespective of variations in the degree of support for or criticism of the fiscal programmes, trade union concerns about qualitative aspects of the measures announced or implemented conform broadly to a common pattern across European countries. They are centred on two main types of criticism:

- firstly the weight given to cuts on the revenue side rather than increases on the spending side. This is held to be less effective per euro of stimulus and raises concerns about the longer-term financing of the public sector.
- Secondly, the inadequate targeting of measures on both the revenue and spending side to low income groups and/or workers directly hit by the crisis. This also reduces the overall impact of a given stimulus and raises equity and political legitimacy concerns, not least in view of the background to the crisis (cf. Watt 2009).

Conclusions

This study has sought to contribute to the analysis of and the debate about European fiscal policy response to the economic crisis. There are a number of definitional and conceptual problems that make such an assessment difficult. In this study we are concerned not only with the overall size of the packages but about their distribution across countries and, especially, with the types of policies being implemented. We also examine – to our knowledge for the first time – the extent of involvement by the social partners and the view of trade unions on the national plans.

The main findings are as follows.

- The fiscal packages implemented or announced by European governments are not large enough. Given the size of the loss of output – an output gap widening by some 6-7 percentage points of GDP in 2009 – a discretionary stimulus of around 1% of GDP in the current year and, at the time of writing, provisions for some 0.6% in 2010 is too small.
- This is true even allowing for the automatic stabilisers. While they are larger than in the US the overall budgetary stimulus is greater there than in Europe. This is inappropriate because the downturn is now foreseen to be sharper this side of the Atlantic and because it would contribute to resolving global imbalances if Europe (and Asia) were to do more and America less to reflate the global economy. Not for the first time, Europe is failing to pull its weight in the global economy.
- Variation in the size of the packages is considerable. To some extent this is justified by differences between the size of the automatic stabilisers and (estimates of) the size of the downturn. There is some sign of fiscal free riding by smaller countries, but the impact appears small. More worrying is that countries appear to feel constrained by current deficits and especially government debt in providing needed stimulus to arrest the downturn. While longer-term sustainability and credibility is an issue in principle, it is argued that at the prevailing debt and deficit levels in Europe most countries should not be constrained in running counter-cyclical policies. And where they are, the solution should lie in providing European-level fiscal support so as to remove those constraints. Instead countries, especially in central and eastern Europe are being forced into contractionary policies that will worsen the situation there and also have negative knock-on effects throughout Europe.

- The packages vary substantially between countries in terms of content. Overall there is a rough balance between the spending and revenue sides, but this conceals large differences between countries. Governments have sought to tailor packages to specific national needs and structures, but have largely avoided explicitly protectionist measures. Problematic in the light of the expected rise in unemployment appear to be the paucity of measures directed at the labour market (active labour market policy). The lack of ambition on green measures is also worrying: everything that is described as green in government programs is not necessarily so. The extent to which social and equity issues have been addressed varies widely.
- Overall the involvement of social partners (especially trade unions) is not satisfactory, although there are examples in which unions' voice, sometimes after protests, was heard. This tended to be the case in traditionally 'corporatist' countries, but the complexion of the government of the day also seems to have played a role. Unsurprisingly, where unions were involved in drawing up the programs, expert assessments of the incorporation of social and equity concerns tended to be more favourable.

Overall we can conclude that European governments, faced with the unprecedented scale of the crisis, have taken action to stimulate their economies. Some of the fears about fiscal free riding do not seem to have materialised. It is far from sufficient, however. Europe as a whole and some countries in particular are not doing enough. Europe's workers and citizens generally will pay a price for this: a deeper recession than necessary and a slower recovery, with higher unemployment for an extended period. This, in turn, will make fiscal consolidation more difficult in the future.

The barriers to a more resolute and coordinated fiscal response in Europe, be they political, institutional or ideological, need to be brought down as quickly and as effectively as possible. The crisis should be grasped as an opportunity to push for the necessary changes.

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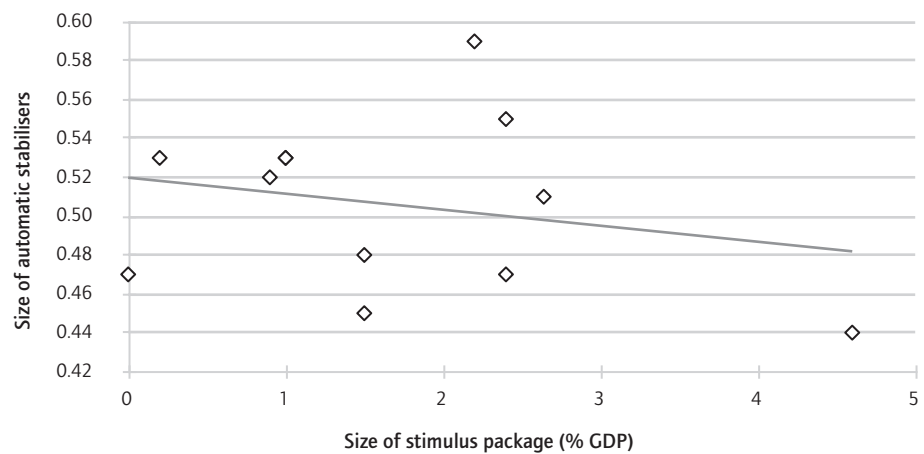
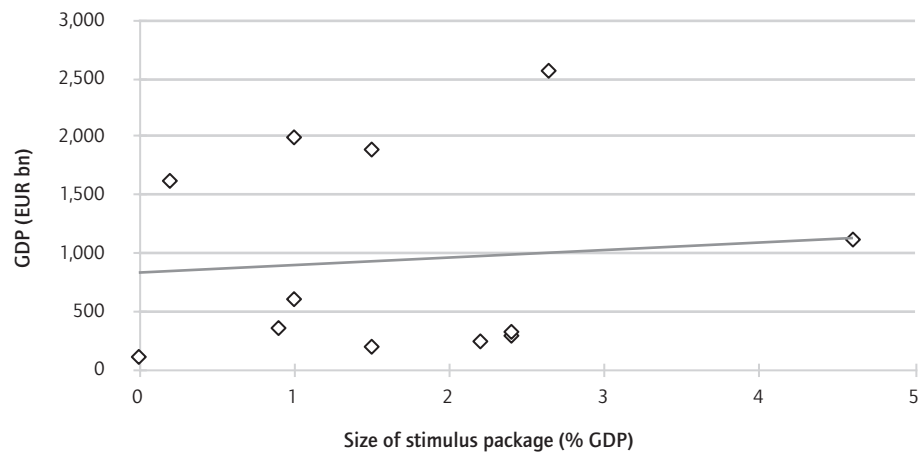
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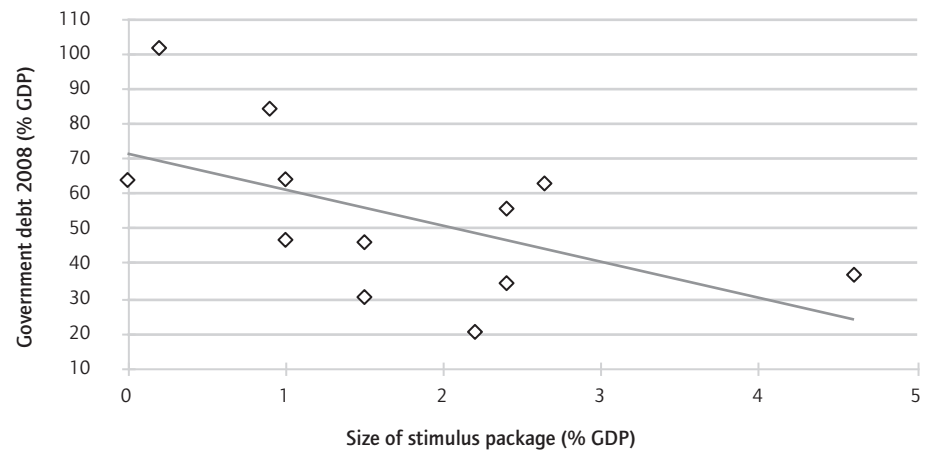
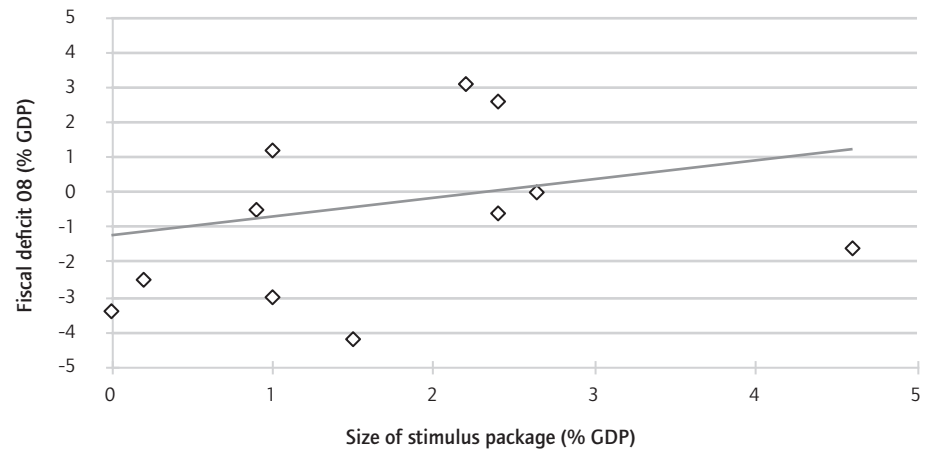
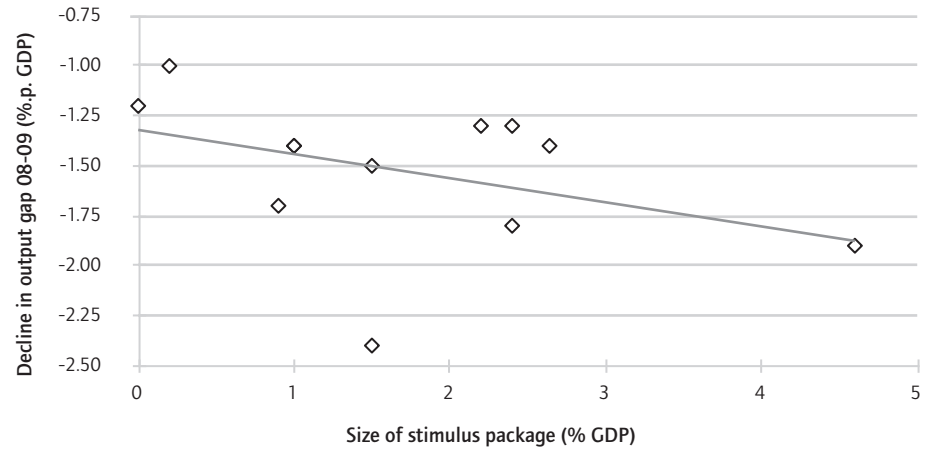
Annex I

Country rankings by size of stimulus package (% GDP) and by average of 5 indicators

	Ranking stimulus package		Ranking 5 indicators
Spain	1	Spain	1
Germany	2	UK	2
Austria	3	Finland	3
Sweden	3	Germany	4
Denmark	5	Sweden	5
Finland	6	Netherlands	6
UK	6	Austria	7
France	8	Belgium	7
Netherlands	8	Denmark	7
Belgium	10	France	10
Italy	11	Italy	11
Hungary	12	Hungary	12

Scatter plots for 12 countries showing correlation between size of stimulus and 5 other variables





Annex II

AT	BE	BG	DK	EE	FI	FR	DE	EL	HU	IT	LV	LUX	NO	PT	ES	SE	UK	Ave
The size of the package is adequate to significantly slow the economic downturn affecting the country																		
4		3	2	1	5	2	2	1	2	2	1	3	5	3	3	1	2	2.47
The fiscal package is 'timely': many of the measures will have a rapid impact in the current year																		
4	4	2	2	1	5	2	2	1	2	1	1	3	3	4	3	3	3	2.56
The fiscal measures can be easily reversed once the economy picks up ('temporary')																		
2	5	3	3	3	4	2	4	3	2	3	2	2	4	4	5	3	4	3.22
The fiscal measures are well 'targeted' (maximise the effect on aggregate demand)																		
3	4	2	1	1	3	2	1	1	1	2	1	3	5	4	2	1	3	2.22
The fiscal measures take account of social concerns (e.g. lower/higher income groups, men/women, those affected by redundancy etc.)																		
3	4	3	2	1	2	2	3	2	1	3	1	3	4	3	3	2	2	2.44
The fiscal measures promote the longer-term goal of promoting 'green growth'/ a low-carbon economy																		
2	3	1	3	1	2	2	3	1		2	2	2	3	4	2	1	3	2.18
The fiscal measures promote the longer-term goal of raising productivity (R&D, LLL, useful infrastructure)																		
3	2	3	2	2	2	3	3	1		3	1	3	3	4	2	3	3	2.53
The design of the package involved social dialogue (especially: incorporated the views of trade unions)																		
4	5	3	2	1	2	1	3	1	3	2	2	4	5	3	3	1	1	2.56
Simple average																		
3.13	3.86	2.50	2.13	1.38	3.13	2.00	2.63	1.38	1.83	2.25	1.38	2.88	4.00	3.63	2.88	1.88	2.63	

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